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SpottedRisk shares Coda success and readies for European and D&O growth

30 March 2022

Fresh from sharing in Coda's success at the Oscars after its Media Guarantors platform wrote a completion bond for the film, MGA SpottedRisk is set to enter the UK and EU markets in addition to readying a D&O and E&O play, CEO Janet Comenos has told The Insurer.

SpottedRisk joined in the Academy Awards celebrations after Coda won three Oscars, including best picture.

Media Guarantors, which Boston-based SpottedRisk acquired in August 2020, underwrote a completion bond – a surety bond that guarantees a film or TV project will be completed on time and on budget – for the movie. Listed among Coda's credits is Media Guarantors itself, along with CEO Fred Milstein, head of production and underwriting Scott Nicolaides and head of legal and business affairs Erica Fishkin.

SpottedRisk made its name providing a version of disgrace insurance to celebrities before it entered the completion bonds market with the Media Guarantors acquisition in August 2020.

That same month, the MGA caught the industry's eye again through the launch of its SpottedRisk Coronavirus Production Insurance buyback.

Following the onset of Covid-19, film and TV insurers excluded Covid-19 and communicable disease from their coverages, making it hard for independent projects to secure financing from traditional sources such as banks.

Only A rated Covid-19 offering

But the Coronavirus Production Insurance buyback meant independent productions could once again obtain the coverage they needed.

As Comenos noted, SpottedRisk was the only provider of Covid-19 and communicable disease coverage in the entertainment insurance space for a year before another market stepped in.

According to Comenos though, given SpottedRisk's Covid-19 and communicable disease coverage is underwritten by Chaucer, the MGA is the only A rated provider of such protection.

Axa XL underwrites Media Guarantors' bonds, while the Scott Gunter-led business is also the lead insurer on the majority of SpottedRisk's film and TV coverages, Comenos said.

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Talking to ***The Insurer***, Comenos said SpottedRisk's approach to the market has allowed it to take advantage of the disruption that has arisen.

"We take a very technical and analytical approach to underwriting entertainment and contingency insurance," Comenos said.

"We've really overhauled the space," she added.

SpottedRisk's array of coverages for the film and TV industry include disgrace, Covid and communicable disease coverage, as well as cast pregnancy – protections that financiers often demand before they are willing to support a project.

"Because we're the only A rated provider of coronavirus and communicable disease insurance to the film and TV industry, and we're the only company that has a formal facility set up for that, we were able to pair our Covid and communicable disease insurance with our completion bond," said Comenos.

Explosive growth

In doing so, SpottedRisk has been able to take advantage of what Comenos said was the "explosive growth" in film and TV content spend in recent years. According to Comenos, global content spend in film and TV was $12bn in 2015.

Following the rise of streaming giants such as Netflix, Hulu, Amazon and Apple, film and TV content spend rocketed to $240bn in 2021.

"We have this really interesting dynamic where the industry is experiencing explosive growth, and yet the banks have completely receded from the space because of the lack of coronavirus insurance [in the marketplace]," said Comenos.

"The banks are so risk-averse and rigid in their approach, and the only way they'll resume lending is if they can get a clean bond without any communicable disease exclusion," she added.

SpottedRisk launched its Covid-exclusion-free completion bond in the fall of 2021.

"Independent films ground to a halt owing to not being able to get clean bonds," said Comenos.
"[But our product has] enabled films to secure much cheaper financing because we were able to deliver a clean bond with no communicable disease exclusions," she added.

"It's gone very well for us over the last 18 months. We have insured and bonded an overwhelming percentage of the independent productions that have gone on over the last two years," the executive stated.

According to Comenos, SpottedRisk's "more rigorous and analytical approach to underwriting", as well as the "strict eligibility criteria" the MGA employs, means all of the platform's programs are operating at a sub-20 percent loss ratio.

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"So there is a way to write this business profitably, you just have to be taking a more technical and analytical approach," Comenos said.

Given its success so far, Comenos is optimistic that SpottedRisk's track record will allow it to secure more capital and capacity in the future so it can build out its platform.

To that end, SpottedRisk has already secured further capacity support from Axa XL, backed by reinsurers Munich Re and Hannover Re, to enter the UK and EU-based entertainment insurance markets, Comenos said.

"We've just tied up the licensing requirements to be able to [support that move into the UK and EU]," she said.

"It's been a long time in the works – we've been working on it for almost a year now," she added.

Lending platform

Given the flux in the film and TV financing world owing to the banks retrenching due to a lack of availability of insurance, Comenos said SpottedRisk is launching a new division that will offer lending capabilities to projects.

"That will be financed through a combination of private investors and new investors. And we are going to be raising a significant amount of capital for that program," Comenos said.

According to Comenos, the banks' pullback from the sector means various non-bank lenders have entered the space charging "much higher than historical interest rates – sometimes 200 to 300 percent higher".

D&O and E&O move

Looking further ahead, Comenos said SpottedRisk has hired underwriters to move beyond the film and entertainment market and spearhead its entry into the D&O market for special purpose acquisition companies (SPACs), as well as E&O business and professional liability for sectors such as lawyers.

"We're taking a data science first approach and combining it with underwriting expertise in the E&O and SPAC D&O space," said Comenos.

"Coverage in the SPAC D&O space has become inordinately expensive. The rate on line is rising to the 30-45 percent level in many cases, and we believe that's another program where you can apply a technical underwriting approach by assessing the sponsors associated with each SPAC and write the business more profitably and provide some rate relief," Comenos explained.

"We're also doing the same thing in E&O. We're getting ready to launch and start capacity conversations in the next two to three weeks around taking an analytical approach to several different subsets starting with lawyers' professional liability," the executive added.

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MGA focused

There has been a recent trend of MGAs retaining risk so their interests are more closely aligned with their capacity providers. But Comenos said SpottedRisk does "not have any desire to take a significant amount of risk as a business", and stated that "it's certainly not in our business model to become a full-stack carrier".

"We may consider taking on a small amount of risk just because our programs operate so profitably," she said.

One of the key reasons not to take on a significant amount of risk is that it puts off potential suitors down the line.

"We could become a hybrid risk-bearing entity and MGA where we take a little bit of risk, but the problem becomes if we go to sell the company one day, we will narrow the set of acquirers by half to two-thirds if we've taken on a meaningful amount of risk," said Comenos.

"The brokers will pay higher multiples than the insurers do, and so we don't want to handicap or disrupt our ability to be acquired by a distribution partner," the executive added.