



# The Future of E&S In a Changing World

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# THE WORLD IS GETTING RISKIER.

Insurance is changing faster than ever.

The insurance industry faces immense challenges, and customers are experiencing increased devastating losses. Our goal is to educate on the rapidly changing market and offer insights and understanding into why these changes are happening. Excess and surplus (E&S) is becoming a key tool to respond to these changes.

**At Vault Insurance, our mission is to protect what matters most - cherished moments, family memories, and priceless legacies.** Our extensive E&S knowledge and educational resources help our partners provide the best support to grow their businesses and protect our customers' assets from these potential threats.

# INDUSTRY SHIFTS

## Impacts Affecting Costs and Coverage Changes

Insurers have faced immense challenges due to:

- **Inflation**
- **Supply chain issues and labor shortages**
- **An increase in catastrophic weather events**
- **Reinsurance rate increases**
- **Struggles with rate in the admitted market**

For customers, these factors have increased premiums on average by more than 9% nationwide, with some states, such as Florida, seeing a 66% increase. Premiums have gone up in part because reconstruction and rebuilding costs increased 55% since 2019, and reinsurance went up by 30-40%.

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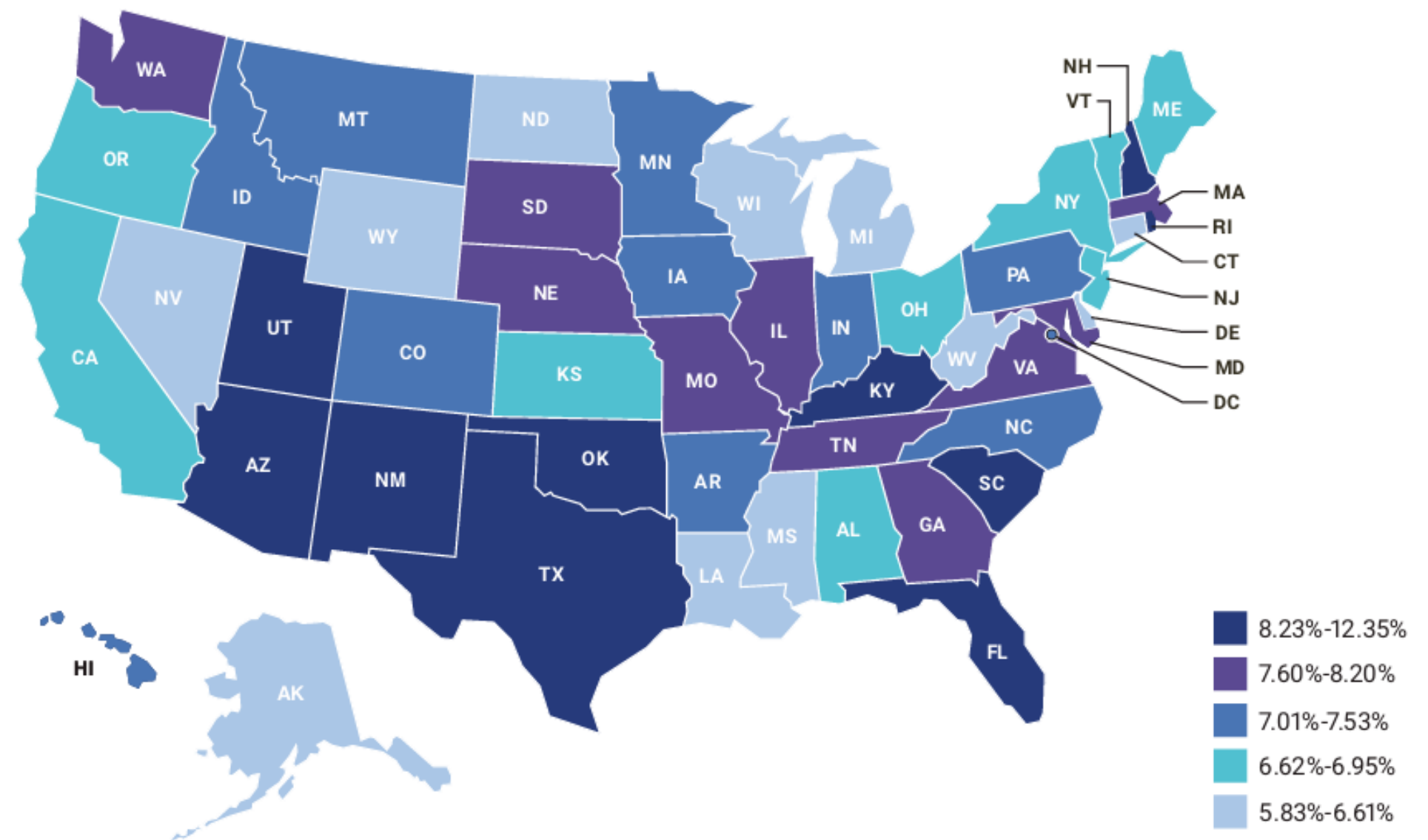


