Building on belief

# Non-admitted insurance market:

## Analyzing challenges and potential solutions

# Abstract

Traditionally, non-admitted carriers, known as 'excess and surplus (E&S) line carriers', have provided underwriting expertise for hard-to-place risks without the approval of admitted companies. However, certain risks such as cyber risk initially placed in the non-admitted market have evolved and gradually moved to the admitted market. Unique covers provided include professional liability, excess and umbrella liability and event cancellation among many others. At the same time, insurers are struggling with pricing and coverage of drones and driverless cars.

The evolving insurance landscape requires deploying advanced information technology (IT) solutions that help the industry transform from an enterprise-centric to a customer centric ecosystem comprising platforms and insurtechs. This will help tackle digital disruption through process digitization and result in business model innovation. This paper discusses the challenges that non-admitted insurers face in addressing the unique risks and evolving market conditions for key solution themes.


# Leveraging the Ecosystem in the Current Market Scenario

The property and casualty insurance business has seen significant changes in the last decade, some challenging, as a result of various economic factors. On a comparative note, the impact of COVID-19 on the surplus lines insurance industry has been lower as compared to that of the admitted market. This is because the pandemic cover excluded a large percentage of the insured as a result of the carefully worded policies and the covers were priced appropriately in high value deals.

Surplus line insurers have shown higher adaptability to changing market conditions, with greater flexibility not being subject to filing rates and forms in new product launches. Hence, non-admitted insurance market players could be the harbingers of change and rapid response for recovery of the insurance sector from adverse economic conditions, with the capability to introduce new and specially designed insurance products. While the quantum of risks covered by the non-admitted market can vary from medium to high, this market needs to leverage the ecosystem even as it reacts dynamically to market challenges.

# Understanding the Types of Risk

Non-admitted carriers insure complex risks that conventional insurance markets are unable to insure and tend to avoid. While admitted carriers are licensed in each state or country of operation, the various non-admitted carriers are not. Some of these risks include:

- **Hazardous risks** such as a high-rise condominium in a hurricane-prone area
- **Unique risks** such as specialized business operations
- **High-capacity risks** that include a large quantum of loss exposure such as aviation property (hull) or liability for large aircraft
- **New risks including** emerging risks which the surplus line insurers are free to respond to and cover quickly as they are not subject to rate and form filling regulations such as certainenvironment insurance and cyber insurance

These risks, being unique and specialized, require a high capacity to cover the large values. However, underwriters handling such risks lack the knowledge and skill to estimate the profitability and probable maximum loss (PML), manage excess and surplus claims, and assess loss and estimations. In addition, legacy platforms at the back-end result in inefficient and complex underwriting processes. This requires developing suitable products with higher configuration capabilities that cover unique risks, utilize the insurer’s expertise and provide cost flexibility to clients.

# Becoming Responsive with Product Configuration

There is a need for higher product configuration capabilities in the non-admitted market. Leading insurers have successfully introduced quick products and international programs through innovation and product configuration. This has been enabled by advanced knowledge in niche product areas, combined with investments in new technology.

Product configuration tools equip insurers to respond to evolving risk needs for product covers while supporting quick product launches. The tools aid the product development team to build products for various distribution channels, geographies and line of business specific variations while aiding quick deployment for distributors. Advanced product configuration tools with flexible integration capabilities can be seamlessly integrated with core platforms at the backend and with distribution systems. This helps create products based on varied insurer needs while accommodating cover level pricing.

# Non-admitted Markets' Global Insurance Programs: Design and Delivery

**Intent and modality of a global insurance program**

Large corporations with international operations have insurance partners supporting them with their international experience. A well-designed global insurance program can help non-admitted insurers design better products and improve delivery. The key drivers to designing such a global program include:

**Efficiency and effectiveness:** Global corporations need to improve efficiency and effectiveness through economies of scale derived by a central purchase of covers. They also need to define a best-practice operating model and process landscape. This will help create a comprehensive end-to-end user environment which will further reduce manual efforts by cutting down the need for re-entering information, and promote faster sharing of compensation limits at a group level for global entities.

**Tax considerations:** The insurer's capability to understand local tax and regulatory conditions while providing insurance services at a central level will be key.

**Comprehensive risk coverage:** Global corporations may transition to a centralized risk management approach with greater risk awareness.

**Effective quality control of insurance placements:** Insurers need to build a comprehensive insurance placement and claims management process across all locations with a central co-ordination system. This will help eliminate duplicate coverage and omissions while providing a centralized view on client and submission data across global policies, facilitating faster response time for client needs.

Non-admitted insurance is issued on a 'standalone' basis with a single policy covering all countries of a global corporation. On the other hand, global programs with a 'master insurance policy' issued in the country which operates the program with locally aligned insurance policies issued in individual countries have gained popularity due to their ability to be in accordance with local insurance regulations. Figure 1 lists some key features and variants of global insurance programs.

