BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

September 18, 2024*

Improved Underwriting and Operating Results Sustain US Surplus Lines Market Momentum

The US surplus lines market blew past the $100 billion premium threshold for the first time, producing well over $115 billion in premium in 2023

Principal Takeaways

- The surplus lines market generated well over $115 billion in direct premiums written, up 17.4% over 2022, and surpassing $100 billion for the first time.
- Surplus lines insurers reported another year of improved underwriting and operating results in calendar year 2023.
- The growing need for non-admitted coverage solutions for catastrophe-exposed property risks and challenging non-professional liability exposures led the surplus lines market to a sixth consecutive year of double-digit direct premium growth.
- Higher account pricing for certain lines of coverage has contributed to the market's premium growth, but the engine for growth has been the strong submission flow generated by wholesalers and other distribution partners like such as MGAs and program managers.
- Non-admitted carriers are seizing the opportunity to tailor coverage solutions to satisfy policyholder needs with regard to risks related to climate, new technological advancements, and rising cyber risks.

Section I – State of the Market

The US property/casualty market has been fraught with macroeconomic challenges in recent years, as COVID-19, and economic and social inflation have all increased loss costs. In addition, changes in weather patterns have led to more frequent severe storm and wildfire loss events. In 2023, P/C insurers continued to contend with these pitfalls as well as uncertainty about risks associated with artificial intelligence and machine learning; secondary (non-peak) perils such as severe convective storms and tornadoes becoming a prominent cause of industry losses; and the impact of regulatory constraints on the ability of insurers to address price adequacy concerns in a timely manner.

The surplus lines market has not been immune to the challenges the US property/casualty market faces. Nevertheless, the segment's insurers maintained their long-standing focus on providing coverage for unique, moderate- to high-hazard loss exposures that require specialized insurance solutions. In 2023, the US surplus lines market blew past the $100 billion premium threshold for the first time, generating total premium of more than $115 billion. In AM Best's view,

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Surplus Lines Market Participants

In this section of the report, AM Best identifies the following four main segments of the surplus lines market that provide a comprehensive and accurate picture of the overall segment's financial performance:

- **Domestic professional companies** (the largest segment) are US-domiciled insurers that write 50% or more of their total premium on a nonadmitted or surplus lines basis.
- **Domestic specialty companies** are US-domiciled insurers that operate on a nonadmitted basis to some extent, but whose direct nonadmitted premium writings amount to less than 50% of their total direct premiums written (DPW).
- **Regulated alien insurers** and **Lloyd's syndicates** are non-US-domiciled insurers that must file financial statements and auditors' reports, the names of their US attorneys or other representatives, as well as information on their US trust accounts, with the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC). Regulated aliens must also meet IID criteria relating to capital and surplus, as well as underwriting and claims practices, and have a reputation of financial integrity. The NAIC publishes a Quarterly Listing of Alien Insurers that meet its criteria. In this report, we separate the premium written by the non-Lloyd's alien insurers and the Lloyd's syndicates.

Note: Lloyd's is not an individual insurer but a market of many risk bearers. According to the IID, 86 Lloyd's syndicates were transacting surplus lines business in 2023. Premium totals for the Lloyd's market reflect the activities of the 86 syndicates and should not be compared to the premium of any one surplus lines group or company referenced in this report.

achieving this result when the many and varied headwinds specialty and surplus lines insurers face represents no small feat. The surplus lines market's resilience has been marked by insurers' ability to withstand tumultuous times by adjusting strategies, innovating solutions, and modifying enterprise risk management principles. For the segment, these strengths are embodied by the development of practices that have generally led to short-term improvements during tough times, while also setting the stage for long-term success.

Despite these myriad challenges, the AM Best domestic professional surplus lines composite has been able to generate increasing underwriting profits in each of the past three years and has generated pretax net operating profits in each of the last ten years, although the magnitude of the profits has varied considerably. The segment has generated these profits while premium has grown significantly. With the advent of new scientific and technological discoveries and tools, as well as their inherent risk exposures, surplus lines insurers have been especially critical in supplying manufacturing, engineering, and construction businesses with needed insurance coverage.

In the past two decades, the lack of impairments of companies writing predominantly surplus lines business further highlights the strength of the surplus lines and specialty market companies. Market dislocation—whether caused by catastrophe or by overwhelming global economic upheaval—offers many opportunities for surplus lines companies in their long-held tradition operating as a safety valve for the admitted or standard market.

The current insurance market is fraught with difficult circumstances for insurance companies. For example, as average temperatures around the world continue to rise, the difficulties of properly assessing and planning for potential property loss events heighten. The growing complexities of the interconnectedness of global businesses raises the stakes for companies to understand and protect

against the risks facing their businesses. It also makes it increasingly important for risk managers to partner with insurance distributors and insurance carriers that are capable of developing adequate programs that provide effective coverage for these risks. AM Best believes that carriers in the surplus lines market segment are well positioned to continue meeting these challenges, resulting in favorable underwriting results, organic capital generation, and greater balance sheet strength.

Among the main headwinds the insurance industry faces are catastrophes of unforeseen size and nature, including a growing number of significant secondary peril events, along with casualty exposures that emerge over the near to medium term. Softening P/C market conditions that emerge

AM Best's Annual Surplus Lines Market Report

In hopes of bringing clarity to debates about insurance company solvency, in 1991, we published *Best's Insolvency Study: Property/Casualty Insurers 1969-1990*. In 1994, the Derek Hughes/NAPSLO Educational Foundation—now the WSIA Education Foundation—commissioned a similar study on the solvency record of the domestic surplus lines industry. Although the segment was poorly understood at the time, data showed that its financial stability and solvency were at least on par with that of the overall P/C industry.

Since then, AM Best has published an annual report on the surplus lines market (commissioned by the foundation), documenting the following:

- The market's role in developing products to cover new or emerging risks, distressed risks, high-capacity risks, and other unique risks that cannot be insured in the standard P/C market
- The importance of surplus lines insurers' freedom of rate and form, which has allowed for creative insurance solutions to meet very complex or unique coverage needs
- The critical and still growing role of wholesalers in developing products and forging relationships with insureds that facilitate the placement of business in this market

Throughout its history, the surplus lines market has faced significant obstacles and intense competition—including periods of aggressive pricing during which standard market carriers seeking organic growth offered broader coverage—as well as the growing appeal of the alternative risk transfer market as another means of covering surplus lines risks. Throughout, surplus lines industry representatives have maintained an active presence in the states and in Washington, DC, tracking and addressing critical regulatory issues affecting the industry and helping advance key pieces of legislation.

Despite numerous economic, regulatory, legislative, and market challenges, surplus lines insurers' share of the P/C market share has more than tripled since the start of the century, from 3.6% total P/C direct premiums written (DPW) in 2000 to 12.0% at the end of 2023. During the same period, the surplus lines insurers' share of the P/C industry's commercial lines' DPW rose from 7.1% to 23.8%, demonstrating the segment's growing importance to the P/C insurance industry. As of mid-year 2024, 98% of surplus lines insurers had AM Best long-term Issuer Credit Ratings (ICRs) of "a-" or higher, compared with 84% for the total P/C industry.

The surplus lines market functions as a strong safety valve for the insurance industry, as economic turmoil, emerging issues, and developing exposures continue to drive the demand for new, creative, and comprehensive insurance solutions. AM Best believes that, given the surplus lines market's ability to effectively assess new exposures and its flexibility to tailor terms and limits to meet coverage demands, the market's role and value to the P/C insurance marketplace will continue to grow.

too quickly and extend too far are another potential problem. How well the specialty/surplus lines market deals with these events will largely determine the segment's performance over the long term. The hallmarks of the surplus lines insurers—creative market and product-oriented solutions—are especially valuable in the current market.

Steady Submission Flow and Market Dislocation Support Premium Growth

During the last several years, the surplus lines market has enjoyed a surge resulting in yearly double-digit growth in direct premiums written (DPW) from 2018 through 2023, peaking with 2021's 25% growth (**Exhibit 1**). The rated insurers writing surplus lines business note that abundant submission flow from distribution partners has fueled the growth. Another key factor driving the growth has been market dislocation, particularly on the property side, reflecting the challenges presented by record heat, climate changes, and increasingly volatile weather patterns that have led to more frequent severe weather events, resulting in higher insured loss totals. These events include secondary perils such as severe convective storms, hailstorms, tornadoes, winter freezes, and wildfires. These factors, plus macroeconomic headwinds such as the impact of inflation on repairs of damaged property, has led more admitted carriers to re-assess their risk appetites for certain risks and has expanded opportunities for non-admitted insurers, especially in states and areas subject to repeated extreme weather events.

The Lloyds market generated the biggest premium increase in 2023. The 86 syndicates that wrote US surplus lines business in 2023 increased Lloyds' premium total by a substantial 28.8%— the result of several factors, including positive pricing momentum on the specialty commercial, moderate- to high-hazard risks that are a specialty of Lloyd's syndicates. Available opportunities encompassed complex property and specialty casualty risk classes that have maintained pricing momentum the Lloyd's market was able to take advantage of, while ensuring that each account's risk parameters met Lloyd's underwriting standards. The Lloyd's market has expended significant resources on remedial work the past few years, to enhance the quality of its overall portfolio for all lines. It has made strides with regard to oversight, so that underwriting and pricing decisions remain in line with its standards.

Exhibit 1

US Surplus Lines – Direct Premiums Written by Segment, 2000-2023

($ millions)

	P/C Industry		Surplus Lines		Domestic Professionals				Lloyd's			Regulated Aliens (Excluding Lloyd's)				Domestic Specialty			
Year	DPW	YoY % Chg.	DPW	YoY % Chg.	DPW	YoY % Chg.	SL Mkt Share	# of Cos.	DPW	YoY % Chg.	SL Mkt Share	DPW	YoY % Chg.	SL Mkt Share	# of Cos.	DPW	YoY % Chg.	SL Mkt Share	# of Cos.
2000	327,286	6.0	11,656	9.8	7,884	8.5	67.6	98	2,499	30.7	21.4	941	-17.5	8.1	46	332	11.4	2.8	106
2001	367,798	12.4	15,813	35.7	10,773	36.6	68.1	104	3,368	34.8	21.3	1,362	44.7	8.6	44	310	-6.6	2.0	91
2002	422,703	14.9	25,565	61.7	19,572	81.7	76.6	108	4,082	21.2	16.0	1,600	17.5	6.3	46	311	0.3	1.2	76
2003	463,033	9.5	32,799	28.3	25,662	31.1	78.2	115	4,492	10.0	13.7	2,400	50.0	7.3	45	245	-21.2	0.7	63
2004	481,588	4.0	33,012	0.6	25,744	0.3	78.0	115	4,596	2.3	13.9	2,400	0.0	7.3	53	272	11.0	0.8	59
2005	491,429	2.0	33,301	0.8	25,968	0.9	78.0	111	4,675	1.7	14.0	2,400	0.0	7.2	50	238	-12.5	0.7	57
2006	503,894	2.5	38,698	16.3	29,410	13.3	76.0	117	5,989	28.1	15.5	3,100	29.2	8.0	55	199	-16.4	0.5	54
2007	506,180	0.5	36,637	-3.5	27,675	-5.9	74.1	120	6,360	6.2	17.0	3,100	0.0	8.3	55	202	1.5	0.5	56
2008	492,881	-2.6	34,365	-6.2	24,612	-11.1	71.6	130	6,062	-4.7	17.6	3,403	9.8	9.9	53	288	42.6	0.8	70
2009	481,410	-2.3	32,952	-4.1	22,830	-7.2	69.3	139	6,090	0.5	18.5	3,735	9.8	11.3	55	297	3.1	0.9	69
2010	481,120	-0.1	31,716	-3.8	21,882	-4.2	69.0	143	5,789	-4.9	18.3	3,758	0.6	11.8	56	287	-3.4	0.9	66
2011	501,555	4.2	31,140	-1.8	22,582	3.2	72.5	146	5,790	0.0	18.6	2,537	-32.5	8.1	53	231	-19.5	0.7	60
2012	523,360	4.3	34,808	11.8	25,490	12.9	73.2	142	6,270	8.3	18.0	2,747	8.3	7.9	61	301	30.3	0.9	53
2013	545,760	4.3	37,719	8.4	26,818	5.2	71.1	140	7,099	13.2	18.8	3,362	22.4	8.9	59	440	46.2	1.2	49
2014	570,187	4.5	40,243	6.7	28,274	5.4	70.3	135	8,157	14.9	20.3	3,311	-1.5	8.2	60	501	13.9	1.2	58
2015	591,186	3.7	41,259	2.5	29,333	3.7	71.1	139	8,645	6.0	21.0	2,974	-10.2	7.2	58	307	-38.7	0.7	53
2016	612,906	3.7	42,425	2.8	29,112	-0.8	68.6	139	9,607	11.1	22.6	3,057	2.8	7.2	61	649	111.4	1.5	59
2017	642,127	4.8	44,879	5.8	30,594	5.1	68.2	138	10,325	7.5	23.0	3,289	7.6	7.3	59	671	3.4	1.5	58
2018	678,029	5.6	49,890	11.2	34,054	11.3	68.7	148	11,755	13.8	23.2	3,543	7.7	7.0	62	537	-20.0	1.1	61
2019	712,194	5.0	56,279	11.2	39,060	14.7	70.4	154	12,477	6.1	22.5	4,337	22.4	6.3	62	405	-24.6	0.7	60
2020	728,866	2.3	66,102	17.5	46,948	20.2	71.0	161	12,821	2.8	19.4	5,847	34.8	8.8	74	486	20.0	0.7	65
2021	798,393	9.5	82,653	25.0	61,200	30.4	74.0	169	13,872	8.2	16.8	6,864	17.4	8.3	75	717	47.5	0.9	69
2022	875,458	9.7	98,488	19.2	73,369	19.9	74.5	185	15,483	11.6	15.7	8,735	27.3	8.9	79	901	25.6	0.9	65
2023	966,817	10.5	115,646	17.4	83,830	14.3	72.5	192	19,947	28.8	17.2	10,667	22.1	9.2	80	1,202	33.4	1.0	60

Source: AM Best data and research

Service Offices Premium Reach New Highs in 2023

According to the February 12, 2024, Annual Report of the US Surplus Lines Stamping Offices, which captures insurance data from surplus lines stamping and service offices in 15 states, surplus lines premium reached a new high in 2023, increasing by 14.6% to almost $73 billion, from more than $63 billion in 2022. Premium-bearing transactions filed—new and renewal business as well as endorsements, including premium audits—were up 5.2% in 2023, significantly less than the 24.1% growth in such transactions in 2022 compared with 2021. The report noted a record-high $63.3 billion in surplus lines premium and 5.6 million transactions since the stamping offices began reporting annual and semi-annual aggregated data. The premium recorded by the stamping offices accounted for 63% of the $115.6 billion in total surplus lines market direct premium aggregated by AM Best in this report. That the increase in reported filings, which provides a rough estimate of the flow of business into and out of the surplus lines market, was much more modest than the year-over-year increase in premium reflected pricing momentum for certain troubled lines of business, driving the aggregated premium growth for surplus lines insurers.

The non-professional general liability (36.9%) and property (33.3%) lines of business were the most responsible for the premium growth from 2022 to 2023. The professional liability portion of the general liability line of business, at 10.3%, was the only other line to generate a double-digit increase in direct premiums. Average account pricing played a greater part in the growth of the non-professional general liability premium since the number of transactions increased by only 9.9%, a much smaller increase than the 36.9% growth in premium. Conversely, the over 30% growth in property premium was largely fueled by the 31.8% YoY growth in transactions.

Eleven of the 15 stamping and service offices reported double-digit premium growth, with Florida (27.8%), Texas (25.8%), and Nevada (23.6%) leading the way. Idaho, at 21.8%, was the only other state with higher than 20% premium growth. Two of the states that did not see double-digit premium growth were California (2.8%) and New York (5.2%), the #1 and #4 states generating surplus lines premiums.

The number of transactions rose more modestly across all service offices than premium. Among the main lines of coverage, only non-professional liability policies grew in number by more than 10%. The "Other" line of business, which captures ancillary coverages such as credit, crime, kidnap, ransom, ocean marine, and pet insurance also grew by 11%. The non-professional liability and residential (homeowners) lines accounted for 55% of all transactions in 2023.

According to the Mid-Year Report of the US Surplus Lines Stamping Offices, surplus lines premium increased by 10.1% from mid-year 2023, reaching nearly $39.5 billion, with 3.2 million items filed, up 10.8% year over year. Commercial liability lines of coverage, along with and commercial property coverage, continued to drive the market segment's growth in premium. By contrast, personal lines policies remain a relatively small portion of the overall surplus lines market, with premiums for residential, homeowners, and other personal property coverages accounting for 4.6% of premium through the first half of 2024.

Among the states generating the majority of US surplus lines premium, 14.9% growth in items processed and 7.0% growth in premium in California have been driven by market dislocation, which has generated an influx of new policies in the real estate and personal lines/homeowners lines, along with growth in hospitality and wholesale commercial risks. In Florida, commercial property remains a main driver of the surplus lines market's overall growth, resulting in increases of 10.3% in premium and 24.2% in items processed. In New York, premium growth was largely attributable to commercial auto liability and auto physical damage, as insurers pushed to achieve rate adequacy to offset claims costs. Excess liability for non-professional risks and, general liability for manufacturers and contractors also factored into the state's 8.3% YoY growth in premium.

From 2019 to 2021, Lloyd's YoY premium growth was somewhat muted, as it focused on upgrading the quality of its portfolio, identifying business that was not up to its high standards and developing a plan to improve or eliminate those accounts. The ability to capitalize on distressed risk classes and

coverage lines, in which pricing conditions turned decidedly more favorable as admitted carriers eschewed the business, was evident in premium growth returning to double-digits in 2022 (11.6%) and in 2023 (28.8%).

Lloyd's brand recognition remains excellent in both the specialty P/C and the reinsurance markets, where pricing conditions have improved. Its business mix is diversified although with a geographical bias toward North America. Its product bias toward moderate- to high-risk commercial specialty lines has made it a mainstay in the US.

Despite making up a smaller component of the surplus lines market, non-Lloyd's alien insurers have contributed notably to the premium momentum for the surplus lines market. In 2022, they provided the most significant YoY growth (27.3%) of any segment participant and were second in percentage growth among the segment's participants in 2023, at 22.1%. The 33.3% increase in DPW for domestic specialty insurers that don't focus on surplus lines but write some non-admitted premium (less than 50% of their total direct premium volume) is less consequential but still shows the opportunities available to surplus lines carriers as admitted carriers shy away from some property business, which has suffered significant catastrophe losses, and general liability business, which has been plagued by social inflation.

Umbrella and excess liability lines have also contributed to the premium momentum, as carriers realized that the loss severity on the casualty side that caused adverse prior year loss reserve development required significant re-pricing. Surplus lines insurers writing those lines have appeared steadfast in the pursuit of more adequate pricing.

Economic inflation and its impact on claims costs is still driving adverse loss trends for several lines of coverage and risk classes, for which surplus lines insurers are seizing opportunities to meet market demand. With admitted companies somewhat wary about cyber exposures, surplus lines insurers have filled in the coverage gaps, with more defined coverage terms.

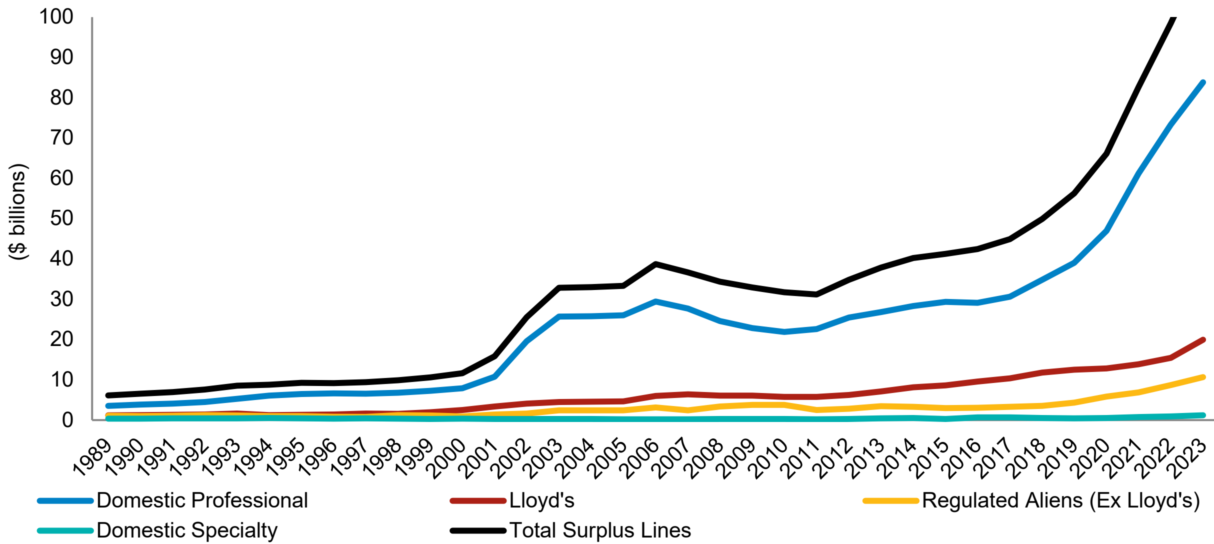
Despite Some Moderation, Surplus Lines Market Expansion Continues

The surplus lines market's DPW growth has clearly spiked in the last decade, as **Exhibit 2**, shows. From 2002, immediately following a decided hard market shift, until 2017, the surplus lines market grew by approximately 74%. However, in just five years, surplus lines market DPW more than doubled, rising by approximately 105% from $56.3 billion in 2019 to $115.6 billion in 2023. The US surplus lines companies were key to propelling that growth, increasing by 136% during the period.

