

NAPSLO
Wholesale Value Talking Points
September 2016



What is wholesale value?

The wholesale distribution system delivers tremendous value to retail insurance agents and insurance buyers. NAPSLO members wholesale brokers and underwriters are specialists in creating value and innovative solutions for the most unique and complex risks.

- Wholesaler brokers are technical experts who work in a very unique segment of the insurance industry and they provide retail agents, their clients and other insurance buyers access to skillfully-tailored insurance products and stable capital in the surplus lines market.
- Retail agents and insureds look to wholesalers for access to markets, coverages and options they may not be able to find in the standard market. It is the wholesaler's valuable technical expertise and knowledge of the specialty markets that helps retail agents and their clients solve problems and identify the right option for the insured in the right market – products and markets that retailers don't work in every day.
- Wholesaler brokers provide retailers with a broader perspective on specialty lines of insurance products, backed by very strong, stable and highly-rated surplus lines insurance companies. Retail agents and brokers from the smallest to largest agencies use and benefit from the wholesaler's solutions-oriented approach and real time knowledge of the market, capacity, pricing, insurer risk appetites, market best terms and product design.
- The value of the wholesaler's technical knowledge of the market is demonstrated by their responsiveness and cost-effective delivery of solutions, which facilitates strong client relationships between retail agents and the insured clients. The most successful transactions happen when wholesale brokers and retailers work together to customize solutions for clients.
- The surplus lines/specialty insurance market is very strong and financially stable. Since 1994, the annual A.M. Best study of the market has found the solvency and financial performance of surplus lines insurers to be stronger than the overall property/casualty insurance industry.
- A.M. Best's 2015 report noted surplus lines premium of \$40.2 billion reaching its highest point in history, and for the eleventh year in a row, the surplus lines industry reported no financially

impaired companies, in contrast to the admitted property/casualty industry's 12 known financial impairments in 2014.

- In general, the market position of surplus lines insurers continues to be described as favorable terms such as profitable, stable, well-capitalized and consistent performers, and A.M. Best's outlook on the surplus lines insurance market remains stable. Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2015, 100% of surplus lines companies maintained secure A.M. Best ratings.
- NAPSLO members are innovators who deliver customized solutions and bring value to a transaction that ultimately strengthens the retail agents' client relationships. As a result, NAPSLO and its members are committed to promoting value within the wholesale distribution system. NAPSLO incorporates the value of the wholesale distribution system in all communication and educational efforts to help improve retail agents' and insurance buyers' understanding of the value of the wholesale distribution system and to create awareness in the industry that NAPSLO member wholesalers are:
 - Innovators
 - Trustworthy
 - Specialists
 - Solutions-oriented
 - Technical experts
 - Capacity Providers
 - Responsive
 - Cost-effective and efficient distributors of surplus lines and specialty products
 - Relationship facilitators

Is there a cost when using a wholesaler?

For many years, NAPSLO's message about the value of wholesale distribution has referenced the wholesaler's cost-effective and efficient distribution of surplus lines products. Often times, however, retail agents and insurance buyers assume that using a wholesaler increases the cost of the transaction.

A 2016 analysis by Conning, Inc.'s Insurance Research Division (Conning) found that median distribution costs from 2010 to 2015 for ten commercial lines of business represented 32.1% of direct written premium for a composite of 266 insurance companies with predominately retail distribution networks and 31.1% of direct written premium for a composite of 83 insurance companies with predominately wholesale distribution networks. The 1.0% favorable variance is evidence that wholesale distribution does not increase the cost of the transaction to the insured.

In fact, the value that wholesalers offer to retail agents and insurance brokers – technical expertise, innovative solutions to complex risks, access to strong and stable surplus lines insurers – adds no cost to the transaction. Retail agents and insurance buyers who don't already partner with a NAPSLO wholesaler as their trusted expert are encouraged to find one. Leveraging a wholesale partner to find the best and most cost-effective solution for the insured is the best way to serve the insured. While there has never been a price for seeking a wholesale quote, we now know there is no additional transition cost in leveraging a wholesaler to find the best solution for the insured.

When comparing the retail and wholesale composites, Conning found:

- The total non-loss cost ratio for the wholesale composite was lower than the retail composite by 1.0%.
- The retail composite's non-loss cost ratios were lower than wholesale in 2010 and 2011; however, wholesale ratios were lower in 2012 through 2015.
- The wholesale composite's commission ratio is consistently 3 to 4 points higher than the retail composite, but are offset by the wholesale composite's non-commission cost ratios that average nearly 4 points lower than the retail composite.
- Except for 2010, in each of the six years measured, the annual growth rate in direct premium written for insurers in the wholesale composite exceeded the annual growth rate in direct premium written for insurers in the retail composite.
- Wholesale distribution does not increase the cost of the transaction to the insured.

NAPSLO members are encouraged to review and leverage the findings from the Conning report when responding to comments and questions related to the cost of wholesale versus retail distribution. For a copy of Conning's report, [click here](#). For a copy of Frequently Asked Questions about Conning's report, [click here](#).

Questions about the Conning report can be directed to Brady Kelley, Executive Director, at 816.741.3910.