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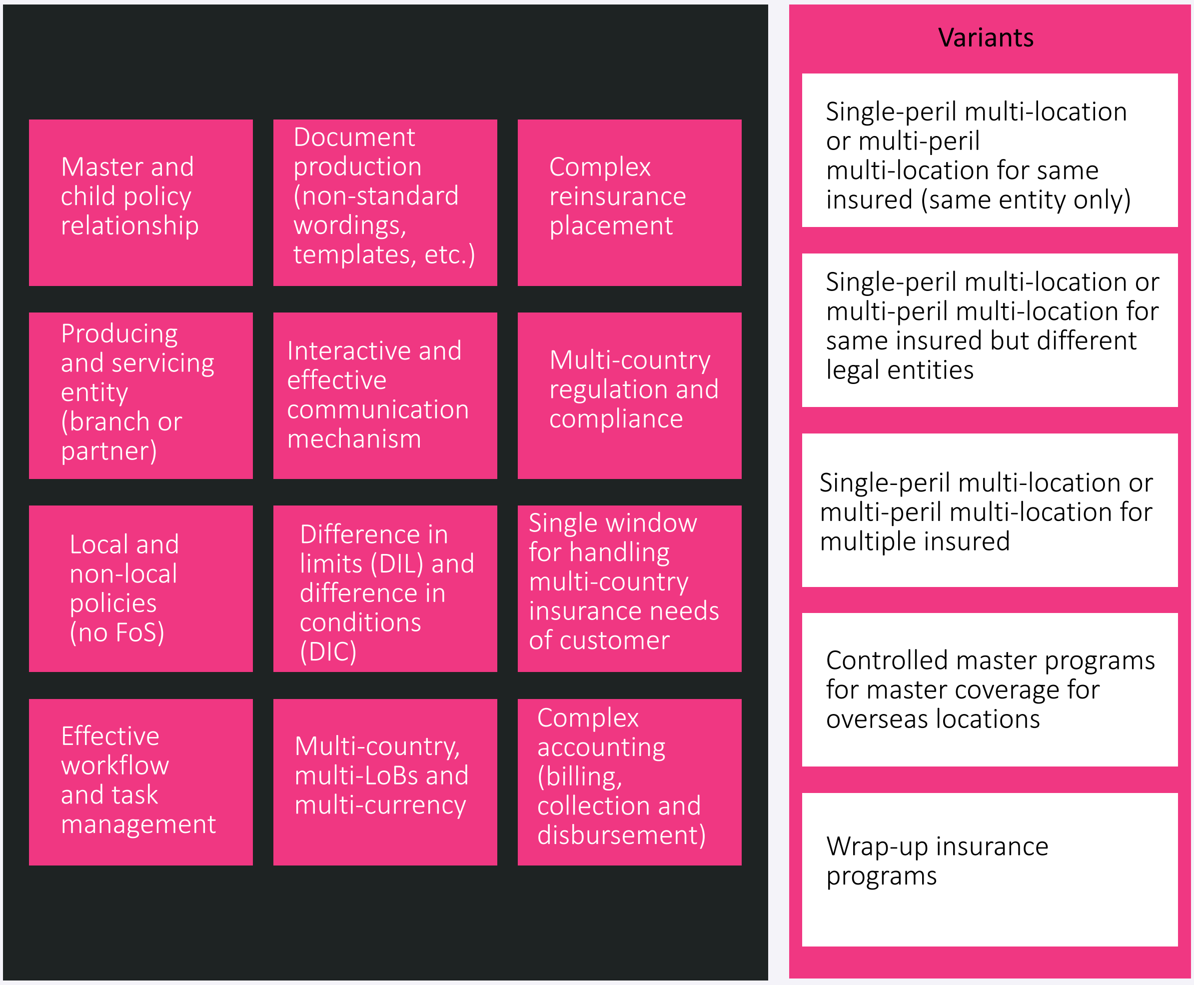


*Figure 1: Key Features of Global Insurance Programs*

# Some Considerations in Designing Global Programs

Designing a global insurance program requires designing master policies based on global standards and deciding on the pricing of policies based on local dynamics. For instance, child policies need to adopt local standards and need to have information consistency while ensuring data protection and data privacy for enhanced compliance.

Comprehensive IT solutions are needed to manage global insurance programs. A robust IT solution is one that provides a single window for handling multi-country insurance needs of customers, uses web-based tools to provide insight into various international insurance contracts and helps build a relationship between master and local policy as well as local and non-local policies . This also helps facilitate complex reinsurance placements, define Difference in Limits (DIL) and Difference in Conditions (DIC) in policy terms. A good IT solution will also support multi-country, multiple lines of businesses (LoBs) and multi-currency processing capabilities (see Figure 2).