The Lloyd's market saw considerable but lower premium growth, approximately 70% between 2019 and 2023. Regulated non-Lloyd's alien insurers represent a much smaller component of the market but their premium tripled during the period.

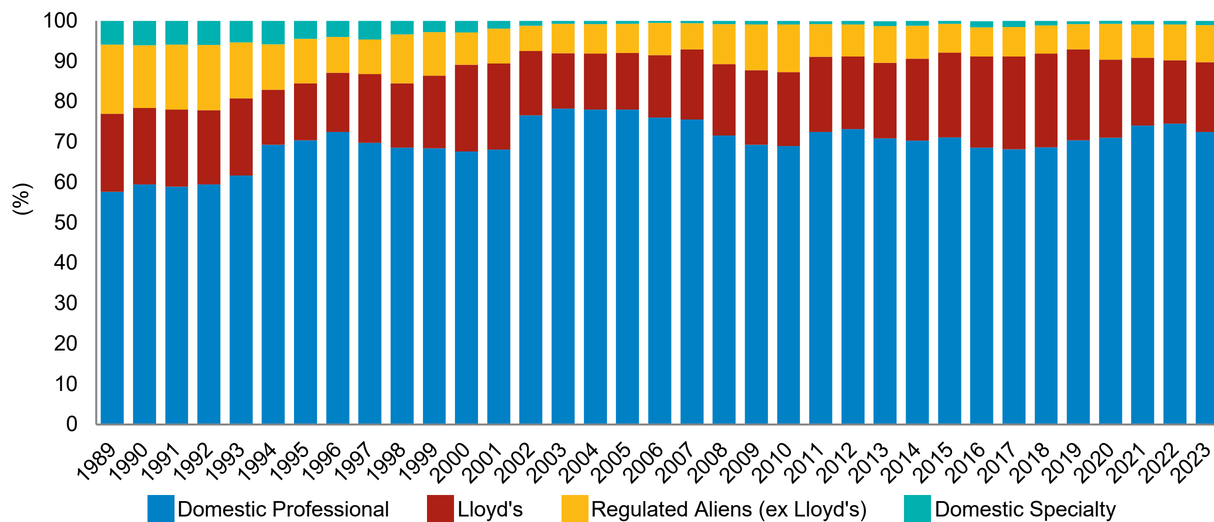
The sizable YoY increase in DPW for both the Lloyd's market and regulated alien insurers in 2023 resulted in their surplus lines market shares to increase, particularly for Lloyd's, which accounted for 17.2% of the market, up notably from 15.7% in 2022 (**Exhibit 3**). The regulated alien percentage of the market inched closer to double digits, 9.2%, representing the highest proportion of the total surplus lines market for those insurers since 2010, when they generated 11.8% of non-admitted DPW. Since US domestic specialty companies are less dedicated writers of surplus lines business, they have seen greater volatility than the dedicated domestic surplus lines insurers. The smaller average account premium of domestic specialty companies can cause greater volatility for this segment of the surplus lines market if risk appetites for even a relative small number of companies change drastically from year to year.

Exhibit 2
US Surplus Lines – DPW by Segment



Source: AM Best data and research

Exhibit 3
US Surplus Lines – Market Share by Segment



Source: AM Best data and research

Hard-market underwriting in admitted markets continues to drive business towards the surplus market, one of the primary reasons surplus lines insurers have enjoyed consistent growth in recent years. Admitted carriers have become increasingly risk-averse, leading them to pull back on coverage, raise rates, push for higher deductibles, reduce overall limits offered for an individual risk, and tighten coverage terms. The property market for both personal lines property (homeowners) and commercial property remains hard, especially for accounts that have suffered large or multiple weather-related or man-made (wildfire) catastrophe losses.

The commercial auto market also remains quite hard, because of a long period of poor underwriting results. Based on conversations with insurance carriers underwriting auto risks, trucking risks are particularly tough to underwrite because of inflationary pressures, supply chain issues, nuclear verdicts, and elevated claims costs, as well as a lack of experienced drivers. **Exhibit 4** shows the

admitted versus surplus lines split for the US P/C industry. These hard market factors have fueled the consistent growth for surplus lines carriers, which topped 10% of the overall P/C market for the first time in 2021 and continued to grow through 2023, reaching almost 12% of the P/C market. Surplus lines DPW remains decidedly weighted toward commercial lines rather than personal lines.

Pricing has risen for many commercial lines of coverage in the last three years, and admitted companies choosing to focus on core business leading to borderline, moderate hazard accounts they were writing to flow to the surplus lines market. Surplus lines insurers have used their greater familiarity with tougher commercial risks to take on more of these exposures. As such, the surplus lines market premium as a percentage of the P/C industry's commercial lines DPW rose above 20% for the first time in 2021 and has kept increasing, ending 2023 at 23.8% (**Exhibit 5**).

The growth of the surplus lines market compared with the overall commercial lines market has been more astounding when seen over the longer term. From 2000 to 2023, the P/C industry's commercial DPW almost tripled, while surplus lines DPW rose by more than eight times—nearly tripling the surplus lines market' share of commercial DPW from 7.3% in 2000, to the 23.8% in 2023. AM Best expects that surplus lines segment growth will continue outpacing the overall commercial lines market in the coming years, especially as new technologies, climate-related risks, and risks pertaining to environmental, social and governance concerns requiring creative insurance coverage solutions.

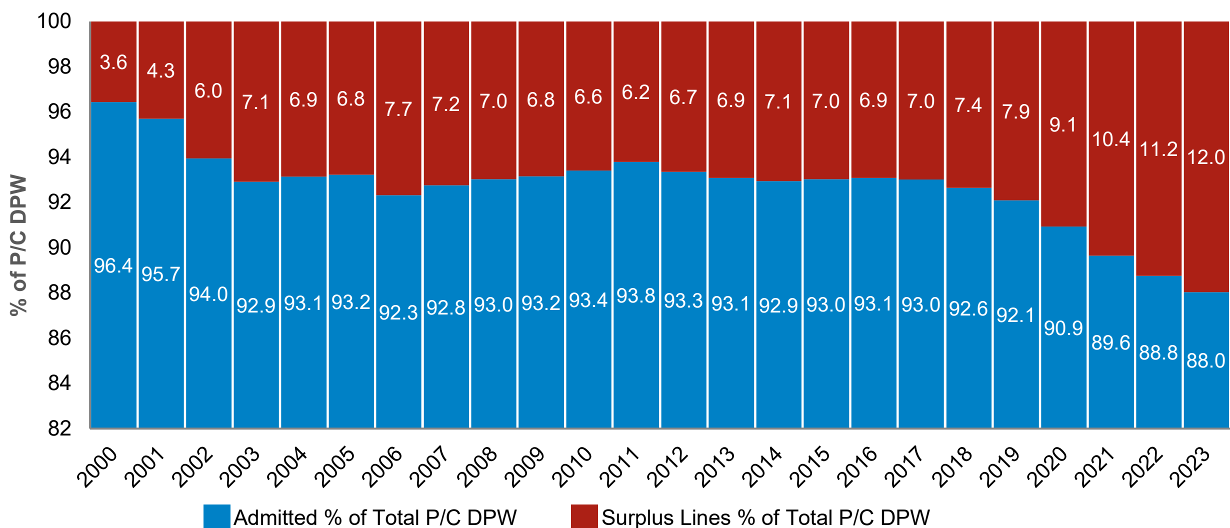
Several Insurers Make a Big Jump in the Top 20

Over the three decades that AM Best has generated this report, the top 25 surplus lines groups, combined with the syndicates comprising the Lloyd's Market, have usually accounted for more than 70% of the surplus lines market DPW. Solid underwriting results has attracted new carriers to the market, or enticed carriers that had not focused on surplus lines business, to deploy more resources and build out their capabilities to offer coverage to policyholders that require tailored solutions.

In 2023, the top 25 surplus lines groups by DPW, including the Lloyd's market, generated more than 68% of total surplus lines market DPW, as **Exhibit 6** shows; excluding the Lloyd's market, the 24 groups accounted for 51.3% of surplus lines premium, versus 53.5% in 2022. Over the past several years, newer surplus lines-focused insurers have gained traction, including some using the fronting

Exhibit 4

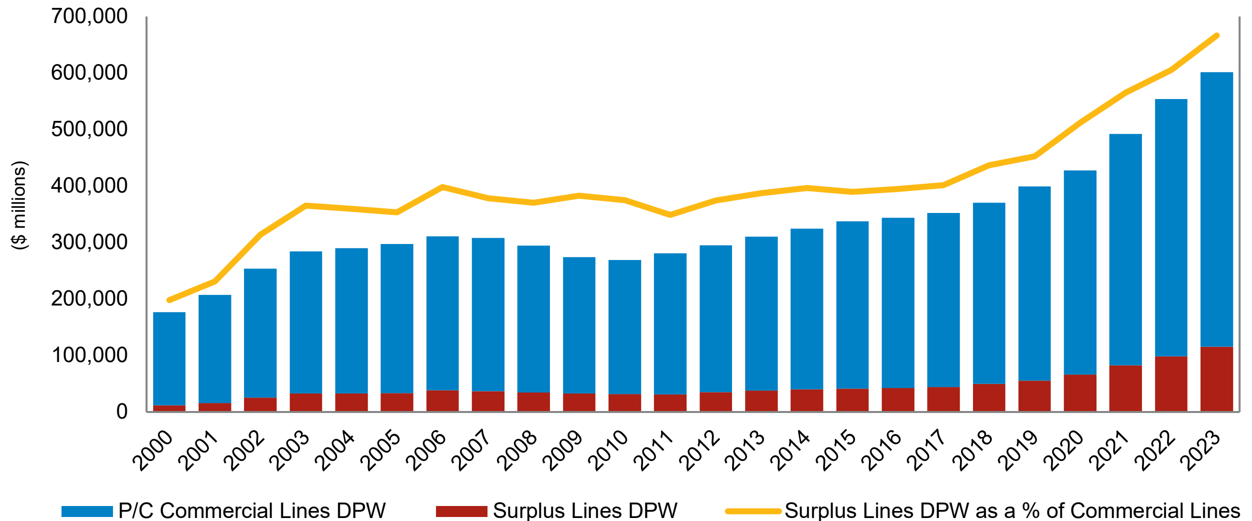
US P/C Industry – Admitted vs.Surplus Lines, Proportion of DPW



Source: AM Best data and research

Exhibit 5

Surplus Lines DPW as a % of P/C Industry Commercial Lines DPW



Source: AM Best data and research

company model. Overall, newer market entrants have made significant inroads, resulting in a more diversified surplus lines market.

Lloyd's syndicates operate as individual businesses, but the size of the collective market allows them to compete with major international groups under the Lloyd's brand. Lloyd's portfolio is highly diversified but does have some geographical bias towards North America, as well as product bias towards commercial specialty lines. Their appetite for US surplus lines and the specialty commercial business remains strong, despite some geographic diversification into Asia, Europe, South America, and reinsurance markets generally. The network of global licenses is a key competitive strength.

Most Lloyd's syndicates are owned by larger insurance groups, many of which also have US subsidiaries. From time to time, business will move from Lloyd's paper to the company's own paper and vice versa. For example, in 2023, Beazley established Beazley Excess and Surplus, Inc. Business will transition over from Beazley's Lloyd's paper to Beazley E&S over several years.

Berkshire Hathaway remains the leading US surplus lines organization, with sizable DPW growth of more than 20% in 2023, a year after its acquisition of Alleghany Corporation led to extraordinary growth of 63%. The group's surplus lines writings are still dominated by its main surplus lines (re) insurer, National Fire & Marine Insurance Company. The YoY DPW growth for the #2 US surplus lines group, AIG, fell just short of double digits, 9.2%, up from 8.6% in 2022. In recent years, AIG has streamlined its writings in segments such as reinsurance, crop, travel, and high-net-worth individuals. However, AIG's lead surplus lines insurer, Lexington Insurance Company, and E&S fit into the group's overall profile, and AM Best expects that AIG will continue growing its portfolio in the lines and risk classes that fall within its risk appetite.

Fairfax Financial (USA) Group and Markel Corporation switched their #3 and #4 positions owing to Fairfax's 7% YoY growth versus the modest decline in Markel's writings making the difference. W. R. Berkley Insurance Group, Chubb INA Group, Nationwide, Liberty Mutual, and XL America all retained their standing in the Top 10 in 2023.

Exhibit 6

US Surplus Lines – Lloyd's and Top 25 Groups, 2023

Ranked by Direct Premiums Witten

Rank	AMB #	Group Name	Surplus Lines DPW ($ thousands)	YoY DPW % Change	Surplus Lines Market Share (%)
	85202	**Lloyd's**	**19,947,360**	**28.8**	**17.2**
1	00811	Berkshire Hathaway Ins Grp.[1]	8,367,227	21.1	7.2
2	18540	American International Grp.	4,955,441	9.2	4.3
3	03116	Fairfax Financial (USA) Grp.	4,047,592	7.0	3.5
4	18468	Markel Insurance Group	3,681,953	-4.0	3.2
5	18252	W. R. Berkley Insurance Grp.	3,546,945	10.4	3.1
6	18498	Chubb INA Grp.	3,181,112	14.4	2.8
7	05987	Nationwide P&C Grp.	2,866,217	2.9	2.5
8	18756	Starr International Grp.	2,712,958	48.9	2.3
9	00060	Liberty Mutual Insurance Cos.	2,263,926	0.4	2.0
10	18557	XL America Cos.	1,963,766	-3.3	1.7
11	18777	AXIS US Operations	1,946,325	23.3	1.7
12	18878	Sompo Holdings US Grp.	1,942,572	6.5	1.7
13	14027	Kinsale Insurance Co.	1,568,815	42.3	1.4
14	18753	Munich-American Holding Corp. Cos.	1,543,920	37.1	1.3
15	18733	Tokio Marine US PC Grp.	1,537,326	2.4	1.3
16	18313	CNA Insurance Cos	1,482,166	18.5	1.3
17	18484	Arch Insurance Group	1,467,393	9.6	1.3
18	18549	Zurich Ins. US PC Grp.	1,454,560	8.2	1.3
19	18975	Core Specialty Insurance Grp.	1,402,161	78.5	1.2
20	18674	Travelers Group	1,384,920	43.0	1.2
21	05695	Everest Re U.S. Grp.	1,250,621	6.4	1.1
22	04835	Great American P&C Insurance Grp.	1,237,661	14.4	1.1
23	18944	Trisura US Insurance Grp.	1,236,108	5.5	1.1
24	00048	Hartford Insurance Grp.	1,174,817	13.0	1.0
25	18626	James River Group	1,067,494	9.9	0.9
		Subtotal of Top 25 Surplus Lines Groups	59,283,996	12.6	51.3
		Subtotal of the Top 25 Groups and Lloyd's	79,231,356	16.3	68.5
		Total US Surplus Lines Market	115,645,504	17.4	100.0

Source: AM Best data and research

Five groups grew their surplus lines portfolios substantially in 2023 and moved up in the top 25 rankings: #8 Starr international Group (48.9% YoY growth), #13 Kinsale Insurance Company (42.3%), #14 Munich-American Holdings Corp. (37.1%), #19 Core Specialty Insurance Group (78.5%) and #20 Travelers Group (43.0%). Starr has consistently expanded its diversified commercial product profile. The company has been historically very active in adjusting its strategy and profile to adapt to market conditions. The resulting DPW growth allowed it to move up to #8 from the #11. Kinsale Insurance Company, which focuses solely on the surplus lines and specialty commercial marketplace, has taken advantage of attractive market conditions to grow most of its casualty and property lines—particularly, small property, entertainment, and general casualty, as well as some newer high-value homeowners and commercial auto. Munich-American, #14, has also been strategically expanding its surplus lines portfolio on targeted business

In 2020, Core Specialty Insurance Holdings completed the recapitalization of StarStone US, which was rebranded as Core Specialty in 2020. Its move from #30 in 2022 to #19 was driven by acquisitions. The group completed a merger with the former Lancer Insurance Group. Premium growth was also fueled by its October 2022 acquisition of Hallmark Financial Services, Inc's E&S

operations. Overall, Core Specialty's new business plan includes expansion of its current specialty lines—particularly E&S property and multi-peril crop reinsurance.

Travelers has also viewed the surplus lines market as presenting desirable opportunities at attractive margins, which has fueled its growth. Company representatives have noted that business ebbs and flows in and out of the surplus lines market and when conditions are right, as they were in 2023, Travelers will lean into the market for opportunities to grow. Other groups outside the top 10 that grew by more than 10% are AXIS US Operations, Kinsale, Munich-American, CNA, Core Speciality, Travelers, Great American P&C Group, and Hartford Insurance Group.

New distribution platforms, along with geographic or product line diversification, continue to play a meaningful role in leading surplus lines groups' ability to defend their market positions. In addition, new distribution partnerships, including instances in which insurers delegate authority to managing general agents or other delegated underwriting authority enterprises (DUAEs), have helped fuel the growth of newer surplus lines entities. Some of the segment's noteworthy growth has been achieved by relatively new fronting companies focused on specialty lines and programs, such as Trisura US Group (#23), and Clear Blue Insurance Group (#33).

Leading Companies Dominate the Segment

Berkshire Hathaway's National Fire & Marine generated the largest amount of surplus lines premium in 2023 and remains the leading individual company by non-admitted DPW, overtaking AIG's long-time leading Lexington Insurance Company (**Exhibit 7**). Lexington was the largest single US surplus lines company by DPW from 1994 through 2019 and was the only company other than National Fire & Marine to generate more than $3.0 billion in surplus lines DPW in 2023. The top five companies—including Starr Surplus Lines Insurance Company, Evanston Insurance Company (Markel), and Scottsdale insurance Company (Nationwide Group)—accounted for approximately 13.3% of surplus lines DPW in 2023, down slightly from 14.0% in 2022 and 14.7% in 2021. National Fire & Marine's 3.7% market share in 2023 was down from 3.9% in 2022 and 4.1% in 2021, providing evidence of greater diversification in the segment. The $44.5 billion

Exhibit 7

US Surplus Lines Market – Top 25 Companies

Ranked by 2023 direct premiums written

Rank	AMB #	Company Name	Surplus Lines DPW ($ thousands)	Surplus Lines Market Share (%)
1	02428	National Fire & Marine Ins Co	4,249,701	3.7
2	02350	Lexington Insurance Co	3,006,064	2.6
3	13977	Starr Surplus Lines Ins Co	2,712,958	2.3
4	03759	Evanston Insurance Co	2,680,174	2.3
5	03292	Scottsdale Insurance Co	2,609,800	2.3
6	12619	Landmark American Ins Co	2,081,532	1.8
7	11340	Indian Harbor Insurance Co	1,962,057	1.7
8	12515	AXIS Surplus Insurance Co	1,946,325	1.7
9	13033	Endurance American Spec Ins Co	1,942,572	1.7
10	04433	Westchester Surplus Lines Ins	1,908,082	1.6
11	14027	Kinsale Insurance Co	1,568,815	1.4
12	11123	Crum & Forster Specialty Ins	1,553,946	1.3
13	03538	Columbia Casualty Co	1,482,166	1.3
14	03535	AIG Specialty Insurance Co	1,481,244	1.3
15	12523	Arch Specialty Insurance Co	1,467,393	1.3
16	03557	Steadfast Insurance Co	1,453,163	1.3
17	11432	StarStone Specialty Ins Co	1,402,161	1.2
18	13866	Ironshore Specialty Ins Co	1,331,025	1.2
19	12096	Everest Indemnity Insurance Co	1,250,621	1.1
20	20575	Trisura Specialty Insurance Co	1,195,614	1.0
21	03286	Houston Casualty Co	1,068,975	0.9
22	12562	QBE Specialty Insurance Co	1,059,855	0.9
23	03026	Admiral Insurance Co	1,056,527	0.9
24	00241	Travelers Excess & Surp Lines	999,722	0.9
25	12604	James River Insurance Co	992,936	0.9
		Top 25 Subtotal	**44,463,428**	**38.4**
		Total US Surplus Lines	**115,645,504**	**100.0**

Source: AM Best data and research

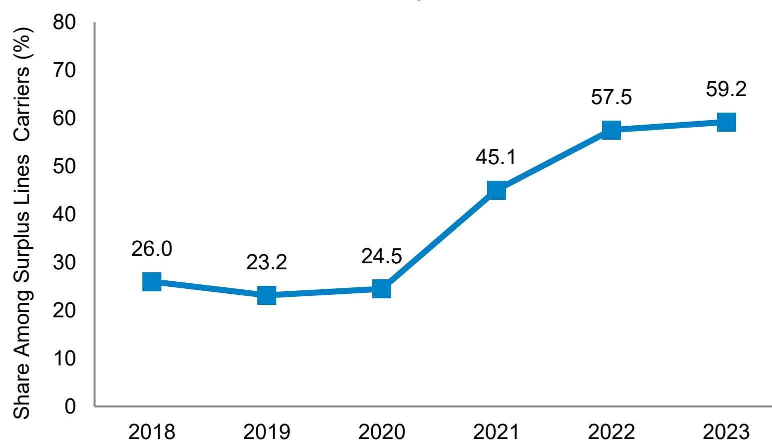
in DPW for the top 25 companies accounted for 38.4% of surplus lines premium, down slightly from 40.3% in 2022, additional proof of the surplus lines market becoming more diversified.

