Surplus Lines Insurance

What’s in a Name ...

It's easy to see why the words “unauthorized” or “unlicensed”, when used in conjunction with Surplus Lines Insurance (Non-admitted Insurance), would give the impression that this type of insurance is not regulated, but that would be a mistake.

**Surplus Lines Insurance is regulated!**

Every state, including yours, has rules and regulations within its Insurance Code that are specifically written to govern Surplus Lines Insurance. In addition, the same statutory and common law rules that govern bad faith for licensed, admitted insurers apply equally to non-admitted insurers.

While the non-admitted insurance company may not be ‘licensed’ in the same state as its customer’s operations, it is licensed in either the state or the country in which it is domiciled.

Non-admitted insurers have to be ‘eligible’ in the state where the customer is located in order to accept business. Part of the eligibility standard required under state law, and reinforced by federal law, includes meeting capitalization thresholds. In most cases, a non-admitted insurer has to put more money in reserve to meet the required capitalization threshold than its licensed, admitted insurer counterpart.

Any surplus lines business placed with a non-admitted insurance company must be handled through a surplus lines broker who is required to meet state licensing standards. These specially trained professionals are responsible for paying taxes and ascertaining that their customers’ insurance needs may only be met by a non-admitted insurance company in accordance with the surplus lines laws of your state.
Why do Consumers Need Surplus Lines Insurance?

Surplus Lines Insurance (non-admitted insurance) is sometimes referred to as the ‘market of last resort’ by the business community and the safety valve of the insurance industry. This label recognizes the important role that Surplus Lines Insurance plays in protecting consumers.

Agents and brokers generally place insurance coverage with standard (admitted) insurers. When those admitted insurers decline to offer coverage or when the coverages an applicant may be seeking are not available, it is the surplus lines insurance market with its capacity and innovative underwriting that is able to fill the gap. By stepping in to provide coverage, non-admitted insurers keep businesses from purchasing coverage that doesn’t meet their needs, seeking coverage outside the insurance markets, self-insuring against their risks, or from simply going without the financial protection insurance provides to business and their customers.

So, what circumstances would cause a standard insurance company to decline offering coverage to a business?

New business start-ups: According to Forbes Magazine, over 540,000 Americans start businesses every month. These hopeful entrepreneurs fuel our economy and keep our towns and cities vibrant. One of the first things these new business owners need is an insurance policy to protect their investment, but without a track record, standard insurers may decline offering coverage. The Surplus Lines Insurance market is where these budding enterprises turn for help in making their dreams realities.

Innovative products and new technology: Standard insurers look to standardized, regulated forms and rates to address the needs of their business customers. This model takes time and a sure knowledge of both the risks and all the possible consequences involved in insuring both products and services. But what if there is a business that wants to introduce cutting edge technology or has developed something so new and innovative that it will change everything? Surplus Lines Insurance is the place that can structure insurance protection for what is unique, new and different, freeing our best minds to find that next breakthrough that will move us all forward.

A risk that is too big to consider: Businesses face risks every day. There are risks they understand, like building niche markets. There are risks they choose to transfer, like the risk of losing their offices to fire. Then there are other kinds of risks that by their very nature would be devastating, like losing all their customer records to computer hackers (data breach). Standard insurers may decline to write these ‘catastrophic’ types of exposures. It is the surplus lines insurance market that one typically finds the knowledge and capacity necessary to insure these very real concerns for the business community.
Who is the Surplus Lines Market?

There is a perception that Surplus Lines Insurance (non-admitted insurance) represents a ‘Wild West’ of temporary insurers charging irresponsible premiums for questionable coverage.

The reality proves that this perception couldn’t be further from the truth.

A.M. Best, a credit rating agency with a focus on the insurance industry, has monitored and reported on the non-admitted insurance market for the past twenty years. They publish an annual special report providing information to both those involved in the insurance industry and insurance regulators and legislators.

Here’s what A.M. Best had to say about Surplus Lines Insurance:

A.M. Best reports that non-admitted insurers have a higher Secure Rating than their admitted counterparts, an important factor for businesses whose unique and innovative risks brought them to this market for insurance.

Financial capacity and a deep underwriting expertise result in better than average financial ratings for non-admitted insurers.