# Inflation & Material Costs

**\$1.00 in 2020 now costs \$1.78 in 2023**, according to the Bureau of Labor Statistics. Inflation has been gradually easing over the past year to 3.2% as of August 2023, down from a 40-year-high of 9.1% in June 2022.

But **material costs increased 7.8%** from 2022 to 2023. Some states had larger spikes in reconstruction costs than others. The most costly states for rebuilding residential homes were:

- Florida: 12.4% ↑
- South Carolina: 11% ↑
- New Mexico: 10.7% ↑
- Arizona: 8.3% ↑



Source: Verisk



# Supply Chain and Labor Issues

Lingering supply chain issues and labor shortages, as well as rising costs of labor, have impacted insurance costs as well. Specialty labor and luxury materials were in short supply, dragging out repair times.

**Customers were out of their homes longer, prolonging displacement and increasing overall claims and rebuilding costs.** Home values also skyrocketed, leaving many underinsured as costs rose.





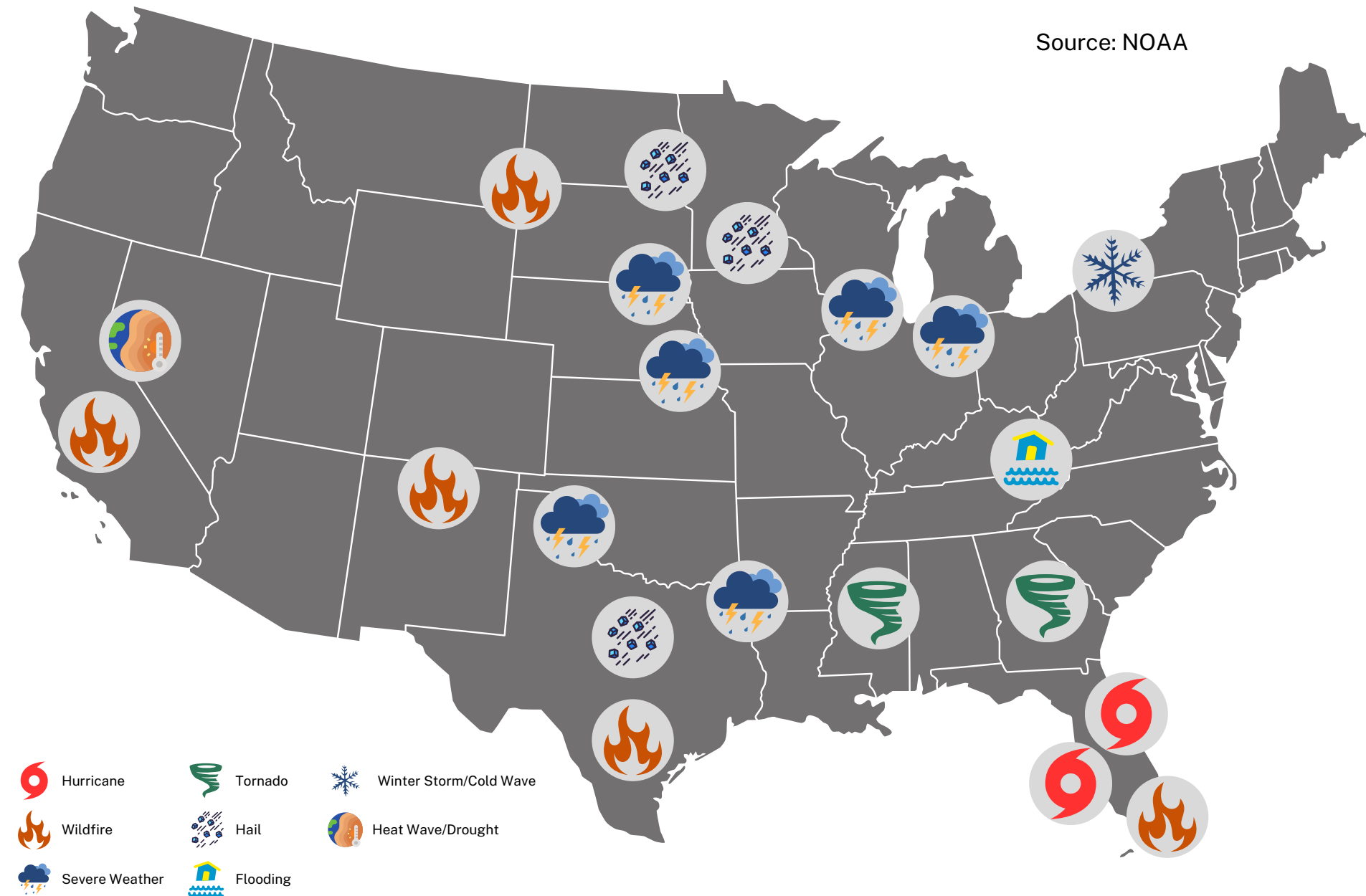
# Catastrophic Weather Impacts

The total cost from the events of 2022 was **\$165.1 billion**. It was the third most costly year on record.

Before 2017, the average number of severe weather events in the United States was only 8 events a year. The average between 2017-2022 was **18 events per year**.

Both insurance and reinsurance look at **nationwide risks** and adjust rates based on the whole. So hurricanes in Florida impact premiums in low-risk states like Indiana.

Source: NOAA