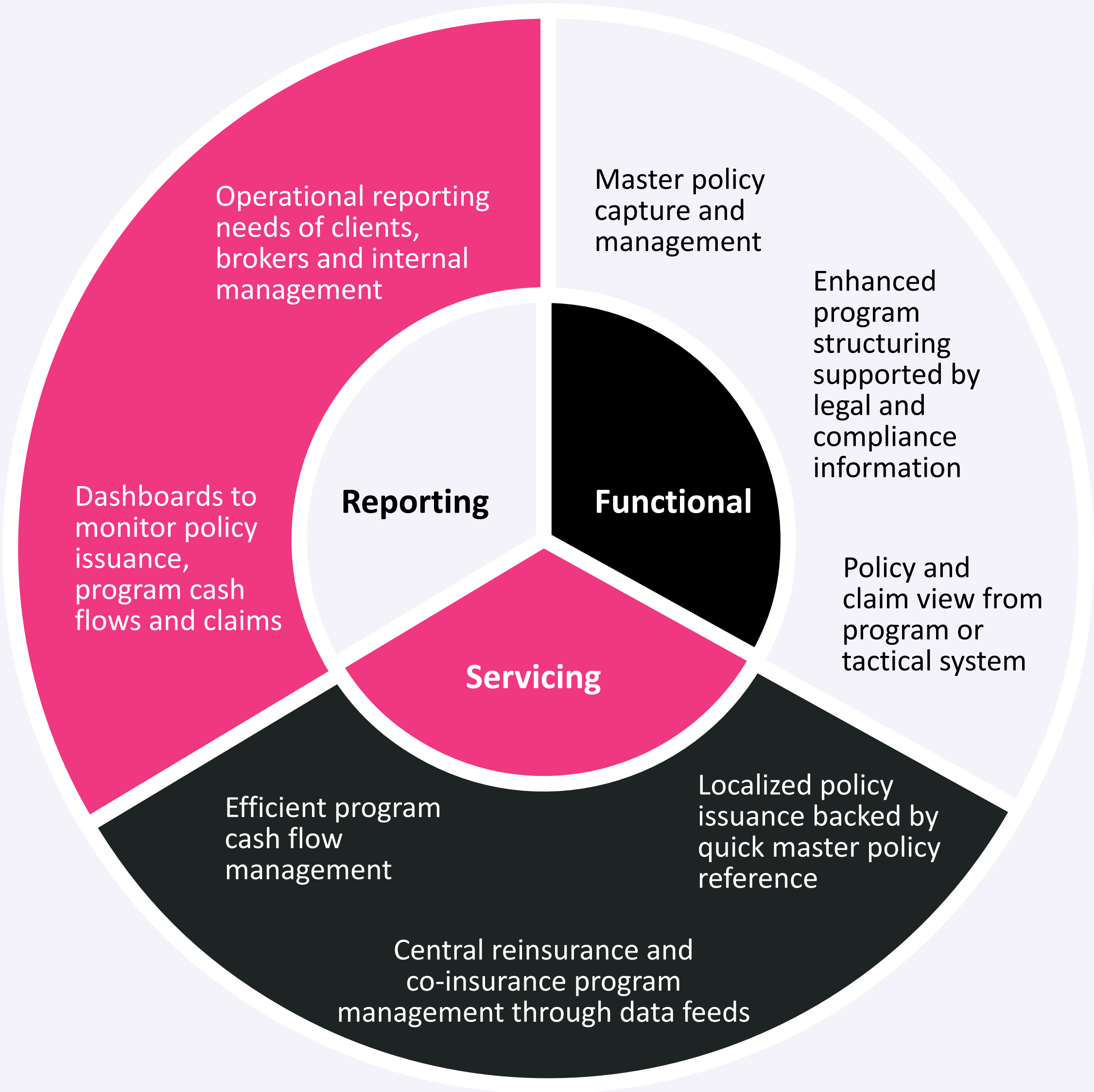


*Figure 2: Tactical Solution Dimensions for Global Insurance Programs*

# Tackling Regulatory Challenges and Maintaining Profitability

It is common for non-admitted insurance programs to be arranged in one country, typically the domicile of the parent company, to insure exposures in more countries where further operations are located. Regulators in many countries have begun viewing global insurance programs from the standpoint of the local player of the multinational company. This facilitates direct supervision and enforcement of the country's insurance laws.

Growing regulatory pressures have made it cumbersome to insure global risks in a uniform manner keeping in mind economic considerations. Heightened tax and regulatory scrutiny, particularly concerning international claims, payouts and insurance of multinational corporations have made the process difficult. Regulators have therefore begun to evaluate global insurance programs from the viewpoint of locally affiliated companies to foster direct supervision and further supervise local entities of multinationals to increase taxable sources.