Surplus Lines Insurers Provide Majority of Cyber Coverage

At this point, larger, more sophisticated commercial entities have cyber coverage in place, although the nature of the coverage may still be evolving. Future growth in the cyber market is expected to come from small and medium-sized enterprises (SMEs), as they move to digital platforms and realize the need for cyber insurance as part of their risk management strategies. Surplus lines insurers appear to be in an excellent position to take advantage of the market's positive momentum.

In 2022, surplus lines carriers provided the majority of coverage written the US cyber market and continued to expand their market share in 2023. Since they don't need approved policy form language, surplus lines carriers are in a prime position for even more growth in cyber insurance, since they can respond more quickly to the insureds' changing needs. Additionally, as more SMEs move to digital environments, surplus lines writers will be best suited to tailor policies to clients.

Exhibit 8
Surplus Lines as Share of all Cyber DPW



Source: BESTLINK

An increase in writing standalone cyber policies drove the increase in the share of P/C market coverage provided by surplus lines writers. Cyber market DPW was essentially flat from 2022 to 2023, but surplus lines cyber DPW increased, although by a modest 3%, which led to an increase in the surplus lines share of the cyber market to 59.2% from 57.5% (**Exhibit 8**).

In comparison, from 2015, when the NAIC first started collecting cyber insurance data, to 2020, the surplus lines market accounted for approximately 25% of cyber market DPW. A key contributing factor to the growth in surplus lines premiums while overall cyber market premiums were essentially flat is that surplus lines premiums for both standalone and packaged policies are higher than—sometimes by multiple times—the policy premium charged by admitted insurers.

Surplus lines insurers have continue to successfully underwrite cyber coverage, generating a lower paid loss and defense and cost containment (DCC) expense ratio than admitted market carriers' in each of the last five years (**Exhibit 9**). Given the issues that have plagued the market—specifically, ransomware losses—it is noteworthy that surplus lines insurers have reported solid results on the direct cyber business they have written despite growing their exposures.

Emerging and Evolving Markets That Spur Growth for Surplus Lines Insurers

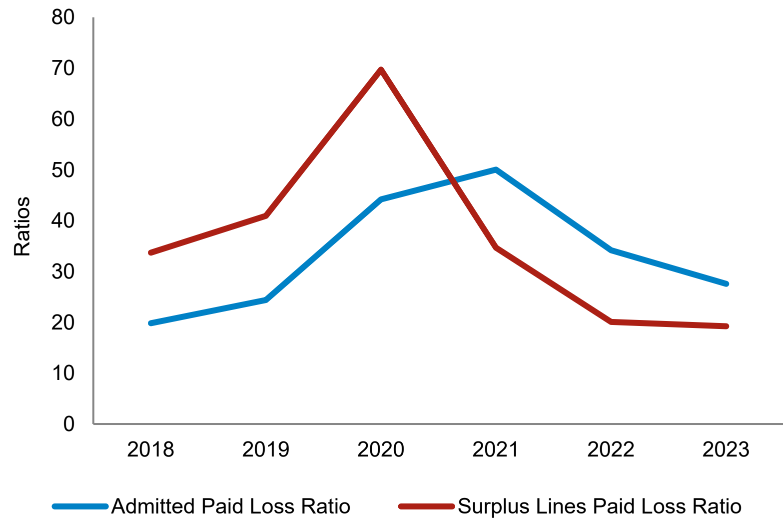
Several risk classes, other than cyber security, are likely to generate opportunities for surplus lines, among them, artificial intelligence, cannabis, and innovative products in the heavy manufacturing space.

Cannabis

Under federal law, cannabis remains classified as a Schedule I substance, a significant hurdle for cannabis businesses and traditional banks, which are largely steering clear of offering these services to entities out of fear of losing their federal deposit insurance. The divergence between federal and state laws has left many banks and credit unions wary of offering financial services due to potential federal repercussions. In most states outside of California, surplus lines carriers have overwhelmingly been the provider of available insurance solutions. This has been the status quo in this market for years and is due to the evolving nature of the commercial cannabis industry, the lack of generally agreed upon data, measurement, and experience to support insurance underwriting—as well as trepidation because of its status a Schedule I drug. As the cannabis commercial industry and evolves, with more and more states legalizing it in one form or another, the associated commercial insurance options in the admitted market will likely grow as well.

Exhibit 9

Admitted vs Surplus Cyber Paid Loss and DCC Ratio



Source: BESTLINK

The US Drug Enforcement Administration (DEA) is looking at reclassifying marijuana as a less dangerous drug. The SAFER Banking Act, designed to facilitate access to banking services for legal cannabis businesses without fear of federal retribution, has been passed by the US House of Representatives on several occasions and has now made its way to the Senate Banking Committee. This achievement marks what could be a pivotal step forward, although optimism has yet to be followed by definitive federal legislative action.

If cannabis is successfully reclassified as a Schedule III drug, proceeds from a transaction conducted by a state-sanctioned marijuana businesses would no longer be considered proceeds from unlawful activity. Furthermore, a financial institution, insurer, or federal agency would not be held liable or subject to asset forfeiture under federal law for providing a loan, mortgage, or other financial service to a state-sanctioned marijuana business. Although resolution of these issues would likely make admitted carriers more amenable to providing coverage for cannabis-related businesses, the complexities involved with growing, cultivating, storing, and distributing the products will still most likely require the creativity of wholesalers and the surplus lines insurers that they partner with.

Artificial Intelligence

The sudden rise of generative artificial intelligence (AI) has necessitated that insurers, along with brokers and other distributors, consider the depth and nature of new risks and exposures from the use of this still-developing technology. The potential losses that AI can lead to involve not only insurance industry companies themselves but also business partners such as third-party vendors. Liability exposures specifically associated with AI can include a host of issues such as cyber crime; copyright, trademark and patent infringement;, discrimination; and defamation.

Large language models like ChatGPT require the digestion of scores of data, which can include sensitive, private, proprietary data, which is very difficult to correct or remove from these models—and the potential for alleged misuse or misappropriation is significant. Generative AI is only as good as the information on which it was trained. Low quality data from questionable or even fictitious sources could result in inaccurate or unreliable output.

Artificial intelligence risk exposures can be mitigated by explicit coverage grants or exclusions, or by remaining silent, which creates ambiguity. Revised or clarified policy language is the most direct way to address the potential for AI coverage—silent or otherwise. Commercial insurance claims for losses related to the emerging technology have yet to reach the critical mass necessary to spur insurers to adjust policy language or issue widespread exclusions.

Environmental Liability Concerns

As researchers learn more about the risks and potential harms associated with per- and polyfluoroalkyl substances (PFAS), the probability that PFAS litigation cases could present more significant liability exposures to a larger number of insurers rises, particularly as lawsuits target not just chemical companies, but also manufacturers of products with PFAS. PFAS is an umbrella term encompassing human-made chemicals patented since the 1940s, which have been used to make products stain- and grease-resistant. These compounds are ubiquitous—largely unregulated.

Reportedly, thousands of PFAS-related lawsuits are pending nationwide, and several large settlements have already been reached. Insurance companies are facing claims and coverage actions from policyholders seeking both defense and indemnification for PFAS-related claims. The exposure to PFAS and resulting litigation has generated a heightened level of attention and focus from the plaintiff's bar, which likely views these forever chemicals as a new form of mass tort, that could generate numerous lawsuits, with the potential for large recoveries.

As they try to expand the amount of information on PFAS, federal and state regulators have been in a reactive position regarding how to deal with PFAS. Whether PFAS-related liabilities will present significant numbers of losses to the insurance industry similarly to asbestos-related liabilities remains to be seen. Nevertheless, insurers are preparing for numerous claims and large losses.

The increase in PFAS regulation, and associated litigation resulting in potentially massive settlements and payouts, is causing policyholders to look to insurance carriers for coverage. Among the entities that could be the subject of PFAS litigation are the following:

- Primary manufacturers
- Manufacturers of products that are treated with PFAS chemicals
- Companies with supply chain exposures, for example, companies that assemble products out of components treated with PFAS, but the given company does not use the chemical itself
- Professionals recommending the use of substances that turn out to be PFAS, or include materials containing PFAS

The exposures these enterprises face will require the type of sophisticated, tailored coverage language for which surplus lines companies are known, to limit potential issues.

AM Best's DPSL Composite

This section examines the financial performance of AM Best's Domestic Professional Surplus Lines (DPSL) special composite, which is composed of some of the leading companies in the surplus lines segment. We believe that the composite provides an accurate picture of the overall segment's financial performance. This section also discusses AM Best's ratings on the DPSL composite companies in comparison to the overall P/C industry.

The analysis in this section specific to Exhibits 11 and 13 through 20, is based on the statutory financial data of the 68 US-based DPSL companies, although not all of the companies identified in **Appendix B** are included in the composite. Composite members are surplus lines companies that wrote more than 50% of their business on a nonadmitted basis in 2023. When creating the composite, AM Best excluded surplus lines companies that (1) are members of intercompany pools writing predominantly admitted business as opposed to surplus lines business; (2) reinsure the vast majority, if not all, of their business with an affiliate; or (3) write a relatively small amount of premium. The composite does include companies that may be part of an intercompany pool but still write surplus lines business on a predominantly direct basis and retain a meaningful portion of it.

Section II: Financial Performance and Ratings Distribution

Calendar year 2023 was similar to 2022, as insurers continued to face headwinds that exacerbated negative claims trends for certain lines of coverage, namely the homeowners and auto-related lines. P/C insurers also dealt with substantial insured losses due to secondary perils such as severe convective storms, tornadoes, and wildfires—losses from such events are above long-term averages as their frequency and intensity continued to worsen. These factors once again dampened US P/C results, although the P/C industry's underwriting loss for the year was lower than in 2022, and the combined ratio, reflecting overall underwriting effectiveness, improved slightly.

In calendar year 2023, the companies in the DPSL special composite generated $44.8 billion in DPW, accounting for approximately 39.0% of the entire US surplus lines market and 53.8% of the entire DPSL market (**Exhibit 10**). The composite's DPW grew by 13.2%, falling moderately shy of the 16.8% year-over-year growth for the entire surplus lines market but still outpacing the 10.4% growth of the P/C industry. Surplus lines market growth includes growth generated by companies writing on a non-admitted basis but ceding a majority of that premium to affiliated reinsurers, along with premium growth generated by Lloyd's syndicates and other regulated alien insurers.

The DPSL composite's net underwriting and pretax operating performances both improved over 2022, despite persistent macroeconomic pressure on loss costs and another year of active weather-related catastrophe events. The composite's policyholders' surplus rose by 19% in 2023, buoyed by improved underwriting income as well as a return to sizable unrealized capital gains (almost $3.1 billion in 2023) just a year after a $4.7 billion unrealized capital loss resulted in a YoY decline in policyholders' surplus. A key factor boosting the segment's premium growth was the premium momentum for certain commercial lines of coverage, including catastrophe-exposed property, general liability, excess/umbrella coverage, and commercial auto (trucking).

Submission Flow Key to Premium Growth

The DPSL composite's compound annual growth rate of 16% over the past five years has largely reflected not only higher pricing for the noted lines of coverage and troubled risk classes, but also the

Exhibit 10
US DPSL Composite – Premiums
($ millions)

	Direct Premiums Written	Assumed Premiums Written	Gross Premiums Written	Ceded Premiums Written	Net Premiums Written
2019	23.9	11.9	35.8	20.2	14.9
2020	27.7	12.1	39.8	22.8	16.9
2021	34.8	14.1	48.9	27.7	21.2
2022	39.6	19.6	59.1	35.4	23.7
2023	44.8	19.3	64.1	39.9	24.2
2022/2023 Growth (%)	**13.2**	**-1.3**	**8.4**	**12.6**	**2.1**

Values may not add up due to rounding.
Source: AM Best data and research

level of opportunity, reflected in consistent submission flow. Carriers in the surplus lines segment have been able to take advantage of the growing business facilitated by their wholesale brokers, managing general agents (MGAs), and other distribution partners. Most AM Best-rated surplus lines carriers, particularly those that have experienced consistent YoY premium growth, have expressed that submission flow has been the driver. Admitted carriers refined their risk appetites and risk tolerance to improve underwriting profitability, particularly for the lines or risk classes that have yielded unfavorable results for them. Some of these accounts, which include the inherently more complex risks, then moved back to the non-admitted market.

In 2023, the level of assumed premium remained static, as **Exhibit 10** showed. In 2022, DPSL composite companies assumed considerably more business from affiliated companies, relative to total premium assumed from other insurers, than in prior years, driving up gross written premiums (GPW) During periods when market conditions result in more business flowing through wholesale brokers, many organizations will use non-admitted subsidiaries to take advantage of the more plentiful flow of business, some of which is ceded to affiliated entities that are DPSL composite members. This can help entities aiming to extend their surplus lines reach. Despite the growth in both direct and gross premium volume the past few years, the composite's net retention of GPW has declined slightly, partly because of a more conservative approach taken with regard to retaining the newer business being written. As carriers become more bullish on the business' profit potential, net retentions should rise again.

DPSL Premiums Remain Concentrated but Growing in Specific Lines

General liability business (coded as Other Liability – Occurrence or Other Liability – Claims-Made in NAIC statutory reporting, which includes primary and excess liability business) continues to generate the largest share of the composite's DPW, at just under 45% (**Exhibit 11**). The claims made line of business consists largely of liability coverages for a wide variety of professionals and businesses, including directors and officers liability, from claims of negligence from customers or clients. Large D&O liability pricing increases in 2020 and 2021 attracted new market entrants and led current market participants to devote more resources to that market—which included surplus lines writers. On the property side, primary insurers passing on 2023 reinsurance rate increases to their policyholders was likely a leading factor contributing to direct premiums for commercial property lines of coverage (specifically, the fire and allied lines) and even for commercial multi-peril line of coverage increasing notably during the calendar year, with low to mid-double-digit YoY growth for all three coverage lines.

Volatility in the underwriting results of insurers writing property insurance has led to the higher rates/pricing for those lines of coverage, for both commercial and personal lines property business.

Over the last ten years, the percentage of total homeowners premium being written by surplus lines insurers increased from 0.8% of all P/C carriers writing homeowners insurance in 2014 to 1.5% in 2023 (**Exhibit 11a**). Non-admitted premiums written in the surplus lines market broke the $2 billion mark for the first time in 2023. The 1.5% is a small percentage, but the actual growth in homeowners premium has been significant, and AM Best believes it could continue to grow barring a reversal of the inflationary factors pushing up the cost of property repairs, or if the frequency of severe weather events declines.

Surplus lines insurers have also provided more capacity for D&O liability. Corporate officers are dealing with greater risks associated with disclosure requirements about environmental, social and governance regulations. Exposures to cyber risks and disclosures of attacks or breaches and how they impact a company's operations or client information are also growing. Based on the annual D&O liability supplements filed by P/C companies, surplus lines insurers had historically accounted for just less than 7% of the monoline D&O liability market, but that percentage has been at 9.5% or higher

Exhibit 11

US DPSL Composite – Top 5 Product Lines by DPW, 2022 vs. 2023

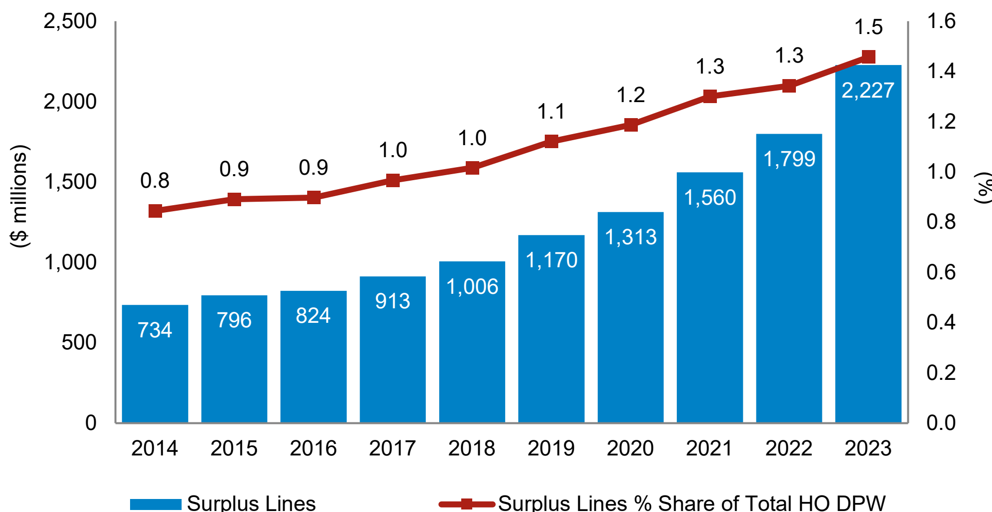
Ranked by 2023 Surplus Lines DPW

Rank	Product Line	2022 Surplus Lines DPW ($ thousands)	2022 DPSL Peer Composite Market Share (%)	2023 Surplus Lines DPW ($ thousands)	2023 DPSL Peer Composite Market Share (%)	2022/ 2023 DPW Change (%)
1	Other Liability	19,323,820	49.4	19,866,942	44.4	2.8
2	Fire	4,953,158	13.6	7,190,405	16.1	45.2
3	Allied Lines	5,335,179	12.7	6,647,995	14.8	24.6
4	Commercial Multi-peril	1,490,011	3.9	2,311,854	5.2	55.2
5	Inland Marine	1,530,761	3.8	1,616,061	3.6	5.6
	Top 5 – Subtotal	**32,632,929**	**83.4**	37,633,257	84.0	**15.3**
	Total DPSL Composite	**39,110,024**	**100.0**	44,793,024	100.0	**14.5**

Source: AM Best data and research

Exhibit 11a

US Surplus lines – Homeowners Direct Premiums Written Share of Total P/C Industry Homeowners DPW

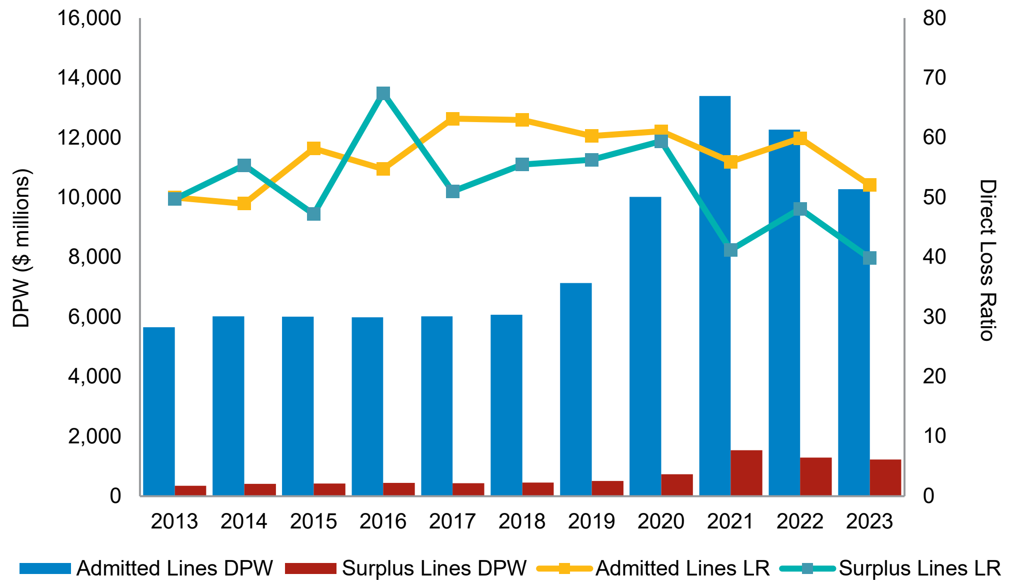


Source: AM Best data and research

since 2021, rising above 10% in 2021 and 2023.

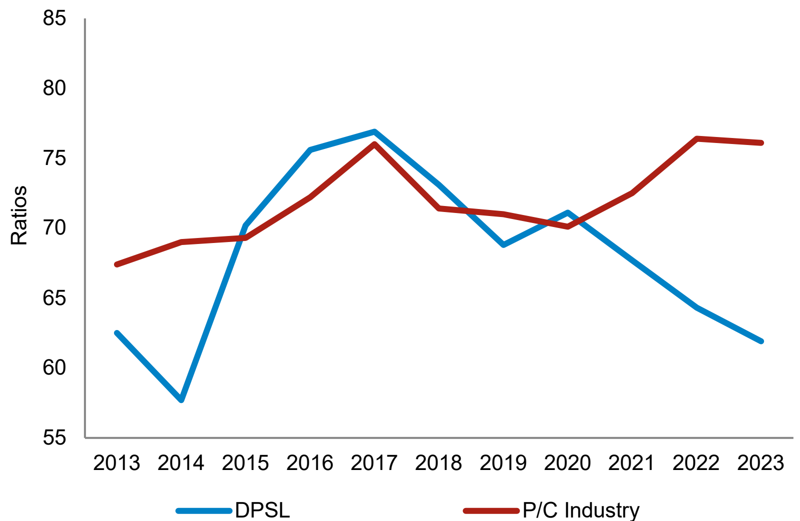
Many relatively new surplus lines writers are unburdened by development on older, legacy D&O liability losses. In addition, premium and loss data shows that for the monoline D&O liability business, the direct incurred loss ratio of the business written by surplus lines carriers has been lower than the that of D&O business written by admitted carriers (**Exhibit 12**). With demand for D&O coverage declining somewhat over the last couple of years (due primarily to the decline in initial public offerings and special purpose acquisitions companies) and average pricing softening, top line premium fell, although some of the drop may be due to D&O liability business flowing back to the admitted market in 2023 as market conditions continued softening. Nevertheless, the share of surplus lines' D&O premium remains above historical levels.