# Reinsurance Rate Hikes

Reinsurance, which is insurance for insurers to back their risks in the event of major catastrophes, have **increased rates by 30 - 40% on average this year.** Reinsurers are less willing to back high-risk markets, such as Florida. Or they have increased prices so much that insurers struggle to buy all the reinsurance they need.

This compounds in the premium rate increases. Reinsurance rate hikes are often a "hidden" impact to insurers that customers do not see but feel in their rates.





# Admitted Market Struggles

- **Admitted rates are determined by the state**, and insurers must submit their rates and coverages to the state for approval. The state then backs claims from that insurer, to a limit, if the insurer were to fail.
- Admitted market rates are **based on trends over decades**, but the rapid economic changes since 2020 outpaced regulation.
- Personal lines insurance faces difficulties getting **adequate rates for risks** under the admitted market.

## For Example:

In California, wildfire coverage is required on admitted policies. Insurers cannot get an adequate rate to compensate for such high wildfire risks

Insurers have sharply increased premiums, limited capacity, or **pulled out of certain markets.**



# Insurance Crisis

## INSURERS LEAVING

Top insurers have pulled back or paused new home policies or sharply increased premiums and cut costs. California and Florida have seen the most impact of this crisis, but other states such as Louisiana, Colorado, New York, and Texas are also struggling. Insurers posted record losses in 2022.