# The Road Ahead

Despite significant challenges, there is tremendous potential for insurers to benefit from this growing market segment with many emerging risks underwritten such as telemedicine, clinical trials, implantable devices, nutraceuticals,  military medicine and more. The future of the non-admitted insurance market will evolve around new technology, industry data utilization through effective harnessing of the ecosystem and better product configuration capabilities.

The non-admitted insurance market is set to grow both in size and number of new products, given its capacity to launch products and covers at a fast pace, bringing in capabilities of international market players. Amid intense competition to leverage new market opportunities, a cautious approach is needed to assess the risks, leveraging internal and external data. We recommend enhanced investments in information technology to provide the robustness needed to leverage and adapt to current market conditions (see Figure 3).

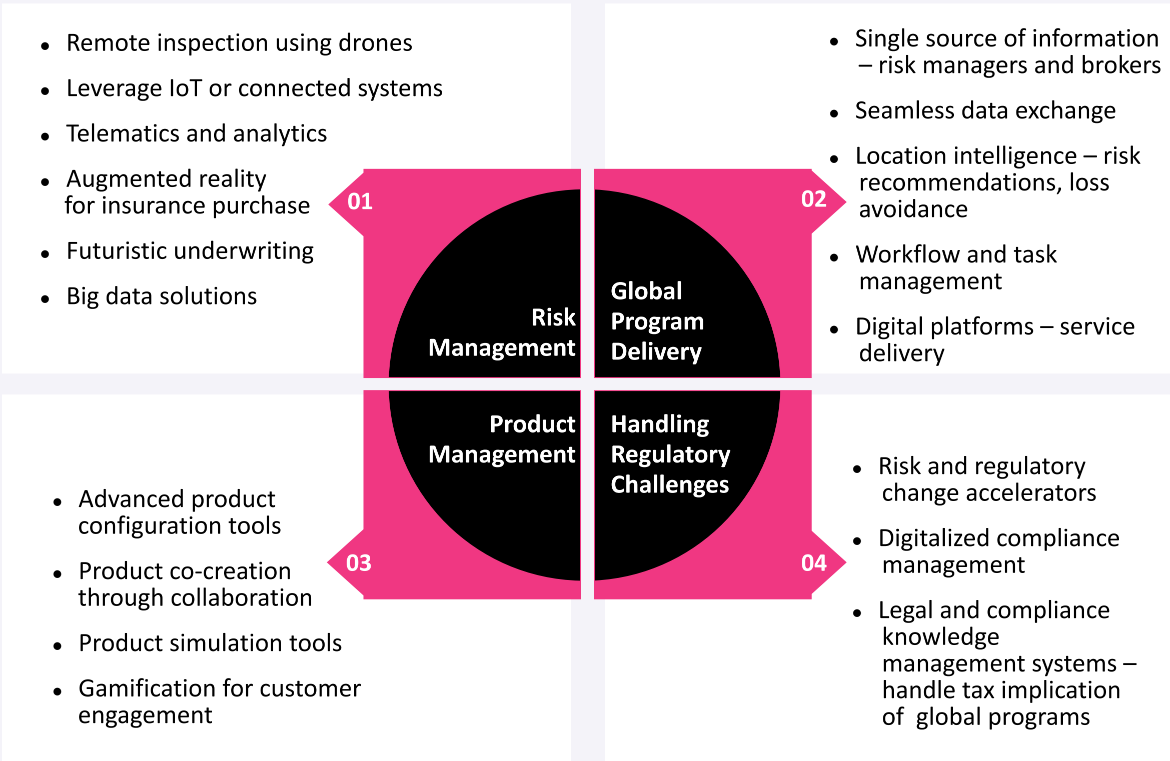


*Figure 3: IT Themes for the Non-admitted Insurance Segment*

This results in multifold benefits including innovation-led enhanced delivery and fulfilment processes, ability to control and configure products and packages and speed to market with deployment of products selected for distribution. This helps to expand the market with improved international coverage placement and service capabilities, improve cost management of global programs with central control and enhances business agility.

# About the author

## Kanya Saraswathy C

Kanya Saraswathy C heads the Commercial and Reinsurance Insurance Industry Advisory group of TCS' Banking, Financial Services and Insurance (BFSI) business unit. She has a rich experience of 35 years in insurance and IT services for insurance. She has worked in leadership roles with a top property and casualty insurer in India. At TCS, she has worked in diverse areas such as knowledge development, insurance offerings creation and pre sales. Kanya has created exclusive solution frameworks for the insurance industry and has tremendous consulting experience with P & C insurers across the globe. Kanya holds a master's degree in Business Administration from the Loyola Institute of Business Administration, Chennai, India.

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