Exhibit 12
US Monoline D&O – Admitted vs. Surplus Lines Direct Premiums Written and Direct Loss Ratio



Source: BESTLINK

Exhibit 13
US DPSL Composite vs.US P/C Industry – Net Loss and LAE Ratio



Source: AM Best data and research

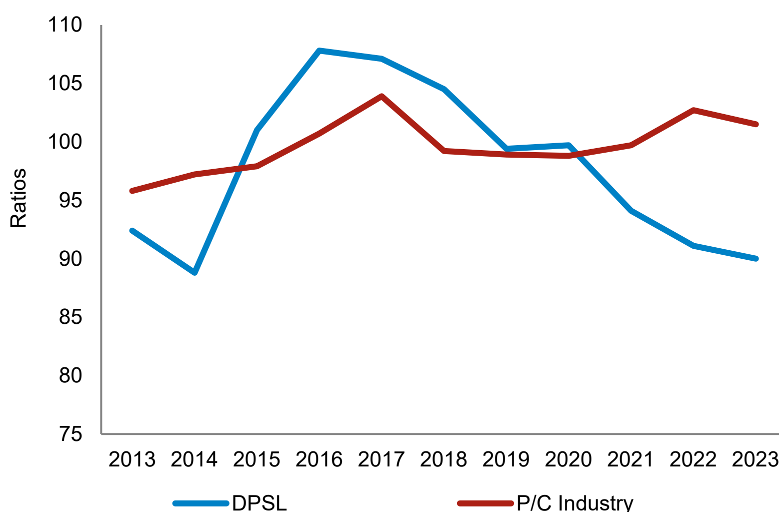
Underwriting Performance Still Favorable

The DPSL composite's net underwriting and operating results have improved notably each of the last three years, despite rising loss costs and increasingly frequent weather-related events—particularly severe convective storms, tornadoes, and hailstorms. Growth in net premiums earned (NPE) outpaced the growth in incurred losses and loss adjustment expenses (LAE), leading to lower loss and LAE, and combined ratios. From 2020 to 2023, the composite's net loss and LAE ratio declined steadily, from 71.1 to 61.9 (**Exhibit 13**). In contrast, the P/C industry's net loss and LAE ratio deteriorated by 6.0 percentage points, rising to 76.1 in 2023 from 70.1 in 2020.

In calendar 2023, the DPSL composite's pure net loss ratio (net incurred losses/net premiums earned, excluding the impact of LAE) on general liability (its leading line of coverage) improved, as did the prominent commercial property lines (fire, and allied lines) and the commercial multi-peril coverage line. The DPSL composite's net underwriting gain was $2.1 billion, up from almost $1.7 billion in 2022, a vast improvement over the $616 million in 2021. However, despite the improved results for the P/C industry, it still incurred a net underwriting loss of $20.7 billion—albeit down from a loss of $27.1 billion in 2022. The homeowners line (property catastrophe losses) and another awful year for private passenger auto results insurers weighed down the broad industry's underwriting results.

Similarly, the DPSL composite's net combined ratio has improved, to 90.0 for the 2023 calendar year, including 3.6 points of benefit from favorable, overall prior accident year loss reserve development, and was more than 11 points lower than the P/C industry's 101.5 (**Exhibit 14**). Superior net loss and LAE ratios were primarily responsible for the difference in combined ratios, particularly as the P/C industry generated a better net other underwriting expense ratio (the other key component of the combined ratio) of 24.9, compared with 28.1 for the DPSL composite. Historically, the composite's expense ratio has been consistently higher than that of the broader P/C industry. However, the higher underwriting expense ratio for the DPSL composite is impacted by the complexity of the higher-risk hazard business covered by surplus lines companies and the degree of customization needed in the development of the coverage solutions . During the past decade, several fronting or hybrid fronting non-admitted insurers have commenced operations focusing on surplus lines business; AM Best believes the rise in the composite's underwriting expense ratio is due partly to the customized coverage wholesale brokers, MGAs and program managers develop for the unique and specialized risks posed by their policyholders.

Exhibit 14
US DPSL Composite vs. US P/C Industry – Net Combined Ratio



Source: AM Best data and research

The composite's accident year combined ratio of 94.2 (representing an almost four-point deterioration) was also significantly better than that of the P/C industry's 102.4 (0.6 points lower than in 2022). The DPSL composite's favorable result is attributable to the effectiveness of its underwriting, pricing, and claim management strategies underwriting moderate- to higher-hazard risks replete with their inherently difficult risk characteristics. The pandemic, along with macroeconomic and risk-related headwinds, have made the task particularly challenging the past few years. The underwhelming performance of P/C carriers underwriting personal lines business (both private passenger and homeowners) was predominantly responsible for the weakening in the industry's bottom-line accident year combined ratio.

Pretax Income Bolstered by Underwriting and Investment Income

The DPSL composite generated more than $450 million in additional underwriting income, up more than 27%, and ending 2023 at over $2.1 billion (**Exhibit 15**). The P/C industry's results also

improved, owing to a smaller net underwriting loss, although the loss still exceeded $20 billion. The favorable underwriting results propelled the DPSL composite's pretax operating earnings up by almost 37%. Growth in net investment income of 43.5% contributed even more to the composite's higher pretax earnings. In contrast, the overall P/C industry's net investment income grew by only 1.5%, although the segment was still able to offset the net underwriting loss, which helped pretax earnings improve by 11.9% over 2022. Note that the P/C industry's $72.9 billion in 2022 net investment income was skewed somewhat by an intercompany distribution of more than $10 billion at one very large reinsurer—otherwise, the increase in the industry's net investment income would have been much higher than 1.5%.

Exhibit 15

US DPSL Composite – 12-Month Financial Indicators, 2022-2023

($ billions)

	DPSL Composite			P/C Industry		
	2022	2023	YoY % Chg	2022	2023	YoY % Chg
Net Premiums Written	23.7	24.2	2.1	782.5	863.6	10.4
Net Premiums Earned	22.5	23.4	4.1	753.3	826.9	9.8
Pure Losses Incurred	12.1	12.0	-0.6	500.0	547.6	9.5
Loss Adjustment Expense	2.4	2.5	3.7	75.4	81.8	8.6
Losses & LAE	14.5	14.5	0.1	575.3	629.4	9.4
Underwriting Expenses	6.4	6.8	7.0	202.4	215.5	6.5
Policyholder Dividends	0.0	0.0	-1.1	3.5	3.5	-0.1
Underwriting Income/Loss	1.7	2.1	27.7	-27.1	-20.7	NM
Net Investment Income	2.0	2.9	43.5	72.9	74.0	1.5
Other Income/Loss	0.0	0.0	320.8	2.1	0.1	-97.1
Pretax Operating Income	3.7	5.1	36.9	46.9	52.5	11.9
Realized Capital Gains/Losses	1.1	-0.1	-109.0	2.0	50.4	NM
Federal Income Taxes	0.7	1.1	63.5	6.1	11.0	79.5
Net Income	**4.1**	**3.8**	**-6.6**	**43.8**	**91.9**	**109.7**

NM = Not meaningful.

Source: AM Best data and research

Exhibit 16

US DPSL Composite vs. P/C Industry – Investment Performance

($ millions)

	DPSL			P/C Industry		
	2022	2023	YoY % Change	2022	2023	YoY % Change
Net Investment Income	2,034	2,919	43.5	72,872	73,997	1.5
Realized Capital Gains/Losses	1,104	-99	-109.0	2,019	50,403	NM
Net Investment Gain/Loss	3,139	2,820	-10.2	74,891	124,400	66.1
Unrealized Capital Gains/Losses	-4,727	3,072	-165.0	-103,818	66,820	NM
Total Investment Return	**-1,588**	**5,891**	**NM**	**-28,927**	**191,220**	**NM**

NM = Not meaningful.

Source: AM Best data and research

A huge turnaround in the broad industry's net realized capital gains resulted in net income more than doubling in 2023. Realized gains of more than $50 billion (versus just $2 billion in 2022) were the key driver of the strong net income. A net realized loss of just under $100 million and higher income taxes due to strong pretax earnings, led to a 6.4% decline in the composite's net income, but net income of $3.8 billion was the second-highest of the last five years.

Volatility in Realized and Unrealized Investment Results Impact Operating Results

As **Exhibit 16** shows, substantial yearly differences in both realized and unrealized gains or losses have affected the investment returns of the DPSL composite and the P/C industry. Considerable unrealized capital losses in 2022 affected both the composite and the broad industry with results reversing in 2023 owing to unrealized gains. In 2022, unrealized capital losses of more than $4.7 billion, attributable mainly to a decline in the value of equity securities in the composite's investment portfolios, led to a negative investment return.

The P/C industry was similarly affected, with unrealized losses resulting in negative investment returns, before sizable realized and unrealized gains led to a more than $191 billion in investment returns. The increase in the P/C industry's investment return was less impressive than it would have been if not for a $10.8 billion intercompany distribution by one reinsurer that skewed investment

income positively in 2022. Investment returns expanded both the composite's and the P/C industry's overall policyholder's surplus after respective declines of 4.8% and 6.7% in 2022.

The ratio of net writings to surplus remains below 1.0 for both the P/C industry and the DPSL composite, indicating a solid capital position. AM Best expects that, despite some potential for capital market volatility, investment returns will be strong in 2024, as insurers continue to reap the benefit of higher yields.

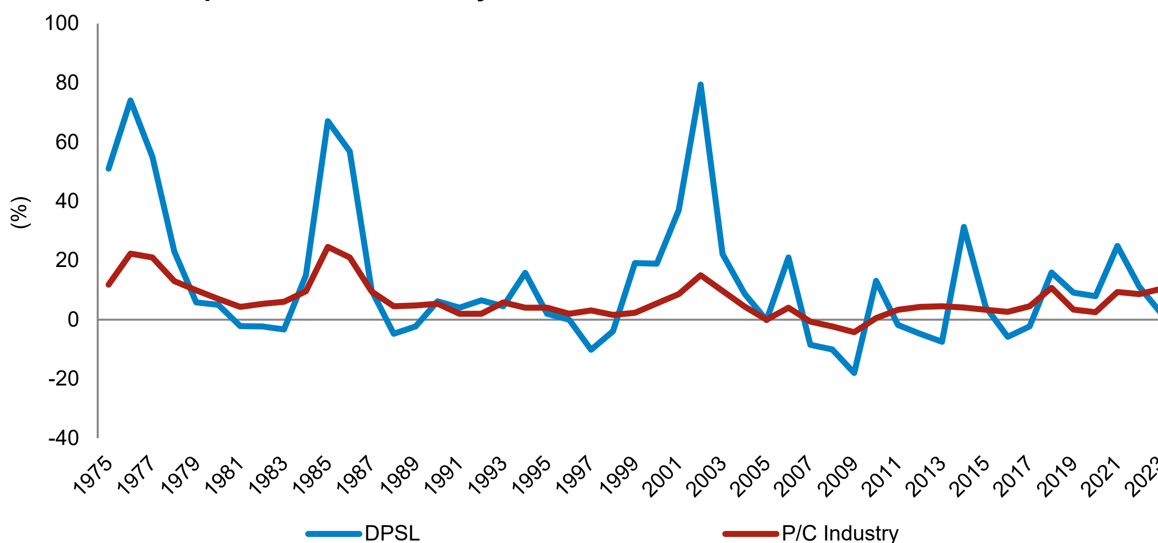
The composition of invested assets has been stable for both the DPSL composite and the P/C industry, although stock market volatility has affected common stock leverage. The composite's common stock leverage (common stocks/policyholders' surplus) dropped early in 2020 owing to the pandemic and ended that year down, but had returned to 2019 levels by the end of 2021, before taking another dip in 2022 and 2023, owing mostly to the volatility in the equity markets. At the end of 2023, the common stock leverage for the DPSL composite was slightly lower than the P/C industry's, reflecting a slightly more conservative position.

Improved Returns Help Foster Surplus Growth, Strengthening Balance Sheets

Driven by top-line direct premium volume, net premiums written for the DPSL composite had risen moderately each year before 2023 and rose 2.1% for the year (**Exhibit 17**). Net premiums for the P/C industry have also risen consistently the last several years but (other than 2023) the YoY growth rate was lower than the composite's. During this time, surplus lines insurers were able to take advantage of market dislocation affecting specific lines of coverage and the upheaval that affected the overall P/C industry upon the onset of the pandemic. Average pricing for many of the composite's core lines of coverage and risk classes rose, as companies sought to combat inflationary pressures and other adverse factors that have negatively affected loss severity.

The DPSL composite's five-year compound annual growth rate (CAGR) for net premiums written (after the effects of reinsurance ceded to reinsurers is taken into account) is 11.1, compared with a CAGR of 6.8 for the P/C industry. However, direct premium volume, which is not impacted by reinsurance or pooling agreements, provides a more accurate measure of premium growth year over

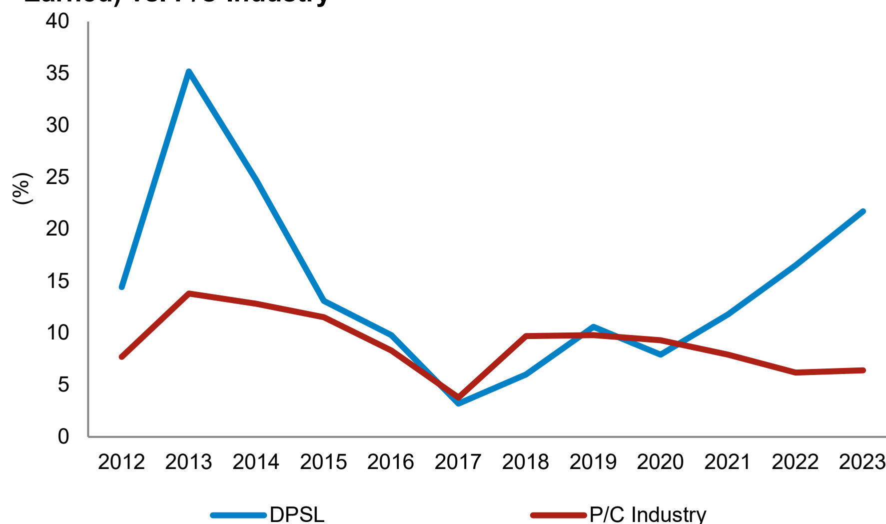
Exhibit 17
US DPSL Composite vs. P/C Industry – NPW Growth



Source: AM Best data and research

year. By that measure, the DPSL composite's DPW has grown by double digits in each of the last five years, and by approximately 110% over the last five years.

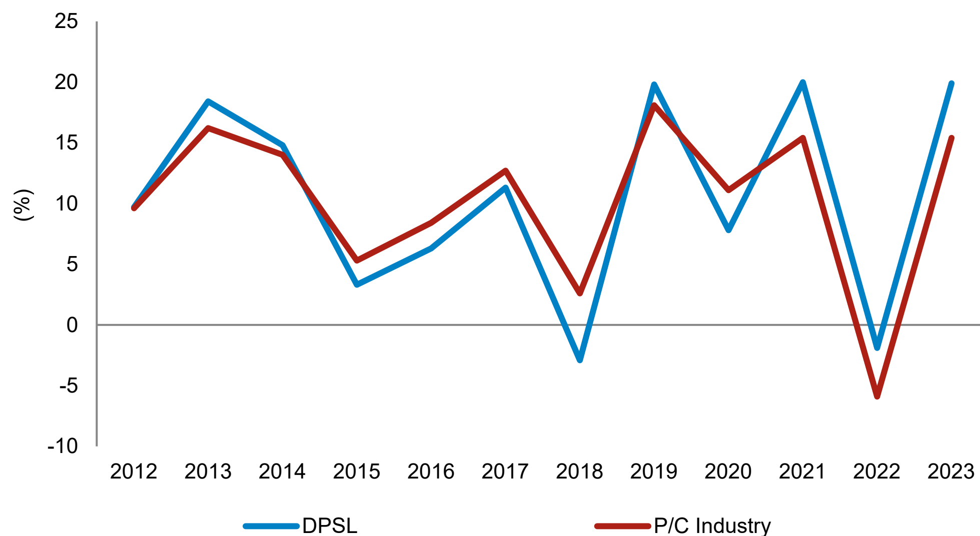
Exhibit 18
US DPSL Composite – Pretax Returns on Revenue (Net Premiums Earned) vs. P/C Industry



Source: AM Best data and research

The DPSL composite has generated double-digit pretax operating returns on revenue in four of the last five years, with the pandemic-affected 2020 year as the outlier. Operating earnings lagged in 2020 because neither net underwriting income nor net investment income were as favorable as in 2019, owing partly to the pandemic, but the pretax return on revenue improved because of the improvement in underwriting profitability. The composite's returns ranged from 7.7% in 2019 to 21.5% in 2023, with lower double-digit returns (11.6 and 16.5) in 2021 and 2022, respectively (**Exhibit 18**). The composite's pretax returns were roughly in line with the P/C industry's from 2015 to 2020, before outpacing the industry in each of the last three years.

Exhibit 19
US DPSL Composite – Total Returns on Surplus vs. P/C Industry



Source: AM Best data and research

As **Exhibit 19** shows, the DPSL's returns on equity have generally been either modestly higher or lower than the P/C industry's, reflecting differences in unrealized gains and, to some extent, stockholder dividends. For the most part, though, the returns for both have trended closely each year.

The companies making up the DPSL composite have generated sufficient returns to facilitate aggregated dividends of about $9 billion upstreamed to their parent companies over the last five years. In AM Best's view, DPSL companies appear to be managing these dividend payments responsibly, especially in light of 57% growth in the composite's policyholder's surplus over the same period. The

surplus appreciation has provided sufficient capital to collectively support the composite's business risks. Typically, stockholders' dividends have reflected companies' overall net profitability, with payouts rising in years of higher profits (**Exhibit 20**). Calendar year 2023 was an exception for the composite, as pretax earnings were up by almost 37%, while aggregate dividend payouts were down by about $300 million year over year.

Exhibit 20

US DPSL Composite vs. P/C Industry – Investment Performance, 2022-2023

($ billions)

	DPSL			P/C Industry		
	2022	2023	YoY % Change	2022	2023	YoY % Change
Policyholders' Surplus at Prior Year End	33.2	31.6	-4.8	1,074.0	1,002.0	-6.7
Net Income	4.1	3.8	-6.6	42.8	91.9	114.6
Unrealized Capital Gains/Losses	-4.7	3.1	NM	-103.8	66.8	NM
Contributed Capital	1.4	0.4	-69.1	13.4	8.8	-34.6
Stockholder Dividends	-1.6	-1.2	-21.8	-38.3	-109.9	NM
Other Changes	-0.8	0.0	-102.6	14.0	0.4	-97.0
Ending Policyholders' Surplus	31.6	37.8	19.3	1,002.0	1,060.1	5.8
Change in PHS from Prior Year End ($)	-1.6	6.1	NM	-71.9	58.0	NM
After Tax Return on Surplus (ROE) (%)	-1.9	19.9	NM	-5.9	15.4	NM

Notes: NM = Not meaningful. Percentages may not add up to 100% due to rounding.

Source: AM Best data and research

Historically, the DPSL's net underwriting leverage ratios have been either in line with or slightly lower than that of the P/C industry. In recent years, net premium growth, along with a corresponding increase in net liabilities, has caused an uptick in the composite's leverage. Its ceded premium leverage has generally been moderately higher than the P/C industry's, which is reasonable since surplus lines insurers cover unique, usually higher-hazard risks than admitted carriers, and may choose to protect their balance sheets through reinsurance.

DPSL Experiences Some Shifts in Line of Business Reserve Development Trends

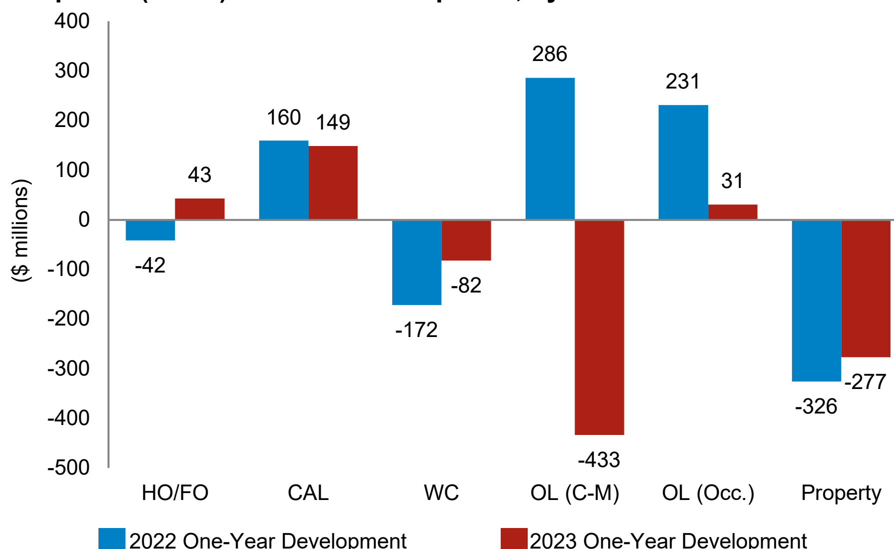
Coming into 2023, the DPSL composite's reserve cushion had weakened, because of modestly unfavorable prior accident year loss and allocated LAE for commercial auto liability and general liability reserves in 2022. However, in 2023, development went from unfavorable to favorable in the Other Liability (Claims-Made) reserve position, while that of the Commercial Auto Liability and Other Liability (Occurrence) was slightly less unfavorable (**Exhibit 21**). The composite continued to benefit from favorable development on prior year reserves for the commercial property and workers' compensation lines. The biggest change in reserve development for the DPSL composite concerned the homeowner's line, which went from more than $40 million in favorable development on prior year reserves, to more than $40 million of unfavorable development in 2023. Reserve development the last two years has been particularly noteworthy owing to the impact of secondary perils, led by severe convective storms, tornadoes, and hailstorms that have generated significant losses, with claims developing adversely from where reserves were initially pegged.

