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One Year Later: How New E&S Firms Fare in Today's Competitive Landscape

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The excess and surplus market has been in high demand recently as admitted carriers barge into the marketplace and new E&S companies emerge. 2010 was a busy year for E&S companies, with startups, mergers, and breakout divisions. Among the headline makers were:

- Ryan Specialty Group
- Marketscout Wholesale
- OneBeacon's new E&S division
- Merger of AmWins & Colemont.

The headlines didn't stop with the initial announcement of these E&S moves either. All of these companies have been active with new products, acquisitions and expansions since their initial launch in 2010.

One of the biggest headline makers of the bunch was by far Ryan Specialty Group, created and headed by former Aon founder Patrick Ryan. As of May 1, the company will employ over 400 employees and have a presence in most major cities in the United States.

Ryan says he launched the company because he believes passionately in the E&S business. He says the response since the company started last year has been tremendous, which he thinks is in part because of the talent they have attracted and the focus of the company.

"There is a significant demand for a wholesale broker that is independent. People are also interested in joining a new broker where they are not highly leveraged," Ryan said. "The timing I thought was really good and that has been proven by the activities in the last 13 months."

Ryan says despite competition from the standard markets and other E&S companies, Ryan Specialty has not had any trouble separating itself and has been very successful in the development of its strategy, both on the wholesale and managing general agency (MGA) side.

He also believes that competition in the E&S market appears to be settling some.

"We are seeing people pulling out of lines of business, and I think there will be more of that," he says. "People are starting to be a bit more concerned with pricing as opposed to developing revenue for organic growth. People are stepping away from areas of the business where they have been burned. I think that's an early stage withdrawal that will grow and that will be a factor as we go forward in terms of competition for any given product line."

Since launching last February, Ryan Specialty Group has bought numerous agencies, with the most recent being Wells Fargo Insurance Service's American E&S Insurance Brokers. Ryan said the purchase should be complete sometime in the spring.

In addition, the company has launched a reps and warranties product, a network security form, and is also developing a Lloyd's Syndicate, which Ryan hopes will be up and running by next year.

"I think what we have been trying to do is really focus in on bringing value-added services to agents and help them be competitive," Ryan said. "We are introducing products to agents and brokers that give them an opportunity to sell insurance as opposed to just competing on different risks."

Ryan expects that a full year of operation in 2011 will bring continued growth for the company.

"2011 is a year that people will say, 'We have done business with Ryan Specialty now and we would like to do more,' and it's our job to get more products to them and more solutions to them."

MarketScout Wholesale

Glenn Hargrove and MarketScout teamed up in April 2010 to form MarketScout Wholesale, which combines wholesale brokerage and MGA service with distribution technology.

The company launched in Dallas and has since opened several other offices in Austin, Texas, Memphis, Tenn., Phoenix, Portland, New York, Tampa, Fla., and San Francisco, San Diego, and Oceanside, Calif. It also purchased New York-based WastePac from Insurance Specialty Group, which focuses on the sanitation industry.

In addition, MarketScout Wholesale has built out the basic components of the company, including property, casualty, and professional liability, as well as MGA small account binding authorities, and a life sciences division.

"We are constantly looking for niche markets and exclusive arrangements with facilities, in addition to broader brokerage capabilities," Hargrove said. "We are always seeking out new and unique products and have about 30 different initiatives we are working on right now. If we can bring half of those to the table this year I will be really happy."

Hargrove says the response to MarketScout Wholesale has been very encouraging, but they have had to spend a lot of time educating agents on what they do and why the company is different from a traditional wholesaler.

"Once we get past the barrier and say what we are doing is distinctly different, and explain how we function, how we engage with clients – we have had a terrific response to that story," he said. "The last thing the market needs is another wholesaler but it does need another model than the traditional wholesaler."

The soft market has kept the company from reaching all of its first year goals, but Hargrove says they knew they had to be extremely flexible considering the market conditions.

"Some areas we are behind, and some areas we are ahead of what we anticipated," he said. "The areas of development of product and establishing the relationships with carriers and retailers has happened even faster than what we anticipated. Some of the technology areas I hoped we would be further along than we are, but we had a real ambitious schedule to try to meet."

OneBeacon

In July, OneBeacon Insurance Group launched a new E&S division that will support its current business and selectively write in the E&S market.

The new E&S division is still not writing new business, but the company expects to in the second quarter. The new E&S business will be launched through a unit providing specialized environmental insurance products designed to address a broad range of exposures.

The environmental capabilities will include commercial general liability, contractors environmental liability, professional liability, environmental premises liability, products pollution liability and follow-form excess. OneBeacon's Specialty Property provides excess property and inland marine coverage that augment primary policies or self-insured retentions.

AmWins & Colemont Merger

One of the biggest E&S mergers in 2010 was between AmWins and Colemont. However, the transition has turned out to be a "non-event" in terms of how it has affected the brokerage world, according to AmWins CEO, Steve DeCarlo.

"We were pretty well known, as were the Colemont folks, so people were OK," he said. "The corporate structure has changed, but the relationships our brokers have is the same today. It is just a different banner."

DeCarlo says retailers have had a mostly positive reaction but there have been those who have been nervous because they think the company has gotten too big, which he says the company has been able to prove otherwise.

"We are not a big company, we are not a demanding company," says DeCarlo. "That is not who we are."

The merger has given AmWins international abilities and the company has spent a lot of time working on this business, including nuclear plants in Brazil, coal plants in Argentina and municipality business in Mexico.

"It is a whole new world for us," said DeCarlo. "We have broadened our way of thinking and introduced an international network to the U.S. network, which has been a real highlight. It is fun and interesting and challenging."

DeCarlo says the company will continue to expand through acquisitions and also has plans to open more offices. The company also plans to focus on training younger employees and hiring new talent, he added.

"We are a very expansive company," he said. "We have gone from 20 employees to 1,900 in eight years. We are looking to hire kids out of college and train them. We don't need to go out and borrow talent from others first, we should train our own. We know where we are going and our goal is to keep working."