## HIGH-NET-WORTH ISSUES

Carriers in the admitted market struggle to find adequate rates on high-value homes. Admitted regulation is made with the mass market in mind, not luxury homes. Many carriers are ill-equipped or unable to handle high-net-worth homes in the admitted market or write E&S policies.





## E&S Sees Record Growth

- Custom policies, also known as excess & surplus insurance, grew to almost **9%** of the total market share in 2022, according to S&P Global Market. **In some states, E&S policies were as high as 13%.**
- The market has moved even more toward E&S policies this year, and **we expect to see a double-digit nationwide market share** in the next annual reports.
- E&S is being looked at in a new light due to the **flexibility in coverage and pricing.**
- E&S policies allow insurers to provide custom solutions, often turning a **hard "no" in the admitted market** into a **"yes" in the custom market.**



# High-Net-Worth Market Growth



HOMES WORTH MORE THAN  
\$1M+ IN 13 COASTAL CITIES

**1 in 5**



# OF US HOMES \$2M+

**600,000**



\$ SPENT ON ULTRA  
LUXURY HOMES \$10M+

**\$40 Billion**

- **Los Angeles, CA and Austin, TX** saw the highest increases in ultra-luxury homes in 2021.
- The percent of homes valued over \$1M has **doubled** since 2010.
- Million dollar homes are **concentrated in coastal cities**.
- These homes often have higher risks, more difficulties finding adequate coverage, and need **more customization** to their policies.





# E&S Misconceptions and Opportunities



# E&S Misconceptions

## Misconception #1: E&S is Not Regulated

One of the greatest myths about E&S is that it is unregulated. While E&S lines do not have to file their rates with the insured's state, they are **still regulated by the company's domiciled state and the Surplus Lines Stamping Office**. A specialty agent, licensed outside the state of the insured, writes the policy to meet the requirements to underwrite.

## Misconception #2: E&S is a Last Resort

E&S was once thought to be a last-resort option. Now, **it's the way forward** through this tough market for the growing number of complex risks. E&S allows for adaptability in a rigid, difficult market. It can change with the environment and ensure customers are covered, cared for, and content with their insurance policy.

## Misconception #3: E&S has Inferior Coverage

E&S is often thought to have worse coverage options since the state does not back it. While that can sometimes be the case, **coverage can be tailored to the risk**. So customers get exactly the coverage they need, for the price point they want, without the fluff.





# Custom Excess and Surplus Insurance

Excess and surplus lines are tools for high-net-worth customers who have exhausted their options through the admitted market. E&S allows your policy to adapt to rapidly changing conditions, such as housing market values and reconstruction costs.

The main disadvantage to custom insurance is that it is not backed by the state's insurance guaranty fund or association. However, there are panels that review insurers to assess their financial strength and stability. One such panel is AM Best, which assesses an insurer's financial strength and ability to manage complex risks.

Insurers should have a **strong AM Best rating**, as well as a **high reinsurance rating**. Insurance companies that provide custom E&S options should have conservative reinsurance, as well as ample capital, to insure complex risks.

## Advantages

- Flexibility & creativity tailored to the risk
- Customizable coverage, limits, and pricing
- Speed to market

## Disadvantages

- Not backed by the state's insurance guaranty association



# State Guaranty Fund

**The main benefit of the admitted market, the state-backed guaranty fund, may not benefit high-net-worth customers.**

Admitted policies are regulated and backed by the state, which is their main benefit. This means if your insurer were to fail and you have a claim, the state-run insurance guaranty fund steps in to cover your claim.

But regulation is slow to change. Houses are priced far higher than years ago, and their reconstruction costs have increased. This makes getting the coverage you need within the state's admitted market more difficult.

Most states have payout caps or net worth limitations, and many high-net-worth customers **do not even qualify to receive full coverage from their state's guaranty fund or association.**





# State Guaranty Fund Examples

## South Carolina Insurance Guaranty Association

- Caps claim payouts at **\$300k**
- A net worth limitation of **\$10M**
- If a customer's home valued at \$2M is destroyed and their admitted insurer goes bankrupt, they will only receive \$300k.
- If they have a net worth greater than \$10M, they will not receive any payments from the guaranty association.