The P/C industry's prior year loss and ALAE reserve development has been a little less favorable for the past few years. For calendar year 2023, overall reserves were redundant by $2.8 billion, versus approximately $5.1 billion in 2022, and $6.8 billion in 2021. The less favorable development reflects the diminishing reserve cushion for the industry overall. Estimated reserve positions vary widely by line of business, with the commercial auto liability, other liability (occurrence), commercial multi-peril, and private passenger auto liability being deficient, while workers' compensation, property, medical professional liability, and auto physical damage were redundant. The P/C industry's total loss and LAE reserves reflected 0.3 percentage points of favorable development in 2023, compared with 0.7 percentage in 2022, 1.0 in 2021 and 1.1 in 2020.

DPSL ICR Distribution Remains Superior to Broader P/C Industry

As **Exhibit 22** shows, DPSL insurers have a higher proportion of issuer credit ratings (ICRs) in the "Exceptional," "Superior," "Excellent," and "Good" categories than the overall P/C industry. As of July 18, 2024, 100.0% of the 89 rating units in the DPSL composite were in these categories, compared to 96.2% for the P/C industry.

Exhibit 21
DPSL Composite – One-Year Loss and Allocated Loss Adjustment Expense (ALAE) Reserve Development, by Line of Business



Note: Positive values indicate adverse prior year reserve development.
Negative values indicate favorable prior year reserve development.
Source: AM Best data and research

The percentage of DPSL insurers in the top-tier rating categories of Excellent to Exceptional remains very high—87 out of 89 rating units, or 97.7%. The number remains high despite the recent increase in the number of DPSL rating units, as new start-ups have helped offset the impact of consolidation.

As of June 30, 2024, the percentage of P/C rating units with ratings in the Excellent to Exceptional categories was 84.3%, remaining essentially the same as the 84.4% at mid-year 2023. For the DPSL composite, the 97.7% percentage of companies in those categories is considerably higher. Additionally, only one DPSL insurer has an ICR lower than "bbb," versus 41 P/C rating units ICRs with ratings of "bbb-" or lower.

Exhibit 22
US DPSL vs. US P/C Industry – AM Best Ratings by Rating Unit

		DPSL		P/C Industry	
Category	**Rating Level**	**Rating Units**	**%**	**Rating Units**	**%**
Exceptional	aaa	1	1.1	3	0.5
	Subtotal	**1**	**0.1**	**3**	**0.5**
Superior	aa+	9	10.1	17	2.6
	aa	6	6.7	10	1.5
	aa-	16	18.0	44	6.7
	Subtotal	**31**	**34.8**	**71**	**10.9**
Excellent	a+	18	20.2	95	14.5
	a	15	16.9	166	25.4
	a-	22	24.7	216	33.0
	Subtotal	**55**	**61.8**	**477**	**72.9**
Good	bbb+	1	1.1	41	6.3
	bbb	0	0.0	21	3.2
	bbb-	1	1.1	16	2.4
	Subtotal	**2**	**2.2**	**78**	**11.9**
Fair	bb+, bb, bb-	0	0.0	19	2.9
Marginal	b+, b, b-	0	0.0	4	0.6
Weak/Very Weak	ccc+, ccc ,ccc-, cc	0	0.0	2	0.3
Poor	c	0	0.0	0	0.0
	Subtotal	**0**	**0.0**	**25**	**3.8**
Total Issuer Credit Ratings		**89**	**100.0**	**654**	**100.0**

Note: Numbers may not add up due to rounding. Domestic professional surplus lines ratings are as of July 18, 2024. US P/C industry ratings data is as of June 30, 2024.
Source: AM Best data and research

Section III – Regulation and Legislation Update

National Association of Registered Agents & Brokers

As of August 30, 2024, no directors for the National Association of Registered Agents and Brokers (NARAB) had yet been appointed, despite efforts by the WSIA and a coalition of industry trade partners. On June 27, the coalition, which included WSIA, the American Property Casualty Insurance Association, Council of Insurance Agents and Brokers, Independent Insurance Agents and Brokers of America, Insured Retirement Institute, National Association of Insurance and Financial Advisors, and National Association of Mutual Insurance Companies, issued a letter to the White House outlining the continued need for a NARAB Board and requesting their quick action. NARAB was chartered in January 2015 to act as a national clearinghouse, allowing insurance producers to sell, solicit, or negotiate in states other than their state of domicile.

An operational NARAB board of directors remains a top priority for WSIA members. Thirteen directors, representing eight insurance commissioners and five industry members, need to be appointed by the White House and approved by the Senate Banking Committee for the entity to begin operating. NARAB would enhance efficiencies for producers, including surplus lines brokers, operating in multiple states.

Not all states accept resident surplus lines licenses from other states for a nonresident license. NARAB would be able to address this issue, as the clearinghouse would simplify and streamline how nonresident insurance agents and brokers operate, while states maintain their authority over them—which would be critical in facilitating more uniform and efficient licensing (including surplus lines brokers) at the national level. It would also eliminate burdensome multi-state requirements without eroding regulatory authority or consumer protection. Developing the system and national rules and implementing the underlying law requires a board of directors, so a board is critical.

Changing Regulatory and Legislative Landscape for Florida Homeowners

Historic legislative reforms have been passed in Florida in recent years to improve the state's homeowners insurance market. Restrictions on the use of assignment of benefits (AOBs) and, more broadly, one-way attorney fees, was a critical piece in stabilizing the Florida legal landscape for both carriers and policyholders.

Lawsuits, whether AOB-related or first party, drove up direct cost and containment expenses (DCC) for Florida insurers and unfavorably impacted profitability. In 2022, Florida reported the highest ratio of DCC to direct premiums earned of all 50 states, at 8.4, specifically owing to the homeowners, allied, and fire lines of business; the next highest was Louisiana with 3.6. The difference was attributable to litigation costs in Florida's personal property market.

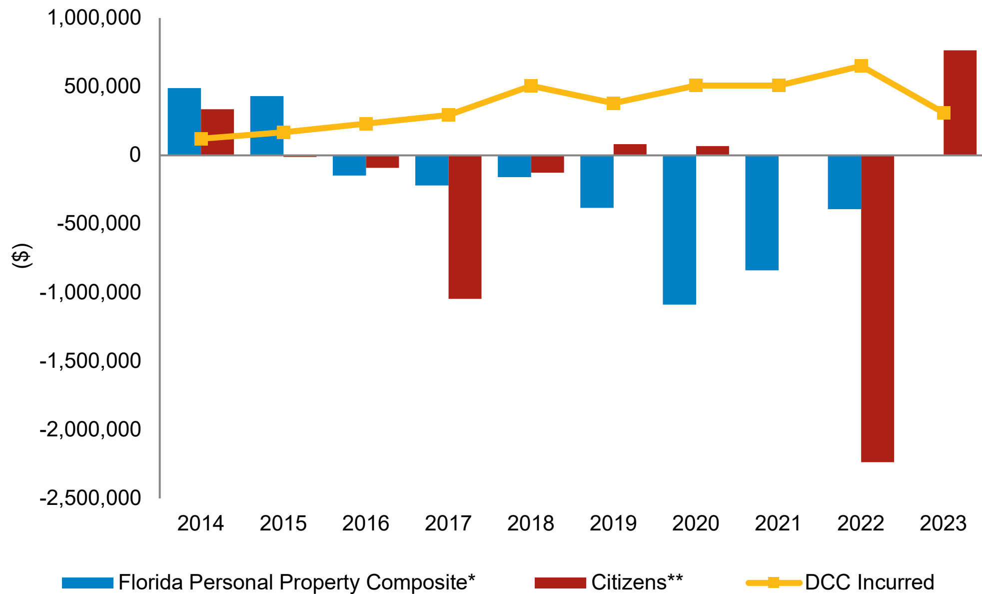
In 2023, following passage of legislation, DCC incurred for the Florida specialist personal property group declined considerably, after peaking in 2022. Reported DCC incurred (excluding Citizens) declined by 53% to $307 million, even lower than $378 million in 2019. **Exhibit 23** shows how rising DCC incurred costs have, in part, affected the pre-tax income/loss reported by the Florida-focused companies and Citizens, especially as the latter experienced substantial policy growth in 2022. Although still early, a decline in reported DCC indicates the reform has benefited results.

The 2024 legislative session did not pass as many reforms as in prior years but remained committed to the cause. My Safe Florida Condo is a pilot program that will allow free mitigation inspections

for Florida condo associations and give them the opportunity to apply for grant improvements to bring applicable building codes up to hurricane specifications, similarly to the My Florida Safe Home program. Both programs are considered favorably by primary carriers. Improving properties' durability and diminishing the susceptibility to hurricane/tropical storm damage could translate into a more favorable view of risk, potentially providing a premium benefit for insured condo owners and homeowners. Restoring market confidence will take time, however, as will large-scale sustainable improvements in financial positions.

Exhibit 23

Florida Personal Property* – Pre-tax Operating Income/Loss, 2014-2023



* Florida personal property composite reflects results for 47 insurers that write at least 30% of personal property premium in the state, with majority above 50%. This includes companies that have been deemed financially impaired and companies that have strategically shifted away from personal property for use of back year data. Citizens and companies tied to national carriers have been excluded.

** Citizens results in 2015 & 2021 as well as Florida Personal Property Composite in 2023 were close to breakeven.

Source: BESTLINK

National Flood Insurance Program (NFIP)

On March 23, 2024, President Biden signed legislation passed by Congress that extends the NFIP's authorization to September 30, 2024. This was the 30th short-term extension of the program, with no revisions or reforms. FEMA and Congress have never failed to honor flood insurance contracts with NFIP policyholders. Should the NFIP's authorization lapse, FEMA would still have authority to ensure the payment of valid claims with available funds. However, FEMA would stop selling and renewing policies for millions of properties in communities across the nation.

Neither AM Best nor the WSIA expects the NFIP to lapse on September 30, nor is it likely that, a long-term authorization or significant reforms to the program will be agreed to as of that date. Both entities believe that a financially stable NFIP is important to the public-private partnership.

Private Flood

The increase in private flood insurance options is another critical piece important to ensuring the NFIP's stability. Expanding and improving private coverage options have been of vital interest to participants in the P/C insurance industry, to provide the most stable market for those in need of flood coverage.

As **Exhibit 24** shows, through calendar year 2023, private flood market purchases of commercial insurance continue to outpace those of personal lines by 2 to 1, accounting for 68% of total private flood insurance premium for the year. NFIP policies will pay only up to $500,000 in damages to a structure and another $500,000 for the building contents. The average commercial business

requires larger limits than residential policyholders and can find more plentiful options through the private market. Residential policies with the NFIP maximum policy limit of $250,000 for the structure (and $100,000 for building contents) may be more suitable for personal lines policyholders seeking coverage for their homes, although median home values have been rising across the country.

Exhibit 24

Private Flood Insurance – Personal and Commercial by DPW

($ millions)

	2020	2021	2022	2023
Personal	204.8	335.1	436.8	456.7
Commercial	516.2	691.6	851.6	958.0
Total	**721.0**	**1,026.6**	**1,288.4**	**1,414.7**
Commercial Share (%)	71.6	67.4	66.1	67.7

Source:

Cannabis Legislation

Currently, 38 states and the District of Columbia allow medical marijuana; 24 states and DC also allow adult recreational use. The legal businesses in these jurisdictions must have viable and affordable insurance options, just like all businesses. However, the disconnect between state and federal law, which prohibits the use, sale, and possession of cannabis with more than 0.3% tetrahydrocannabinol, remains an issue for the cannabis industry. Financial services providers are not comfortable supporting these businesses, given the limitations and prohibitions in the federal banking system. Regulations in many states require that insurance policies meet specific coverage guidelines for cannabis businesses, but insurance is difficult to find in most jurisdictions. If available, it is generally provided by surplus lines insurers rather than admitted market insurers.

Each state approaches the cannabis market differently, making it necessary for insurers of cannabis businesses to navigate a medley of regulations and a web of legal issues. Advocacy groups, including the NAIC, are working to help insurers with these issues. Among some of the complex issues are the development of standards for reliable roadside sobriety testing that would be as effective as alcohol breath tests. There is also a question of how on-the-job accidents should be handled when a worker tests positive for cannabis, even if it was from use several days prior.

The US Department of Justice proposed moving cannabis from a Schedule I to Schedule III classification under the Controlled Substances Act. The potential impact of this change is under discussion, particularly for those businesses and institutions providing services to legal cannabis businesses. However, since the drug would remain scheduled, even though at a lesser classification, WSIA believes further legislative action will still be required to achieve the necessary safe harbor.

The Secure and Fair Enforcement Regulation Banking Act (SAFER)

The SAFER Banking Act (S. 2860) was passed by the Senate Banking Committee last September but has not been voted on by the full Senate yet. In previous congressional sessions, similar bills passed the House six times but were never voted on by the Senate.

This bill provides protections for federally regulated financial institutions that serve state-sanctioned marijuana businesses, which do not receive services from financial institutions due to the federal classification of marijuana as a Schedule I controlled substance. Financial institutions that handle proceeds from unlawful activity are subject to anti-money laundering laws, and violators are subject to fines and imprisonment.

Under the SAFER Act, a federal banking regulator would not be able to penalize a depository institution for providing banking services to a state-sanctioned marijuana business. For example, regulators would not be able to terminate or limit the deposit of a depository institution solely because the institution provides financial services to a state-sanctioned marijuana business.

The bill also prohibits a federal banking regulator from requesting or requiring that a depository institution terminate a deposit account unless (1) there is a valid reason, such as the regulator has cause to believe that the depository institution is engaging in an unsafe or unsound practice; and (2) reputational risk is not an issue.

Data Privacy Legislation

The US remains one of the largest nations without a comprehensive federal privacy law despite efforts to establish such law. This has resulted in a significant increase in state-level privacy legislation since the 2018 enactment of the California Consumer Privacy Act, which created a significant compliance burden for most businesses that collect personal information about California residents. Since then, activity at the state level has increased, as more states consider establishing data privacy laws in the absence of a comprehensive federal data privacy law.

Four consumer privacy laws went into effect in Colorado, Connecticut, Virginia, and Utah in 2023, and eight new states enacted similar laws. A new class of consumer privacy laws took effect in Florida, Oregon, Montana, and Texas in July 2024. Most of these laws will resemble their predecessors significantly, but each contains provisions that require a comprehensive review of new compliance obligations.

New consumer privacy laws in Delaware, Iowa and Tennessee are slated to take effect in 2025, and an Indiana law will take effect in 2026. On January 16, 2024, New Jersey became the first state to pass a comprehensive privacy law this year, when Governor Phil Murphy signed the New Jersey Privacy Act (NJPA) (SB 332) into law. This law will take effect on January 25, 2025. More than nine other states have introduced privacy bills since the start of the new year. Without a federal privacy law in place, covered businesses must continually assess their data privacy strategies to maintain compliance with the evolving patchwork of state laws. The NJPA is similar to state privacy laws such as the Connecticut Data Privacy Act (CTDPA) and Colorado Privacy Act (CPA) and is considered more demanding of companies than the business-friendly Utah Consumer Privacy Act (UCPA) and Iowa Consumer Data Protection Act (ICPA).

The NAIC Privacy Protections (H) Working Group was established to work on data privacy through revisions to or implementation of a new model act. WSIA partnered with a joint trade coalition, composed of insurance associations across the country, to submit comments on the latest efforts to modify the drafts of the Privacy Protections Model Act on May 30. The letter encouraged the working group to discontinue efforts on Draft Model #674, as it would cause significant disruptions for consumers, regulators, and industry members. Instead, the letter encouraged the working group to leverage amendments to existing model #672, in an effort to build from a known and relatively uniform platform by adding core concepts from existing state laws that are adapted for the nature of the insurance consumer relationship.

Subsequent to the initial comment period, the working group endorsed a plan to abandon the drafting of Model #674. At the recent NAIC Summer National Meeting, the working group set a plan of action to deliberate changes to model #672 throughout the remainder of 2024. WSIA will continue to monitor the working group calls and advocate for a privacy protections model that modernizes existing state laws and provides a practical framework for the surplus lines industry.

Proposed Cyber Security Rule

On April 4, 2024, the Cybersecurity and Infrastructure Security Agency (CISA) published a proposed rule in the Federal Register, the Cyber Incident Reporting for Critical Infrastructure Act of 2022 (CIRCIA). The rule proposes regulations implementing the statute's covered cyber incident and ransom payment reporting requirements for covered entities. CIRCIA, which was signed by President Biden, focuses on bolstering national cyber security by facilitating rapid response and information sharing to prevent further incidents. The rule move would allow the regulator to issue timely warnings and recommendations to other potential targets.

The rule makes it mandatory to report cyber attacks to the federal government but is facing some pushback. Organizations have specifically cited redundancy, administrative burden, implementation difficulties, and lack of clarity as the most critical issues they have with the rule. If implemented, the law will affect banks, dams, healthcare facilities, power plants, and several government agencies, all of which would be required to report suspected breaches within 72 hours and ransomware payments within 24 hours. CISA has been asked to consider making the reporting voluntary, define the types of cyber incidents that could trigger a report and limit the kind of information requested.

Florida's 90-Day Post-Repair Legislation

In March 2024, the Florida legislature passed an omnibus insurance bill, HB 1611, sponsored by the Office of Insurance Regulation. The bill includes emergency provisions that apply certain post-disaster cancellation and non-renewal moratoriums to the surplus lines industry. (Governor Ron DeSantis signed a number of bills at the same time.) The legislation restricts surplus lines insurers' ability to cancel or non-renew personal or commercial lines residential insurance policies because of unrepaired damage after a hurricane or wind-loss following a declared emergency. However, the final bill included limitations to those restrictions that were sought by WSIA in partnership with the Florida Surplus Lines Association (FSLA).

WSIA and FSLA proposed several limitations to the moratoriums that would provide more certainty for surplus lines insurers underwriting property risks in Florida. Chief among those limitations was a defined period during which surplus lines insurers would be permitted to cancel or non-renew policies, regardless of the status of repairs. Unfortunately, the final legislation did not include this provision. The following changes were successfully made to the emergency orders:

- A property will be deemed repaired when it is restored to the extent that it is deemed insurable by any insurers writing policies in Florida (admitted, non-admitted, or Citizens). Previous disaster declarations required that properties must be insurable by an admitted insurer only.
- If the insurer or its agent has made reasonable written inquiry as to the status of the repair, sent by certified mail, and the insured has failed within 30 calendar days to provide information responding to the inquiry, the insurer may then cancel or non-renew a damaged property upon 45 days' notice.
- Like the admitted statute, the new law also permits cancellation or non-renewal for non-payment of premium, material misstatement or fraud, or a determination that the insured has unreasonably caused a delay in repairs, or if the insurer has paid policy limits.

Additional Florida-Related Legislation Affecting Surplus Lines Insurers

HB 989 was an omnibus insurance bill sponsored by the Department of Financial Services (DFS) that revised the appointment requirements for surplus lines licensees. Prior to this bill, a surplus lines agent was required to obtain an appointment from an admitted carrier, even if they conducted no admitted

business. With the passage of this bill, a surplus lines agent is able to satisfy their underlying general lines license appointment requirement with a single appointment from a non-admitted carrier. The bill was signed May 3 and took effect immediately.

HB 1503 reforms the operations of the Citizens Property Insurance Corporation, permitting surplus lines insurers that meet specific financial requirements to take out policies from Citizens issued for dwellings that are not primary residences. The bill was signed May 13 and took effect on July 1, 2024. All three bills have been signed by the governor—HB 989 took effect immediately, and HB 1611 and HB 1503 took effect on July 1, 2024.

State-Specific Surplus Lines Legislation

Alabama

HB 142 and SB 46 are WSIA-sponsored bills that adopt several revisions pertaining to surplus lines. The bills codify the Non-admitted and Reinsurance Reform Act (NRRA), repeal the Surplus Lines Insurance Multi-State Compliance Compact Act, allow surplus line brokers to file reports quarterly rather than on a 30-day rolling basis, eliminate zero premium reporting requirements, and codify the ability of surplus lines brokers to charge policy fees. The governor signed the bill, which took effect July 1, 2024. The Department of Insurance is expected to propose clarifying regulations in the near term.

Arkansas

The Arkansas Department of Insurance rescinded its recent Bulletin 14-2024, which reinterpreted state law in a way that would have restricted surplus lines policy fees plus commissions received to 20% of the policy premium. After the original bulletin was issued, WSIA worked with local members and partner trades to explain the negative effects that the new interpretation could have on the Arkansas surplus lines insurance market. Local WSIA members met with the Insurance Commissioner on August 8 and the bulletin was rescinded on August 9, effectively reinstating Bulletin 14-2015A and exempting all surplus lines business from the 20% threshold. Discussions are continuing with regulators that could result in the pursuit of legislation to further codify the ability of surplus lines brokers to charge fees and retain commissions that, when combined, are above the 20% cap.

