

# Wholesale Value Briefing Points

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## What is wholesale value?

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

- Wholesalers are technical experts who work in a unique segment of the insurance industry, and they provide retail agents, their clients, risk managers and other insurance buyers access to skillfully tailored insurance products and stable capital in the specialty 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 or have access to.
- Wholesalers 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 their clients. The most successful transactions happen when wholesalers 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 AM 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.
- AM Best's 2021 report noted surplus lines premium of \$66.1 billion reaching its highest point in history, with growth of 17.5% over the previous year. It also noted no financial impairments in the surplus lines segment, in contrast to seven admitted property/casualty company impairments in 2020. Since 2003, AM Best has reported just one, unique surplus lines company impairment, in contrast to the admitted property/casualty industry's 260 financial impairments.
- In general, the market position of surplus lines insurers continues to be described by favorable terms such as profitable, stable, well-capitalized and consistent performers, and AM 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 2021, 100% of surplus lines companies maintained secure AM Best ratings.

- WSIA members are innovators who deliver customized solutions and bring value to a transaction that ultimately strengthens the retail agents' client relationships. As a result, WSIA and its members are committed to promoting the value of the wholesale distribution system. WSIA 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 WSIA 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?**

A 2021 analysis reconfirmed that wholesale distribution does not increase the cost of the transaction to the insured.

For many years, WSIA's message about the value of wholesale distribution has referenced the wholesaler's cost-effective and efficient distribution of specialty products. Oftentimes, however, retail agents and risk managers assume that using a wholesaler increases the cost of the transaction. A 2021 analysis by Conning, Inc.'s Insurance Research Division (Conning), which examined 2016-2020 data, found the cost of wholesale distribution was lower than retail distribution by 1.8%. The analysis of the cost of distributing commercial insurance policies through wholesale and retail brokerage channels serves as an update to a study originally published in 2016. The 1.8% favorable variance is evidence that wholesale distribution does not increase the cost of the transaction to the insured.

To conduct the analysis, WSIA and Conning identified two composite groups of insurance companies as a proxy for each mode of insurance distribution for selected commercial lines. Insurers that use wholesale brokers as their predominant distributors were included in the "Wholesale Composite," and insurers that use retail brokers as their predominant distributors were included in the "Retail Composite." The Wholesale Composite was composed of 99 companies with aggregate direct written premium of \$38.3 billion, and the Retail Composite was composed of 205 companies with aggregate direct written premium of \$69.2 billion. Additional details about the composites and how they were developed is available in frequently asked questions supporting the analysis.

In fact, the value that wholesalers offer to retailers and their clients – technical expertise, innovative solutions to complex risks, access to strong and stable surplus lines insurers – adds no cost to the transaction. Retail agents, risk managers and insurance buyers who don't already partner with a WSIA 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 cost in leveraging a wholesaler to find the best solution for the insured.

Conning measured all non-loss costs relative to direct written premium from 2016 to 2020 for these companies. The comparison found:

- The total non-loss cost ratio for the wholesale composite was lower than the retail composite by 1.8 percentage points.
- Wholesale non-loss cost ratios were lower in each year of the study, 2016-2020.
- The wholesale composite's commission ratio is consistently around 3 points higher than the retail composite but is offset by the wholesale composite's non-commission cost ratios that average nearly 4 points lower than the retail composite.
- The wholesale composite non-commission cost ratio has improved each year, while that of the retail composite increased in 2018 before improving in 2019 and 2020.
- In each of the 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.

WSIA members are encouraged to review and leverage the findings from the Conning report when responding to comments and questions related to the value and 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, WSIA Executive Director, at 816.741.3910. or [brady@wsia.org](mailto:brady@wsia.org).