## New York Property and Casualty Insurance Security Fund

- Caps claim payouts at **\$1M** (further limit of **\$5M** for all claims arising out of any one policy)
- No net worth limitation
- If a customer's home valued at \$2M is destroyed and their admitted insurer goes bankrupt, they will only receive \$1M.







# The Vault Difference

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# Protecting What Matters **Most**

## The Mission

Vault offers high net worth personal insurance and customized solutions for individuals and families. We're not just insuring assets, we're reducing risks with data-driven technology to protect what matters most - cherished moments, family memories, and priceless legacies.

## The Vision

Driving industry change by solving problems with custom insurance solutions and technology to create an exceptional customer experience, improving underwriting and sustaining profitable growth.

## The Values

1. Delivering Exceptional Service
2. Driving Innovation
3. Creating Genuine Connections
4. Working Together, Growing Together







# Vault Advantage

## E&S Paper

- Potential to drive business growth
- **Vault's Exceptional E&S Loss Ratio: 44%**
  - Industry average: 72%

## Strength in a Challenging Market

- Many carriers are struggling and looking for options to improve loss ratio
- **E&S is our strongest customizable product.** We choose our risks, and we are leaders in this line of business
- Our AM Best rating is **Excellent**

## Ease of Technology

- Our proprietary internal technology allows us to **take on a much larger capacity.**

## Simplified Process

- We provide ease of use and customization, with a **simplified underwriting and rate process**



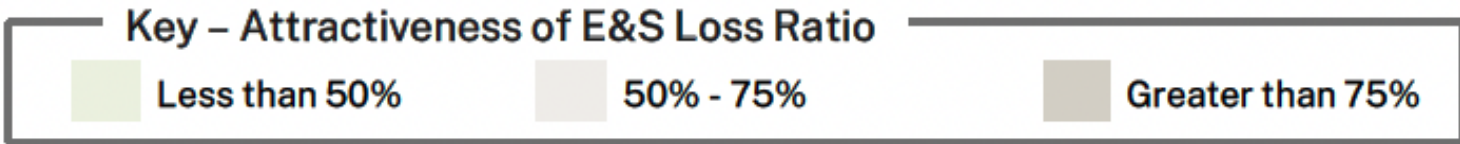
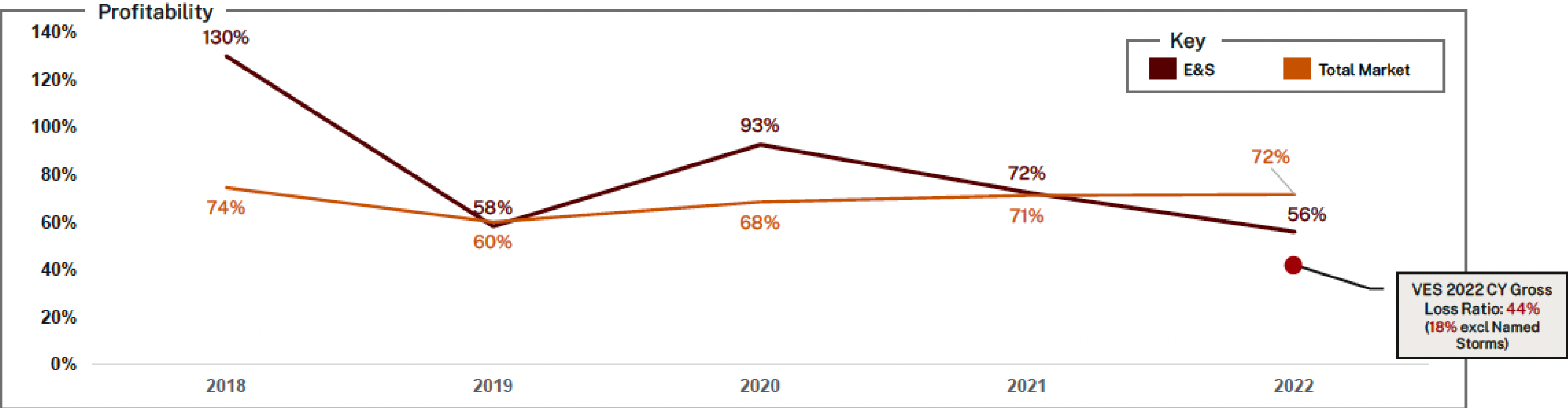
# Vault: A Top Name in E&S