California

AB 3067 would have required an application for homeowners' or renters' insurance to include questions about the presence of firearms in the household, accessory structures, or automobiles and whether they are stored securely. The bill requires insurers to report annually the information gathered from the questions to the Department of Insurance (CDI) beginning January 1, 2027. The bill was unclear as to its application to surplus lines policies. The bill made it through the House on April 25, but it was later completely gutted to be a vehicle for unrelated legislation.

The CDI issued Bulletins 2024-5 on July 11 and 2024-6 on August 8 imposing mandatory one-year moratoriums on cancellations and non-renewals of residential property insurance policies in response to recent fires. The bulletin is addressed to all admitted and non-admitted insurers writing residential property insurance in the state. The moratorium only pertains to policies in the zip codes listed in the bulletin.

The CDI held an export list hearing on July 16. The department received requests to add nine new coverages to its export list, including cyber liability and excess cyber where part of the underlying is admitted. To be added to the Export List, the commissioner must find that (1) there is no reasonable market among admitted insurers or (2) the desired coverage is so new that an adequate market

among admitted insurers has not developed. Coverages must also receive an affirmative finding from the commissioner annually to remain on the List. Comments and written testimony were accepted through July 16. The commissioner will issue the final export list in the coming months but is under no obligation to make the requested changes.

Colorado

HB 24-1119 requires insurance premium taxes, surplus lines taxes, and other associated state-specific insurance tax filings to be filed through a secure web-based application, as prescribed by the Division of Insurance. The bill authorizes the commissioner to contract with a third party to provide a secure web-based application system that enables surplus lines items to be filed. The bill was signed into law and applies to tax filings submitted on or after January 1, 2025. WSIA expects the division to issue guidance on the new filing system in the near future.

HB 24-1270 would have required firearm owners to maintain a firearm liability insurance policy and require insurers to make firearm liability insurance available to applicants to be included in a homeowner's or renter's policy. An insurer could deny firearm liability coverage to an applicant based on its individualized risk assessment for covering the applicant. Firearm liability coverage could be obtained from an admitted or non-admitted insurer. The bill did not move forward before the end of the session.

HB 24-1108 requires the Division of Insurance to conduct a study concerning the market for property and casualty insurance policies. The governor signed the bill on May 31 and the summary report must be completed on or before January 1, 2026.

HB 24-1083 would have required the Division of Insurance to conduct a study of construction liability insurance for construction professionals in Colorado that identifies all insurers offering construction liability policies in the state, the factors used by insurers to set rates, rates charged in Colorado relative to rates charged by insurers in other states in the region, and policy terms and common limitations or exclusions. The bill failed to progress this legislative session.

Delaware

On April 24, the Delaware Department of Insurance published a Surplus Lines Bulletin No. 16 related to Delaware domestic surplus lines insurers (DSLI) and surplus lines companies re-domesticating to the state. The bulletin reminds such insurers of the policies a DSLI is permitted to write in the state. It also provided context on relevant application fees, DSLI exemption from the guaranty association, and circumstances under when refunds from the state would be appropriate for such companies.

Georgia

HB 1114 enacts the "Data Analysis for Tort Reform Act" and provides that the commissioner may request data related to tort claims and tort claim liability from insurers through the commissioner's authority under the insurance code. Under the bill, the commissioner must request data from insurers, licensed rating organizations, and state agencies to analyze the impact of tort lawsuits and assess tort-related risks. The bill requires that the commissioner request the data no later than July 1, 2024, and as often as necessary through July 1, 2029. The bill was sent to the governor on April 1 and is awaiting signature.

The Georgia Office of the Commissioner of Insurance (OCI) issued Bulletin 24-EX-7 on July 23, which clarifies that surplus lines producers may charge policy fees and details the circumstances under which the fees are permissible. WSIA has worked closely with regulators and local members on this

issue since the OCI first issued guidance and surplus lines policy fees in 2017 and again in 2022. The guidance in the previous bulletins was confusing for surplus lines brokers, requiring fees to be "made part of the policy" and explicitly authorized by the carriers. The new bulletin simplifies the guidance and indicates that the surplus lines producer may add the fee to the policy declaration page; it omits guidance that the fees must be explicitly authorized by the carrier.

Illinois

HB 5493 would have modified the definition for "tax due" applicable to surplus lines taxes to mean the total amount due for the year. This change would have conflicted with surplus lines tax obligations, which are currently separated into six-month increments. The bill was successfully amended at the request of the Surplus Line Association of Illinois by replacing "that year" with "applicable tax period." The bill was signed into law and took effect July 19, 2024.

HB 3521 would have revised the definition of an "unaffiliated group" for the purpose of determining the "home state" on multi-state surplus lines insurance policies. The new definition would have been simplified to apply the Non-admitted and Reinsurance Reform Act definition for "home state" to unaffiliated groups, determined explicitly by the principal place of business or principal residence. Unfortunately, this bill was later gutted and amended to push through different legislation that did not pertain to surplus lines. WSIA strongly supported the clarification and hopes it will be revived in the next legislative session.

Iowa

HF 2265 modifies current cancellation and nonrenewal requirements for personal lines policies, changing the current 30-day standard to 60 days. As noted in WSIA's Cancellation/Nonrenewal Compliance Chart, the department's position is that surplus lines policies are exempt from statutory requirements but encourages compliance as a matter of public policy. The governor signed the bill, which will take effect on January 1, 2025.

The Department of Insurance published Bulletin 24-03 on July 3 to describe expectations for insurance relief when severe weather and natural disasters impact Iowa consumers. This bulletin was addressed to all insurance companies and producers writing in the state. However, the body of the bulletin stipulates that the new guidance is directed to individuals and entities regulated by the Iowa Insurance Commissioner. Bulletin 1904 and Bulletin 21-04, two disaster bulletins, were also rescinded with the publication of Bulletin 24-03.

Kansas

The Kansas Insurance Department published proposed amendments to surplus lines regulations that would update language to correspond with last year's HB 2090, which lowered the surplus lines tax rate from 6% to 3%. WSIA collaborated with the department on proposed regulatory language that would also eliminate zero premium tax reporting requirements. WSIA submitted comments supporting the changes and the final rule, which included elimination of zero premium reports, took effect on July 12.

Kentucky

SB 29 would modify current law pertaining to motor vehicle coverage and glass claims. The bill would require admitted and non-admitted insurers providing motor vehicle coverage, which also provides comprehensive coverage or coverage other than collision, to cover the repair of damaged motor vehicle glass completely, without regard to any deductible or minimum amount. The bill was signed by the

governor on April 2 and has an immediate effective date but will apply only to policies issued or renewed as of the effective date.

Louisiana

HB 672 amends and enacts responsibilities and introduces new requirements for licensed MGAs under Louisiana law. Initially, WSIA was concerned about the potential application of this bill and the underlying law; however, it has been made clear that the legislation and the law's limited application is specific to those that have been licensed as an MGA in Louisiana and does not apply to surplus lines business. The impetus for the legislation was to address a series of insolvencies related to small Louisiana domestic companies.

Section 1623(A) of the bill references MGAs acting for insurers licensed in the state. The Louisiana Surplus Lines Association is confident that the statutory changes are not applicable to entities unless they are specifically required to be licensed as MGAs in the state. This interpretation is reinforced by the drafting note of the underlying NAIC model act, which says, "Individuals or agents calling themselves 'managing general agents' may not necessarily fall under the provisions of this act." In other words, if the individual or agent does not perform the activities set forth in paragraphs (1) and (2) then, for purposes of the act, the individual is not an MGA. The governor approved the bill on May 23, 2024, and it took effect on August 1, 2024.

HB 611 and SB 370 are companion bills that repeal the state's "three year rule" for any policies issued after August 1, 2024, and allow insurers to non-renew up to 5% of existing homeowners policies per calendar year for any reason. The commissioner is also allowed to approve more than 5% non-renewals in a given year. The underlying law had previously been interpreted to apply to surplus lines. WSIA supported the measures and worked with the Louisiana Surplus Lines Association to get HB 611 passed. The bill will take effect on January 1, 2025.

The Louisiana Department of Insurance issued Bulletin 2024-01, directing authorized and surplus lines insurers to participate in a data call pertaining to homeowners policies that fall under the three-year rule. The data call is directed to authorized and surplus lines insurers. Although such policies can now be canceled for policies issued after August 1, 2024, this data call was published on June 18 and applies to policies in place for at least three years up to and including August 1, 2024. It requires two reports initially and then quarterly reports afterward, the details of which are outlined in the bulletin. It is important to note that all insurers must submit a filing. Insurers that do not make use of the 5% cancellation provision are required to report that. All insurers will be required to submit quarterly reports stating how many policies they have in place under the three-year rule.

HB 510 would have prohibited all insurers writing property insurance policies from requiring a policyholder to participate in mandatory binding arbitration unless the arbitration requirements were contained in a separate endorsement, a premium credit or discount was offered, and the policyholder signed a disclosure prescribed by the commissioner. The bill was amended to exempt surplus lines insurers from any restrictions on arbitration provisions; however, the bill failed to pass prior to the end of the session.

SB 323 amended the state's good faith statutes by introducing new timeframes for claims, particularly in catastrophic losses. It repealed Section 22:1973, eliminating the 200% penalty provision, and excluded the 60-day payment requirement from the previous statute. This bill passed and took effect on July 1, 2024. The new law extended these provisions to include foreign and surplus line insurers, defined terms such "catastrophic loss" and "immovable property," and imposed penalties

for noncompliance, such as economic damages and specific penalties for catastrophe losses. Insurers now have a 60-day cure period after receiving a notice of violations, with options for full or partial payment and associated expenses. These changes were intended to enhance clarity and compliance in claims processing, particularly in response to significant natural disasters or emergencies.

On July 12, the Department of Insurance released a data call on property and casualty policies issued in the state for the 2024 hurricane season, specifically for the period of June 1 through July 30. The data call is directed to authorized and surplus lines insurers. The deadline to submit was August 15, 2024.

Finally, the department released a notice of intent to promulgate a regulation to define the requirements to receive a surplus lines insurance refund or credit for gross premium taxes paid. The proposed criteria to receive a refund are (1) when there is a tax payment when none was due or (2) when it is determined that the tax payment resulted from an error. Comments were accepted through June 10. The final regulation has not yet been issued.

Maryland

HB 67 increases the maximum penalties for various violations of the Insurance Code from $500 to $5,000. The bill also increases maximum penalties for unauthorized insurance but only if that insurance is not subject to the surplus lines law. The bill was signed by the governor and takes effect October 1, 2024.

Maine

The Bureau of Insurance issued Bulletin 472 indicating that pursuant to 28-A M.R.S. § 2517, insurers must report information on their written premium and claims for liquor liability coverage for each calendar year on or before March 1 of the following year. The bulletin indicates that all insurers holding casualty licenses and all eligible surplus lines insurers must submit the data. The report form and reporting instructions are in the Data Reporting Requirements section of the Maine Bureau of Insurance website.

LD 2028 clarifies estimated surplus lines tax payments determined by 2023 LD 1808. Surplus lines producers can still make estimated tax payments based on the current year's business. The tax payment due dates will be changed to the 15th of April, June, September, and December, to coincide with the corporate income tax schedule. The bill passed and is awaiting the governor's signature.

Michigan

The Michigan Department of Insurance and Financial Services (DIFS) published its final rule on changes to the surplus lines fees cap as adopted by HB 5174 (2020). The final rule incorporates important revisions based on comments provided by WSIA. There was some initial concern with the proposal, which included additional limitations on charging surplus lines policy fees. As issued, the final rule is consistent with the intent of the 2020 legislation, and WSIA believes it provides the appropriate guidance and clarification.

Minnesota

SF 4097 will take effect on October 1, 2024. This was an omnibus insurance bill that was amended to include a specific diligent search exemption for wholesale surplus lines business. The exemption was proposed by the Minnesota Surplus Lines Association, which WSIA supported. Similar to Illinois and North Dakota, the new exemption allows a retail agent to go directly to their wholesale broker partners without conducting a diligent search as long as they are placing the business with an unaffiliated surplus lines broker.

Mississippi

The Department of Insurance issued Bulletin 2024-2 addressing the changes made by SB 2130 pertaining to the cancellation or denial of insurance due to roof age. The bulletin is addressed to property and casualty insurance companies writing homeowners' or dwelling coverage. The department clarifies that its interpretation is that homeowners' or dwelling coverage cannot be canceled, or coverage denied due solely to the age of the structure's roof. If an insurer is factoring roof age into their coverage determination, it must be able to demonstrate that the determination to cancel, deny, or non-renew coverage was not based solely on roof age. The bulletin went into effect on July 1, 2024, and applies to homeowners' policies issued or renewed thereafter.

New Jersey

The Department of Banking and Insurance released a reminder Bulletin 24-07 on the new minimum limits for liability insurance for commercial motor vehicle and autocabs. The bulletin is addressed to all admitted and surplus lines insurers and was developed in response to recently enacted S 2279. The bill amended existing law to increase the minimum limits of liability insurance coverage that must be maintained by owners and operators of commercial motor vehicles registered or principally garaged in New Jersey and engaging in intrastate commerce.

New York

S 5896/A 5253 would have permitted a waiver of the diligent effort requirement for commercial insurance where the retail producer seeks insurance through an unaffiliated excess line insurance broker. This proposal is similar to the exemptions previously implemented in Illinois and North Dakota and what will be newly implemented in Minnesota. The Excess Line Association of New York (ELANY) proposed this legislation previously but, unfortunately, it once again failed to pass before the session adjourned.

S 2796/A 4597 would have removed the requirement that a declination must be obtained from the Medical Malpractice Insurance Pool before placement in the excess lines market. It too failed to pass before the end of the session.

S 9841/A 10342 would have authorized business interruption insurance that is not contingent on physical damage to the property. It would have also permitted surplus lines insurers to write this type of business interruption coverage if it is unavailable from admitted insurers. The bills failed to advance before the end of the session.

WSIA supports the diligent effort waiver, removing the requirement for declinations from the Medical Malpractice Insurance Pool and authorizing business interruption insurance that is not contingent on property damage. WSIA is committed to working with the ELANY to achieve their passage in the future.

ELANY released Bulletin 2024-04 on February 13 as a reminder for licensed excess lines brokers, both resident and non-resident, except for those that have filed a 500.19(b), (e), or (g) exemption, to file their cyber security regulation compliance certification to the Department of Financial Services on April 15.

On June 24, the New York Department of Financial Services issued Circular Letter No.6 on affordable housing underwriting and rating, which pertains to S 8306, an omnibus bill designed to provide housing assistance. Section 3462 of the new statute prohibits underwriting, cancellations, non-renewals or coverage restrictions that are based on the building containing affordable dwelling units, residents receiving rental assistance, the level or source of income of the residents, or whether the building is owned by a cooperative or public housing authority.

The Circular Letter indicates that the law applies to surplus lines insurers along with admitted insurers. The Excess Line Association of New York has clarified that surplus lines insurers retain the right to cancel, refuse to issue, refuse to renew, or increase premiums, as well as exclude, limit, restrict, or reduce coverage for other factors that are permitted under New York's Insurance Law.

The new law is similar to HUD's "discriminatory effects" rule, which already applies to surplus lines policies. The HUD discriminatory effects doctrine says that "a policy that had a discriminatory effect on a protected class was unlawful if it was not necessary to achieve a substantial, legitimate, nondiscriminatory interest or if a less discriminatory alternative could also serve that interest." The rule was originally promulgated in 2013, was rescinded in 2020, and was reinstated March 17, 2023.

North Dakota

North Dakota issued amendments to the Administrative Code that added commercial cyber insurance to its export list and removed the affidavit filing requirement to align with SB 2305, which was sponsored by WSIA in 2023. Both changes are effective January 1, 2024

Oklahoma

HB 3091 eliminated the requirement that exempt commercial purchasers (ECP) submit written requests to surplus lines brokers that they procure or place insurance in the non-admitted market for the transaction to be exempt from diligent search requirements. The licensee or broker still must inform the ECP that the coverage may be available in the standard market. The bill also requires statements of surplus lines placement to be filed electronically and imposes applicable transaction fees. The laws are intended to facilitate the implementation of filings through the SLIP platform announced in Bulletin No. 2023-012. The governor signed the bill on April 29, and it will take effect on November 1, 2024.

Pennsylvania

HB 2096 clarified Pennsylvania law to permit fees on personal surplus lines policies up to $150 or 4% of the premium, whichever is greater. It further provided that a surplus lines licensee may recoup the actual cost of any inspection required to place surplus lines insurance. Prior to this law, the position of the department was that fees could not be charged on personal lines policies when a commission was also received. State law continues to permit fees on commercial surplus lines policies without a cap. The Pennsylvania Surplus Lines Association (SLA) issued a bulletin regarding the changes on July 30 and indicated that as part of the new law, fees must now be reported to the SLA on the monthly report.

SB 1092 repeals existing requirements and establishes new standards for rebates and inducements for insurance, including surplus lines insurance. The bill was signed by the governor and will take effect on January 11, 2025.

Rhode Island

HB 7861 would have prohibited defense within limits on liability policies. It's unclear if the legislation is intended to apply to non-admitted business. The bill was recommended for further study and failed to proceed any further in the 2024 legislative session, but WSIA will continue monitoring and working with local stakeholders to oppose it if it returns.

Texas

The Texas Department of Insurance adopted amendments to the Texas Administrative Code, outlining alternative licensing procedures for military service members, military veterans, and military

spouses, allowing for recognition of out-of-state licenses, including surplus lines. The changes were effective February 29, 2024.

Virginia
HB 510 and SB 670 would provide an exemption on surplus lines taxes associated with policies on behalf of the Virginia commuter rail system. The bills failed to advance before the legislature adjourned but will be considered in the 2025 legislative session.

Washington
SB 5963 would have created several insurance requirements relating to the ownership of firearms. Before the sale or renewal of a residential dwelling policy, a surplus lines broker would have been required to ask if any of the insureds on the policy owned a firearm and whether the firearms were securely stored. The surplus lines broker would have been required to inform the policyholder of the residential dwelling policy requirements specific to firearm owners. The bill failed to advance before the legislature adjourned on March 7.

West Virginia
SB 304 would have increased the surplus lines tax from 4.55% to 5% and reallocated the proceeds of those taxes to certain state entities. The bill failed to advance before the legislature adjourned on March 9.

Section IV – Current Distribution Trends

The sustained and dynamic growth and expansion of the surplus lines market has been the result of insurers' commitment to providing solutions for tough and complex risks through their working relationships with insurance intermediaries. These intermediaries include wholesale insurance brokers, managing general agents (MGAs) and other entities to which insurers delegate underwriting authority, underwriting managers, and Lloyd's coverholders. These partners are vital to distribution, facilitating transactions involving specialized non-admitted insurance products and services. Because of how quickly market conditions, industry trends, and customer needs can change, strong relationships among distributors and insurance company partners are critical, because the demand for specialized expertise and service continues to grow as business and technological complexities become more advanced.

AM Best believes that a number of key issues and trends are shaping the surplus lines market and should continue to do so into the near future. We have identified these issues through independent research and by directly engaging insurers and surplus lines distributors for their thoughts, on the following:

- What are the greatest opportunities and challenges that the surplus lines market and wholesale distribution face?
- Is digital transformation and the use of artificial intelligence and data analytics a significant disruptor or a driver of efficiency and growth?
- Is recent growth in the surplus lines market part of the normal market cycle or are there structural changes in the market that you believe will continue to drive the segment's growth?
- Has the E&S market made meaningful strides about recruiting and retaining new talent in recent years?

Current Challenges Yield Potential Opportunities

The rate of change continues to accelerate. Shifts in climate, technology, workforce, and customer/societal expectations, in addition to macroeconomic and geopolitical volatility, are enough to keep

insurers and intermediaries fully occupied, but insurers are facing numerous unforeseen issues. As a result, insurance enterprises around the world, including distributors, are being compelled to transform their technological infrastructure, products and services, business models, and organizational culture to adapt, not just to fuel profitability but to remain relevant and survive.

For insurance brokers, 2023 was another strong year but not an easy one by any means, given macroeconomic headwinds encountered, including inflationary pressures and high interest rates. The impact of inflation (pricing and social), an active year of weather-related catastrophes, and factors like social inflation on casualty lines was enough to support harder market conditions for certain lines of coverage. National admitted carriers fully or partially exited property markets such as California, Florida, and Louisiana, providing the opportunity for surplus lines insurers willing to fill those voids with non-admitted coverage options with a pathway for growth. These conditions greatly require the expertise of intermediaries capable of navigating clients through turbulence.

The detrimental impact of social inflation has resulted in higher claims settlements and judgments on certain casualty lines of coverage (excluding workers' compensation). However, this could spur growth for surplus lines insurers of affected casualty lines, as standard market insurers choose to steer clear of business susceptible to these trends. This is because some standard market insurers may forgo opportunities due to their inability to limit their exposure due to social inflation or to charge what adequate premium for the exposures. Carriers facing increasing lost costs driven by these factors probably means that rates/account pricing will slow but that accounts will still renew at higher, albeit more reasonable levels for policyholders. Pricing declines are still likely some ways off, leaving distributors with the task of managing the expectations of clients hoping for greater relief.

Products traditionally written on an admitted basis are providing opportunities for the surplus lines market, such as coastal homeowners coverage, particularly for high-value homes. These properties, particularly in areas hit hard by hurricanes or secondary peril events recently, are unlikely to find admitted coverage offers. Some market participants have opined that the E&S market could become the standard for certain property owners in California, Florida, and Texas. Additionally, some states have passed legislation allowing certain products to be written on a non-admitted basis that previously were required to be admitted.

