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The Business of Surplus Lines

Surplus lines is a specialized segment of the insurance business that is also referred to as non-admitted, specialty and/or excess lines. The first actual legislation pertaining to this business can be traced back to New York in 1890. Surplus lines makes up about 7% of the total commercial insurance marketplace.

Recognized for technical expertise and knowledge of the property/casualty market, surplus lines brokers, or wholesale brokers as they are known, are the intermediaries between surplus lines insurers and insurance agents/brokers who must find markets for clients' risks that are not otherwise available through admitted markets. **State insurance departments oversee the regulation of surplus lines placements through this group of agents/brokers.**

Unique and hard to place risks that are not written by the standard markets are placed in surplus lines markets, which include domestic surplus lines companies in addition to Lloyds of London and also alien insurers. **With the ability to accommodate a wide variety of such risks, the surplus lines market acts as a complement to the admitted market.** Often called the "safety valve" of the insurance industry, surplus lines fills the need for coverage in the marketplace by insuring those risks that would otherwise not be protected. Surplus lines companies are able to offer specialty insurance in large part because they are free of rate and form restrictions imposed on other insurance carriers. In this way, companies are able to react to changes in the market and design a policy that meets the needs of the insurer and the insured. The surplus lines industry has long served as an incubator for many new products, offering such products as Directors & Officers Liability, Employment Practices Liability and Patent Infringement Insurance before the admitted marketplace had the capacity to do so.

While surplus lines companies may not be regulated in the same manner as traditional carriers, that does not mean they are not regulated. Each domestic company must be licensed (admitted) in one of the 50 states and must meet the solvency requirements of that state. Requirements vary state by state but, general speaking, they are usually more stringent for surplus lines carriers than those imposed on admitted carriers.

There are three basic categories of surplus lines risks: **Non-standard risks** have underwriting characteristics that don't fit into the established criteria of the standard market; **Unique risks** are those for which admitted carriers do not offer a filed policy form or rate; and **Capacity risks** evolve when a client seeks a higher level of coverage than the admitted market is willing to provide.

Examples of risk commonly found in the surplus lines market include aviation, products liability, inland marine, earthquake coverage and various forms of professional liability.