Group Name	E&S Homeowners – Direct Written Premium – FY 2022
Trisura Group Ltd.	\$165.0m
Nationwide	\$161.4m
AIG	\$157.2m
QBE	\$143.1m
Berkshire Hathaway Inc.	\$133.5m
Vault E&S Insurance Co.	\$122.3m
Markel	\$111.4m
Chubb	\$105.6m
Allstate Corp	\$95.5m
Randall & Quilter Invt Hldgs Ltd.	\$82.7m
Other	\$448.1m

➤ Vault is the 6th largest E&S insurer in the industry (excluding Lloyd's).



# E&S Homeowners Market Loss Ratios



Overall E&S LR	2018	2019	2020	2021	2022
Overall E&S LR	130%	58%	93%	72%	56%
FL	101%	68%	63%	60%	92%
CA	764%	82%	-18%	-115%	14%
SC	36%	45%	33%	27%	48%
TX	32%	50%	64%	134%	52%
LA	32%	41%	406%	615%	87%



# Vault Custom

**Vault Custom**, an excess and surplus lines (E&S) option, provides the most flexibility and customization to luxury homes which may struggle to find adequate coverage with standard insurance.

A standard insurance policy for the mass market often does not meet the needs of unique, high value risks. Vault saw those gaps in coverage for high net worth individuals and built our foundation around it. Where other insurers offer inflexible coverage in black and white, **Vault offers a blank canvas with competitive pricing.**

- Prioritizing custom solutions to meet individual needs and risk
- Additional options for coverage on all sizes & types of risks
- 2 hour claims response, 48 hour claims payout
- No separate application required
- Proprietary technology, simplifying E&S and delivering ease through communication, coverage, claims, & billing
- 24/7 Concierge Support





# The Vault Difference

Customized Insurance Solutions for **Affluent Individuals and Families.**

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## For Our Customers

- **Highly Rated:** 4.7 out of 5 stars on TrustPilot.
- **24/7 Concierge Support:** Our Vault Concierge team is ready to assist and can provide immediate support from a real person -- no automation.
- **In the Event of an Issue:** Our Concierge sends a notice immediately and receives a reply from our adjusters within 30 minutes.
- **Fastest Claims Response and Payout:** Our Claims team responds to all claims within 2 hours, and our average payout time is within 48 hrs.
- **Proactive Protection:** We take active steps to educate our customers and reduce risks.

## For Our Partners

- **Proprietary Technology:** Our technology allows for rapid quoting, underwriter communication, and ease of checking quotes so you can grow your business faster.
- **Ease of Doing Business:** From simplifying the E&S process to having a support team ready to assist you 24/7, we're here to help you succeed.
- **Custom Solutions:** We offer solutions for unique risks. Where others say "no," we look for ways to partner with our agents to find a solution.
- **Resources for Success:** We provide industry insights, educational resources, and marketing materials to all our Vault partners.





Vault offers **high net worth personal insurance** and unique, customized solutions for affluent individuals and families. We're not just insuring assets, **we're eliminating risks with data-driven technology to protect what matters most - cherished moments, family memories, and priceless legacy.**



Vault and Vault Insurance are the marketing names used to refer to Vault Reciprocal Exchange, a Florida-domiciled reciprocal insurance exchange managed by Vault Risk Management Services, LLC as its attorney-in-fact, and its affiliates. Certain products and services may be provided by its affiliates.