With admitted carriers narrowing their focus to core businesses, risk classes and lines of coverage, lines such as commercial auto, directors & officers' liability, cyber coverage (particularly for first-time buyers), and catastrophe-exposed property, and any other line or risk class that subject to significant volatility, are finding their way to E&S carriers. The freedom to tailor coverage to fit policyholder needs has been vital to the surplus lines market in these areas. Commercial auto continues to confound insurers. Re-underwriting and re-pricing efforts have yet to manifest in material improvement for the line, although individual insurers with a limited appetite and narrow focus can generate results better than the industry average.

Insurance Distribution and Artificial Intelligence

Since inception, insurance intermediaries have played a leading role in the development of the insurance industry, distributing and marketing insurance policies, in addition to advising and maintaining clients. New technologies have reordered how the industry conducts business. Digital transformation in the wholesale segment can drive growth and efficiency. For insurance companies that partner with surplus lines intermediaries, effective use of new technology can help insurers differentiate themselves through best-in-class productivity and responsiveness. Embracing and leveraging new tools and integrating new technologies with the involvement of human knowledge and experience has been critical for insurers.

The need for caution about artificial intelligence (AI) remains, however, as the insurance industry is still relationship driven, despite how much technology and remote interactions have replaced in person discussions and information gathering. AI cannot replace underwriters, especially in the surplus lines market, in which where outside-the-box risk exposures are the norm. Underwriters with experience in the risks involved with such exposures are still required to assess them. The chance of AI replacing people and executing these same functions with the necessary level of expertise is unlikely.

Still, insurers are implementing innovative processes for the claims, underwriting, and customer service functions using big data and AI. These changes can pressure distribution models, by finding pathways to get closer to customers lowering costs. For some intermediaries, the strategies of purely digital companies have created uncertainty about inefficiency in the value chain but whatever difficulties have arisen do not seem to have become roadblocks.

For traditional intermediaries, some of the uncertainty can create difficulties. Understanding the challenge of integrating new technologies such as AI and identifying new opportunities that come with innovation is critical. This could lead to determining (recognizing) how the traditional agent or broker can fit into a new landscape in which AI and other new technologies become more ingrained. Intermediaries are faced with determining the best answer to the question of how to take advantage of the newest technological resources to enhance their efficiency and effectiveness.

New AI productivity tools can help insurance brokers automate manual processes, provide data insights, and enhance communication. For example, brokers can use AI to populate a market directory that maintains and updates their history of appetite and contact points, giving brokers greater access to the right market and solutions. A system that captures carriers' appetites and, brokers' input on carriers' strengths and weaknesses could help brokers find the right solutions more quickly, enhancing both efficiency and productivity.

Surplus Lines Premium Growth: The Usual Market Cycle Driven by Structural Changes

In some ways, surplus lines intermediaries believe that the premium growth in the surplus lines market since 2018 seems to reflect the normal market cycle. Lines that experienced the pricing increases that initiated the premium growth back in 2018 were those that needed corrections from both an underwriting and pricing perspective due to less than favorable underwriting performance in the preceding years: commercial auto, general liability, products liability, commercial property, and medical professional liability. In the general liability line, construction liability and D&O liability in particular were stressed due to increasingly unfavorable underwriting results. Catastrophe losses on property lines, along with increasingly competitive market conditions for commercial casualty lines (outside of workers' compensation), had the greatest negative impact.

Abundant capital was chasing opportunities for lines that had generated favorable results until premium adequacy clearly became an issue. As has historically been the case under such circumstances, unprofitable results initiated a pullback from admitted insurers, as they eschewed riskier, moderate hazard business for which they had extended themselves during highly competitive periods. Targeted rate and pricing increases helped lead surplus lines DPW to rise 11.2% in both 2018 and 2019, followed by even larger increases of 17.5% in 2020 and 25.0% in 2021.

With the rise in surplus lines premiums moderating, some of the business that found its way to the market from the admitted market may prove to be stickier. Some if not much of that business may remain in the surplus lines market over the long term because of fundamental or structural changes

Production Sources

During the third quarter of 2024, AM Best sent surveys to the insurers writing much of the surplus lines business, to obtain information about the production sources generating surplus lines premiums in 2022 and 2023. The survey requested the same production source information data that we request in our supplemental rating questionnaire (SRQ). The only difference is that the data is focused on surplus lines business only, with understanding that many insurance organizations write both admitted and nonadmitted business in different states. In addition, where possible, we used the SRQ data for some of the companies writing surplus lines business that did not submit a separate survey. The aggregated data in **Exhibit 25** represents approximately 40% of all US surplus lines premium. This percentage is limited, because many of the global or national insurance groups collect data on premiums written by their companies on a group basis—they do not break out their surplus lines premiums from their admitted market premiums. These companies do not provide specific surplus lines production data for this report.

Exhibit 25
US Surplus Lines – Leading Production Sources by DPW
(%)

Production Source	2022 % of Total	2023 % of Total
Wholesale Agent/Broker Without Binding Authority	51.4	48.5
Wholesale Agent/Broker with Binding Authority	10.4	8.7
Program Manager – Retail or Wholesale Agent/Broker	21.7	20.7
Retail Agent/Broker	15.2	20.8
Direct Procurement	0.8	0.8
Other	0.5	0.4
Total	**100.0**	**100.0**

Notes: The aggregated data for calendar year 2022 in this exhibit includes re-stated figures provided by a few companies.
Source: AM Best data and research

As **Exhibit 25** shows, for surplus lines business, wholesale brokers without binding authority remained the primary surplus lines distribution channel for the survey respondents, accounting for just under half of surplus lines premium, down slightly from 51% in 2022 (based on updated 2022 data). Wholesale brokers remain the key distribution source of surplus lines business, although MGAs and other types of program managers that have delegated authority for various business functions (binding, underwriting, paying claims) generate more than 20% of all surplus lines premiums. AM Best believes these entities have played an integral part in the consistent yearly premium growth in the surplus lines market, because of the expertise with unique, moderate- to high-hazard risk classes that are likely to find their best insurance solutions in the surplus lines market. For insurers, these entities provide value through controlled books of business and can be ideal partners to develop the kind of specialized coverage for which surplus lines insurers are known.

The percentage of nonadmitted business generated by program managers is also a reflection of the influx of hybrid fronting companies into the surplus lines and specialty commercial market in the past decade, as many use MGAs as their primary distribution source. According to the survey responses, retail brokers generated about 20% of surplus lines business in 2023, up several percentage points over 2022. Surplus lines brokers increasingly work with retail insurance producers who do not necessarily need to hold surplus lines broker licenses, but instead bring together the insurance customer and the surplus lines broker. Wholesale brokers with binding authority accounted for about the same proportion of business in the segment, 8.7% of aggregated premium in 2023, down slightly from 10.4% in 2022, representing a relatively small but still viable source for surplus lines business.

wherein the risk profile of certain types of exposures may lead to them needing to find coverage in the surplus lines market. Some of the types of risks that may fall into this category include:

- Catastrophe-exposed personal and commercial lines exposures: This covers coastal properties that have been identified as being particularly vulnerable to severe weather events. It also covers residential and commercial properties in states or in areas of states that were not previously considered highly susceptible to severe weather events, but have seen the risk hazard level assigned to them change as climate changes lead to more frequent, severe weather events—including secondary perils such as severe convective storms, tornadoes, wildfires, and hailstorms.
- A wider variety of general liability risks—e.g., professional liability, product liability, D&O liability, and commercial auto liability (especially for the trucking industry): These risks are more exposed to the unpredictability of social inflation and nuclear verdicts.

Another structural change that will impact market cycles concerns the length and depth of hard and soft markets. The data and information available to agents, brokers, and insurers makes insurance professionals better able to address customer needs. The granularity and usefulness of the data allows trends to be identified more quickly, allowing insurers make faster and more informed decisions that can mitigate the peak of hard markets or the trough of soft markets.

Progress Made in Attracting and Retaining New Talent—but More is Needed

The retirement of the Baby Boomer generation is also affecting the insurance industry. For some family-run businesses, the next generation has chosen to pursue other career paths, requiring owners to merge with or sell to others. To deal with the reality of Baby Boomer retirement, the insurance industry has expended growing efforts and resources to attract talent to the field in whatever capacity (distribution, underwriting, claims, actuarial etc.).

With regard to the distribution chain, considerable effort has been put into overcoming the difficulty of bringing in new generations into the field, but the consensus appears to be that there is still plenty of room for growth and improvement in doing so. Whether this involves attracting new producers or office staff to handle key functions, recruiting insurance intermediary talent is a significant challenge for both agency and brokerage principals. This challenge was already a formidable one before the pandemic and has become more difficult since, as companies and employees have re-assessed optimal working environments relative to in-person vs. remote desires and capabilities.

Prized talent has become even more valuable and more expensive to attract and retain. Companies have realized that their employees can work remotely and still maintain high standards of quality, while agency and brokerage owners have redefined everyday expectations. Employees now expect at least a hybrid work week, and work environments evolving into hybrid, if not completely virtual, workplaces, which means that insurance companies and their intermediaries must continue enhancing their digital capabilities. For insurance intermediaries specifically, the transformation to a flexible/hybrid workforce requires good planning and the realignment of resources, policies, and infrastructure, while maintaining the primary function of servicing clients (policyholders) and partnering with insurers.

Specific job functions require different levels of flexibility depending on the tasks involved, be they internal or client-facing. Focusing on the people performing the jobs is vital to cultivating the speed and adaptability needed, as policyholder needs continue to change with the evolution of technology and risk characteristics. Across the insurance industry, changing workplace dynamics have necessitated material changes to the way talent is recruited and developed. Intermediaries that offer potential

employees the flexibility they desire and the opportunities to grow throughout their careers will be most successful attracting top-level talent and progressing as the market does.

Attracting the next generation is only one hurdle—retaining and nurturing it through long, productive careers in insurance is another challenge altogether. Insurers have been pretty good overall at retaining talent once they've attracted them to the industry and started the step-by-step learning process. Investing in internship programs and job rotations has helped companies hire qualified, talented individuals right out of college. Apart from generous compensation, flexible schedules, and career advancement, continuing education is a must. These efforts may require a more protracted process to recruit and vet candidates but will pay off in the long run.

Because of the efforts made in the insurance industry, especially in the E&S lines segment, a growing number of college programs now have better awareness and understanding of the surplus lines market and who and what it serves. The WSIA has initiatives focused on speaking at US universities to provide insights on this unique segment of the industry. However, the surplus lines segment is still reaching only a relatively small number of potential employees. Efforts probably need to be expanded past the focus solely on those universities that have risk management and insurance (RMI) programs, to include high schools to interest students in pursuing a degree that will allow them to enter the industry.

Section V – Impairment Trends

Insurance companies become impaired for a variety of reasons. Most fall into the category of general business failure, owing to poor strategic direction, weak operations, internal control failings, or underpricing and under-reserving the business written. Annual financial impairments in the P/C industry have declined the past three decades, from 346 during 1990-1999, to 279 during 2000-2009, and 167 during 2010-2019. The average number of impairments from 1980 to 1999 was 32.3 but dropped to 19.1 per year from 2000 to 2023 (**Exhibit 26**). Impairment rates the past several years have been more in line with those in the very early 1980s. Since the end of 2003, only one surplus lines company—a monoline insurer writing surety bonds for private student loans—has become impaired, in 2018.

AM Best believes that financial impairment frequency (FIF) is a more accurate indicator of industry impairments than a simple count. The FIF is calculated by dividing the number of companies that become impaired by the number of companies operating in the insurance market in a given year. The P/C industry's 2023 FIF was 0.30, up from 0.20 in 2022, but still below the historical average of 0.80 since 1980. In the last 20 years, the P/C industry's FIF reached its highest point, 1.06, in 2011, which reflected the impact of soft market conditions in 2007-2010 and the Great Recession in 2007-2009.

The periods when net operating results are unfavorable for the industry tend to spark a rise in the FIF. Global pandemics, global financial market declines, economic recessions, and catastrophes generating considerable insured losses have typically led to the end of soft markets, to historically higher annual FIFs, and to notable shifts in the market, with business moving from the standard market to the surplus lines market. The high FIF rates in 2000-2003 took place during the five-year period (2000-2005) with the highest number of impairments in the last 20-plus years. The turmoil P/C insurers faced during this period were due to the end of a prolonged soft market and were exacerbated by the World Trade Center disaster. Workers' compensation and personal lines companies accounted for about half the impairments during the period.

Financial Impaired Companies (FICs) Defined

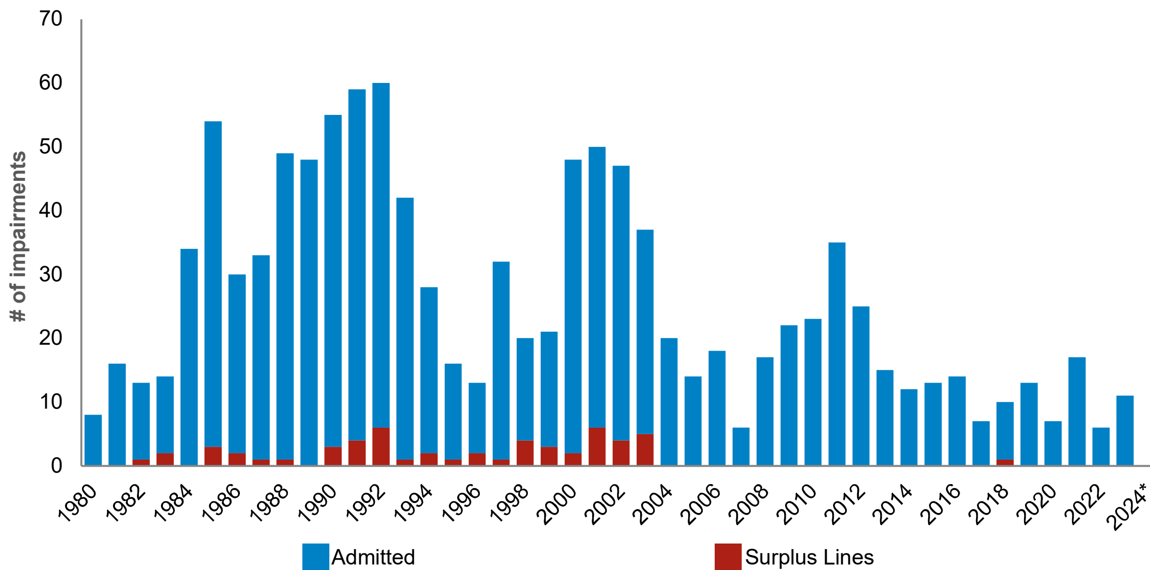
AM Best's method of identifying financially impaired insurance companies has evolved over time. AM Best currently defines a financial impairment as a situation in which an insurer has been placed, via court order, into conservation, rehabilitation, or insolvent liquidation, as of the date of the earliest court action. Supervisory actions taken by state insurance department regulators without a court order are not considered impairments, unless there are clear indications that policyholder payments may be delayed or otherwise limited in some manner through the regulatory oversight process.

A number of regulatory oversight actions may be taken with respect to troubled insurers for which court orders are not sought, such as required company action plans, a variety of forms and levels of supervision, or licensure actions. Companies may be subject to insurance department orders and actions on multiple occasions, particularly in certain jurisdictions. Although regulatory actions may suggest difficulties and impose constraints, they do not necessarily mean that an insurer is unable to meet its ongoing policy and contract obligations until such time as either clear direction is given by the regulator regarding delaying or limiting policy or contract payments, or a court order is sought to place the company into conservation, rehabilitation, or insolvent liquidation.

The growing use of confidential actions by state insurance regulators reluctant to disclose impairments until all avenues for rehabilitation (or all efforts to find buyers for troubled insurers) are exhausted likely obscures the number of recorded impairments. A reporting lag due to confidential actions could lead to a higher number of impairments over time. In generating the data for this report, AM Best not only looks at the most recent full year and the first half of the current year, but also reviews the impairments from one year prior (2022 in this case) to obtain the most updated impairment count. There is generally a lag of about 18 months between a confidential regulatory action and public disclosure of the impairment, usually the time between supervision and liquidation, assuming the confidential action ever becomes public at all. However, the number of impairments—six—reported for 2022 remains the same.

Exhibit 26

US P/C Annual # of Impairments, Admitted Companies vs Surplus Lines Companies



* 2024 data is as of June 28, 2024.
Historical data is unchanged from original calculations.
Source: AM Best data and research

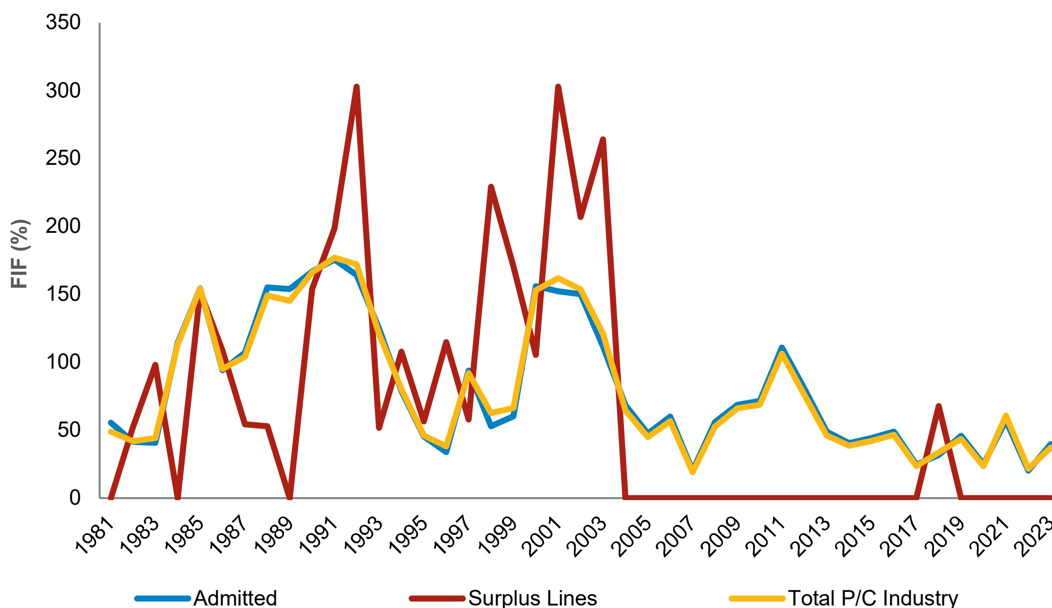
Limited Number of Surplus Lines Impairments

Very few surplus lines companies have become impaired over the last 20 years, although the segment's average FIF of 0.66 from 1980 to 2022 is only slightly lower than the admitted companies' 0.80 average. The closeness of these impairment numbers reflects the significantly higher impairment frequencies for surplus lines at certain times—particularly in 1992, 1998, 1999, and 2001-2003, as **Exhibits 27 and 28** show. Between 2004 and 2017, 241 admitted companies became impaired, but no company identified as a predominantly surplus lines company did. In addition to benefitting from their freedom of rate and form, the lack of impairments among surplus lines writers is most likely attributable to their underwriting discipline and ability to quickly develop new products. This discipline is underpinned by adherence to long-held underwriting standards and judicious risk selection, despite changes in risk profiles. Surplus lines insurers have generally refrained from undisciplined behavior amid heightened competitive market pressure during the softest periods of past market cycles. Such pressure could lead insurers to significantly underprice risks, along with making questionable risk selection choices. The discipline and favorable operating performance of most years has resulted in solid balance sheet strength, helping surplus lines companies avert impairments during more difficult operating periods.

The DPSL composite's underwriting profit increased almost 28% year over year in 2023, despite a sizable number of weather-related catastrophe events. Because surplus lines insurers generally provide coverage for higher-risk properties, the composite's underwriting profitability has varied more than that of the P/C industry (**Exhibits 29 and 30**), due in part to elevated losses for catastrophe-exposed properties due to weather events. Nevertheless, since 2019, the composite's combined ratios have been under 100, despite the greater frequency of severe weather events, including hurricanes and secondary perils such as wildfires, tornadoes, and severe convective storms. The performance demonstrates the segment's strength, which has been a factor in the lack of surplus lines impairments.

Exhibit 27

US P/C Financial Impairment Frequency, Admitted vs Surplus Lines Companies



FIF = Financial Impairment Frequency
Source: AM Best data and research

Exhibit 28

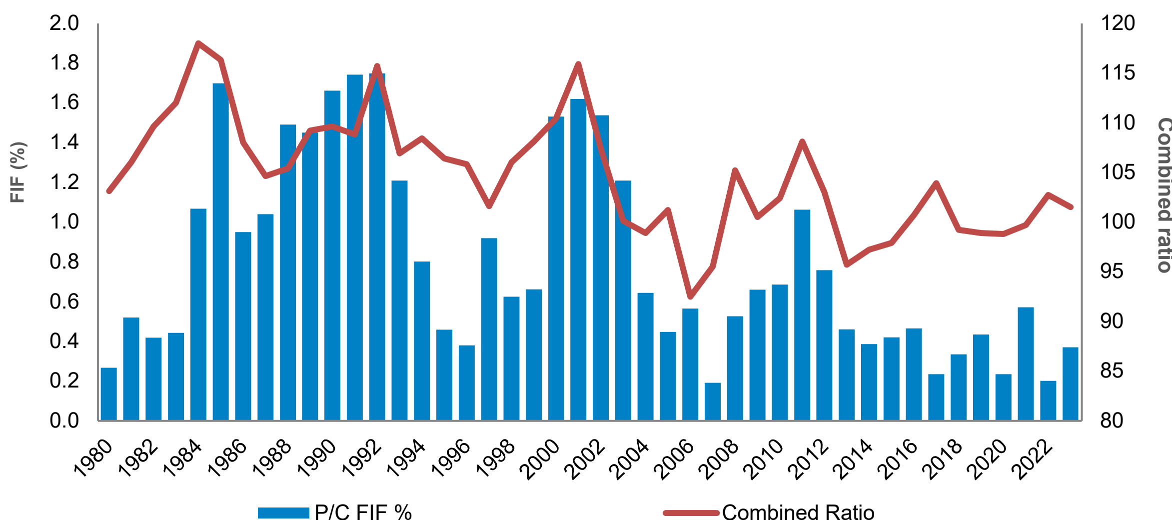
US P/C Industry vs Surplus Lines – # and Frequency of Financially Impaired Companies

	Financially Impaired Companies (FICs)			Financial Impairment Frequency (FIF)[2]		
	P/C Industry	Surplus Lines	Admitted Cos.[1]	P/C Industry	Surplus Lines	Admitted Cos.
1980	8	0	8	0.27	0.00	0.28
1981	16	0	16	0.49	0.00	0.55
1982	13	1	12	0.42	0.52	0.41
1983	14	2	12	0.44	0.98	0.40
1984	34	0	34	1.13	0.00	1.14
1985	54	3	51	1.54	1.52	1.54
1986	30	2	28	0.95	1.08	0.94
1987	33	1	32	1.04	0.54	1.07
1988	49	1	48	1.49	0.53	1.55
1989	48	0[3]	48	1.45	0.00	1.54
1990	55	3	52	1.66	1.54	1.67
1991	59	4	55	1.77	1.99	1.76
1992	60	6	54	1.72	3.03	1.64
1993	42	1	41	1.21	0.52	1.25
1994	28	2	26	0.80	1.08	0.79
1995	16	1	15	0.46	0.56	0.45
1996	13	2	11	0.38	1.15	0.34
1997	32	1	31	0.92	0.58	0.94
1998	20	4	16	0.62	2.29	0.53
1999	21	3	18	0.66	1.70	0.60
2000	48	2	46	1.53	1.05	1.56
2001	50	6	44	1.62	3.03	1.52
2002	47	4	43	1.54	2.07	1.50
2003	37	5	32	1.21	2.64	1.11
2004	20	0	20	0.64	0.00	0.68
2005	14	0	14	0.45	0.00	0.47
2006	18	0	18	0.56	0.00	0.60
2007	6	0	6	0.19	0.00	0.20
2008	17	0	17	0.53	0.00	0.56
2009	22	0	22	0.66	0.00	0.69
2010	23	0	23	0.68	0.00	0.71
2011	35	0	35	1.06	0.00	1.11
2012	25	0	25	0.76	0.00	0.81
2013	15	0	15	0.46	0.00	0.49
2014	12	0	12	0.39	0.00	0.40
2015	13	0	13	0.42	0.00	0.44
2016	14	0	14	0.47	0.00	0.49
2017	7	0	7	0.23	0.00	0.24
2018	10	1	9	0.33	0.68	0.32
2019	13	0	13	0.43	0.00	0.46
2020	7	0	7	0.23	0.00	0.25
2021	15	0	15	0.57	0.00	0.60
2022	6	0	6	0.20	0.00	0.21
2023	11	0	11	0.37	0.00	0.39

[1] Includes alternative markets.
[2] Failure frequencies are annualized.
[3] 1989 figures have been revised from prior reports to eliminate seven UK-domiciled companies.
Source: AM Best data and research.

Exhibit 29

US P/C Industry – Financial Impairment Frequency vs Combined Ratio



Note: Combined ratios are after policyholder dividends. A combined ratio below 100.0 indicates an underwriting profit; below 100.0 indicates an underwriting loss.
Source: AM Best data and research.

Greater financial and strategic resources dedicated to enterprise risk management have also helped surplus lines writers prevent impairments. Effective underwriting and the ability to secure ample reinsurance coverage have supported the segment's strong risk-adjusted capitalization, better insulating companies from periods of market hyper-competitiveness, particularly when surplus lines carriers and admitted carriers compete for high-quality specialty business. As with any market, competitive market conditions, macroeconomic headwinds, and external factors such as natural catastrophes have resulted in the underperformance of some surplus lines insurers. However, the use of enhanced modeling, data analytics, and other technologies, along with better management reporting and more vigorous oversight, has contributed to the lack of impairments despite these challenges.

AM Best remains guardedly optimistic about the favorable trend in surplus lines impairments. Factors such as inflationary pressure, the potential for long-term stock market volatility, and any weakening in economic conditions that negatively affect GDP growth could pressure insurance

Exhibit 30

US DPSL Composite – Financial Impairment Frequency vs Combined Ratio

	DPSL FIF (%)	Combined Ratio
1998	1.72	98.5
1999	1.70	99.8
2000	1.05	105.0
2001	3.54	105.3
2002	2.07	93.0
2003	2.64	92.2
2004	0.00	93.5
2005	0.00	93.2
2006	0.00	79.4
2007	0.00	76.1
2008	0.00	93.6
2009	0.00	93.1
2010	0.00	100.5
2011	0.00	105.1
2012	0.00	110.5
2013	0.00	92.4
2014	0.00	88.0
2015	0.00	100.5
2016	0.00	107.3
2017	0.00	107.1
2018	0.68	104.5
2019	0.00	99.4
2020	0.00	99.7
2021	0.00	94.1
2022	0.00	91.1
2023	0.00	90.0

Notes: FIF = financial impairment frequency. Combined ratios are after policyholder dividends. A combined ratio below 100 indicates an underwriting profit; above 100, an underwriting loss.
Source: AM Best data and research

companies' combined ratios—including the surplus lines companies'—and erode policyholders' surplus.

Section VI: Surplus Lines Fundamentals

This section is a primer for readers who are not familiar with the wholesale, specialty, and surplus lines market. Below, we discuss the market and the types of risks insured, industry participants, the distribution system, licensing and compliance, and market cycles.

The Surplus Lines Market

The surplus lines, or non-admitted, market functions as a supplemental market insuring risks that are not acceptable or desirable to the standard, or admitted, insurance market. The majority of the surplus lines business consists of commercial lines insurance but can also include personal lines such as homeowners insurance, more commonly in catastrophe-prone areas, where standard markets are not providing solutions. Businesses unable to obtain insurance coverage from admitted insurers also have the option of self-insuring or seeking solutions in the alternative risk transfer (ART) market.

The surplus lines market has historically been an innovator of new kinds of insurance designed to meet emerging risks. For example, surplus lines insurers were the first to provide coverages for cyber liability, environmental impairment liability, and employment practices liability. These and other types of policies that originated in the surplus lines market can now be obtained in either the admitted insurance market or the surplus lines market, depending on the characteristics of the particular risk. It is common for the surplus lines market to incubate risks until the standard market is willing and able to such that the surplus lines market expects new and emerging risks to eventually become part of the standard market.

When the insurance market or capacity becomes restricted and market conditions harden, the appetite of the admitted market carriers for some risks or lines of insurance tends to diminish, and business flows into the surplus lines market. Even in normal or soft markets, there will still be many risks that require surplus lines treatment. By fulfilling the role of insuring risks that the admitted market cannot or will not insure, the surplus lines market operates as a safety valve for the insurance marketplace.

Risks insured in the surplus lines market can be divided into four categories:

- New or emerging risks, which require special underwriting expertise and the flexibility that the surplus lines market affords—for example, the risks associated with technological innovations such as transportation network platforms and the nonmilitary use of unmanned aircraft systems (drones)
- Distressed risks, which are characterized by unfavorable attributes, such as a history of frequent losses or the potential for catastrophic losses, making them unacceptable to admitted insurers— for example, a vacant building in an area that experiences frequent crime losses; a shopping mall with frequent liability claims; or a manufacturer of explosives
- Unique risks, which are so specialized or unusual that admitted insurers are unwilling or unprepared to insure them—for example, a medical device manufacturer that needs products liability coverage for a new product in clinical trials
- High-capacity risks, which require high insurance limits that may exceed the capacity of the admitted market—for example, a chemical plant that could become legally liable for hundreds of millions of dollars in damages if a toxic chemical were to leak in large quantities

Surplus Lines Insurers

Surplus lines insurers are considered non-admitted insurers because they are not licensed, or "admitted," in the state of the insured's principal place of business or principal residence (for an individual). By federal law, the insured's "home state" is responsible for overseeing and regulating surplus lines transactions. Every US jurisdiction has a surplus lines law that permits specially licensed intermediaries (also referred to as surplus lines brokers or licensees) to "export" risks that cannot be placed in the admitted market to eligible surplus lines insurers.

Although not a licensed insurer in the insured's home state, a surplus lines insurer must be licensed in its state or country of domicile and be regulated for solvency by that jurisdiction—the same way that the state-based insurance regulatory system in the US ensures the financial stability of licensed or admitted insurers.

Historically, a surplus lines insurer could not write surplus lines insurance in its state of domicile. However, numerous states have changed their laws to allow an insurer recognized as a Domestic Surplus Lines Insurer (DSLI) to issue policies on risks located in the insurer's state of domicile.

Unlike admitted carriers, surplus lines insurers are not subject to the rate or form regulations of an insured's home state; a surplus lines insurer and its policyholder are free to use whatever policy forms and rates they agree upon. This approach ensures that the surplus lines market provides an open and flexible marketplace for insureds who are unable to fulfill their insurance requirements in the state's admitted market.

A state's minimum capitalization requirement for surplus lines insurers is generally higher than for admitted insurers. The enhanced capital requirement allows for greater protection for policyholders insured by surplus lines companies, given that the state guaranty fund protection provided to policyholders of admitted insurers that become insolvent is generally unavailable to surplus lines insureds.

Regulated aliens (including Lloyd's) are non-US domiciled insurers that must file financial statements and auditors' reports, the names of their US attorneys or other representatives, as well as information on their US trust accounts, with the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC). Regulated aliens must also meet IID criteria relating to capital and surplus, as well as underwriting and claims practices, and have a reputation of financial integrity. The NAIC publishes a Quarterly Listing of Alien Insurers naming the alien insurers that meet its criteria.

As a result of the Non-admitted and Reinsurance Reform Act (NRRA) of 2010, which was enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, a state may not prohibit a surplus lines broker from placing non-admitted (surplus lines) insurance with or procuring such insurance from a non-admitted insurer listed on the NAIC Quarterly Listing of Alien Insurers.

The Distribution System

For this report, the entities in the surplus lines distribution system are defined as follows:

- Retail producers, which can be either agents who represent the insurer or brokers who represent the insured
- Surplus lines intermediaries, which can operate as wholesale brokers, managing general agents (MGAs), underwriting managers, or Lloyd's coverholders or open market correspondents (OMCs)

- Program managers, which manage specialty or niche insurance products and market to retailers and wholesalers

These three types of organizations are the primary distributors for surplus lines insurers and play an important role in helping consumers obtain coverage that is unavailable in the admitted market. Surplus lines intermediaries are licensed in the states where the insured or risk is located and act as intermediaries between retail producers and surplus lines insurers. Typically, a surplus lines intermediary provides the retail producer and the insured access to the surplus lines market when the admitted market cannot provide coverage or the risk qualifies for export.

The basic difference between wholesale brokers and MGAs is that MGAs are authorized to underwrite and bind coverage on behalf of the surplus lines insurer through binding authority agreements. Wholesale brokers are authorized only to submit business to surplus lines insurers; the insurers then underwrite, quote, and bind the risk if they deem it acceptable. Some MGAs also have claims-handling responsibilities and may be involved in placing reinsurance.

A Lloyd's coverholder is a firm that has been authorized to bind coverage on behalf of underwriting syndicates at Lloyd's; a Lloyd's open market correspondent is a firm that has been approved to generate business for a Lloyd's broker for placement at Lloyd's on an open market basis. Before a risk can be exported, surplus lines laws generally require a "diligent search" of the admitted market, the details of which vary by state, to allow the admitted market the opportunity to insure the risk first. Upon demonstration from the retail agent to the surplus lines producer that admitted insurers have declined to underwrite the risk, it can be placed in the surplus lines market.

In some states, specific types of risks can be placed in the surplus lines market without the diligent search. Four states do not require diligent effort (Louisiana, Mississippi, Virginia, and Wisconsin), while other states have provided statutory or regulatory authority for specific exemptions. About 17 states have the authority to issue "export lists" of risks for which the insurance commissioner has determined there is little or no coverage available in the state's admitted market; the types of risks listed can be exported to an eligible surplus lines insurer without having to conduct a diligent search. Still, other states may provide certain limited statutory exemptions for specific risks (e.g., private flood insurance) in their insurance codes. Finally, in a few states, commercial lines deregulation laws allow for "automatic export" waivers, giving qualifying commercial buyers and their brokers or intermediaries immediate access to both the surplus lines market and a deregulated admitted market without a diligent search.

In a surplus lines transaction, the surplus lines intermediary is generally responsible for the following:

- Compliance with state surplus lines licensing requirements
- Filing an affidavit affirming that a diligent search has been conducted, if required
- Maintaining the records relating to the transaction
- Collecting and remitting premium taxes and related reporting to the insured's home state

In addition to the above, the surplus lines intermediary must have the following, among other things:

- The technical expertise about the risk to be insured
- Extensive insurance product and market knowledge
- The ability to respond quickly to changing market conditions
- Access to eligible surplus lines insurers

Licensing and Compliance

In a surplus lines transaction, the insured's home state has the greatest degree of regulatory oversight, and the onus of compliance is on the surplus lines intermediary—the directly regulated entity in the transaction. In addition to being a licensed (resident or nonresident) agent or broker, a surplus lines broker or licensee must:

- In many states, pass a written surplus lines examination to secure a resident license
- Pay an annual licensing fee
- Determine whether the risk meets all the requirements for placement with a surplus lines insurer
- Collect and remit the state's surplus lines premium taxes

Furthermore, the surplus lines intermediary is responsible for determining whether the non-admitted insurer insuring the risk meets the insured's home state eligibility requirements. A surplus lines intermediary may be held liable for payment of claims when a risk is placed with a surplus lines insurer not eligible to receive the risk or with one that is financially unsound when the risk is bound. However, depending on state law, there may be no cause of action against a broker who exercises due diligence or care in selecting the insurer, even if the insurer were to become insolvent sometime after.

Surplus lines policies must disclose that a non-admitted insurer is providing coverage and that guaranty fund protection will not be available if the insurer becomes insolvent.

Market Cycles

In general, the same market conditions that affect admitted insurance will also affect surplus lines insurance, sometimes significantly. When conditions in the admitted market harden, or become more difficult, a sizable amount of business will flow from it to the surplus lines market. In a hard market, underwriters tend to become more conservative and restrictive, scrutinizing loss exposures more carefully, to determine how they can write a particular risk at a profit. In these circumstances, admitted carriers tend to insure only those risks they are most comfortable assuming and to avoid risks that are more complex or with which they have little or no experience. As the market cycle progresses, competition heats up and market conditions in the admitted market soften, with producers and insurers trying to maintain market share by lowering rates, expanding coverage, and offering additional services at the expense of profit margins. During this soft market phase, consumers' bargaining power increases significantly, causing a drop in rates and relaxation of coverage limitations or exclusions, at which point business begins to return to the admitted market.

Over time, as margins deteriorate to unprofitable levels, competitive pricing pressures erode the admitted market's capacity, which again leads to a hardening of the market, and the cycle continues.

Appendix A

US Surplus Lines – Top 50 Groups and Lloyd's, 2023

Ranked by 2023 nonadmitted direct premiums written; ratings are as of August 15, 2024.
($ thousands)

Rank	AMB #	Group/Company	Type	Surplus Lines DPW	% Change in DPW 2022/2023	FSR	Affiliation Code	Best's FSR Implication/ Outlook
	85202	**Lloyd's**		**19,947,360**	**28.8**	**A+**		**Stable**
1	**811**	**Berkshire Hathaway Ins Group**		**8,367,227**	**21.1**			
1	20650	AZGUARD Insurance Company	PROF	33,057		A+	p	Stable
1	12334	BHHC Special Risks Ins Co	PROF	1,692		A++	r	Stable
1	1960	Capitol Specialty Ins Corp	PROF	351,915		A	g	Stable
1	13859	Covington Specialty Ins Co	PROF	294,309		A++	r	Stable
1	308	Cypress Insurance Company	MISC	2,272		A++	g	Stable
1	22013	Fair American Select Insurance Co	PROF	60,465		A++	r	Stable
1	3806	General Star Indemnity Co	PROF	956,747		A++	g	Stable
1	12619	Landmark American Ins Co	PROF	2,081,532		A++	r	Stable
1	2540	Mount Vernon Fire Ins Co	PROF	238,692		A++	g	Stable
1	18657	Mount Vernon Specialty Ins Co	PROF	14,488		A++	g	Stable
1	2428	National Fire & Marine Ins Co	PROF	4,249,701		A++	g	Stable
1	1824	National Indem Co of the South	MISC	3,695		A++	g	Stable
1	22320	Radnor Specialty Insurance Co	PROF	8,380		A++	g	Stable
1	3736	U.S. Underwriters Insurance Co	PROF	48,858		A++	g	Stable
1	2541	United States Liability Ins Co	MISC	21,426		A++		Stable
2	**18540**	**American International Group**		**4,955,441**	**9.2**			
2	3535	AIG Specialty Insurance Co	PROF	1,481,244		A	r	Stable
2	2350	Lexington Insurance Company	PROF	3,006,064		A	p	Stable
2	2598	Tudor Insurance Company	PROF	1,623		A	g	Stable
2	3132	Western World Insurance Co	PROF	466,510		A	g	Stable
3	**3116**	**Fairfax Financial (USA) Group**		**4,047,592**	**7.0**			
3	12525	Allied World Asr Co (US) Inc	PROF	631,450		A	g	Positive
3	12526	Allied World National Assur Co	MISC	285,258		A	g	Positive
3	11719	Allied World Surplus Lines Ins	PROF	677,354		A	g	Positive
3	11123	Crum & Forster Specialty Ins	PROF	1,553,946		A	r	Stable
3	11883	First Mercury Insurance Co	PROF	3,430		A	r	Stable
3	12631	Hilltop Specialty Insurance Co	PROF	16,769		A+	g	Stable
3	14995	Hudson Excess Insurance Co	PROF	658,665		A+	g	Stable
3	12258	Seneca Specialty Ins Co	PROF	220,720		A	r	Stable
4	**18468**	**Markel Insurance Group**		**3,681,953**	**-4.0**			
4	3759	Evanston Insurance Company	PROF	2,680,174		A	g	Stable
4	524	Superior Specialty Ins Co	PROF	20,626		A	p	Stable
4	13105	United Specialty Insurance Co	PROF	981,153		A	p	Stable
5	**18252**	**W. R. Berkley Insurance Group**		**3,546,945**	**10.4**			
5	3026	Admiral Insurance Company	PROF	1,056,527		A+	r	Positive
5	14158	Berkley Assurance Company	PROF	364,356		A+	r	Positive
5	21577	Berkley Prestige Insurance Co	PROF	1,685		A+	r	Positive
5	11296	Berkley Specialty Insurance Co	PROF	196,908		A+	r	Positive
5	12118	Gemini Insurance Company	PROF	924,294		A+	r	Positive
5	11231	Great Divide Insurance Co	MISC	9,391		A+	r	Positive
5	21258	Intrepid Specialty Ins Co	MISC	10,617		A+	r	Positive
5	1990	Nautilus Insurance Company	PROF	983,166		A+	r	Positive

Appendix A (Cont'd/.)

US Surplus Lines – Top 50 Groups and Lloyd's, 2023

Ranked by 2023 nonadmitted direct premiums written; ratings are as of August 15, 2024.
($ thousands)

Rank	AMB #	Group/Company	Type	Surplus Lines DPW	% Change in DPW 2022/2023	FSR	Affiliation Code	Best's FSR Implication/ Outlook
6	**18498**	**Chubb INA Group**		**3,181,112**	**14.4**			
6	2713	Chubb Custom Insurance Co	PROF	357,436		A++	g	Stable
6	3761	Executive Risk Indemnity Inc.	MISC	134		A++	g	Stable
6	11251	Executive Risk Specialty Ins	PROF	100		A++	g	Stable
6	2084	Federal Insurance Company	MISC	1		A++		Stable
6	3510	Illinois Union Insurance Co	PROF	915,360		A++	g	Stable
6	4433	Westchester Surplus Lines Ins	PROF	1,908,082		A++	g	Stable
7	**5987**	**Nationwide Prop & Cas Group**		**2,866,217**	**2.9**			
7	12051	Harleysville Ins Co of NY	PROF	170,656		A	r	Stable
7	1931	Scottsdale Indemnity Company	MISC	50,470		A	r	Stable
7	3292	Scottsdale Insurance Company	PROF	2,609,800		A	r	Stable
7	12121	Scottsdale Surplus Lines Ins	PROF	35,292		A	r	Stable
8	**18756**	**Starr International Group**		**2,712,958**	**48.9**			
8	13977	Starr Surplus Lines Ins Co	PROF	2,712,958		A	g	Stable
9	**60**	**Liberty Mutual Insurance Cos**		**2,263,926**	**0.4**			
9	13866	Ironshore Specialty Ins Co	PROF	1,331,025		A	r	Stable
9	12078	Liberty Surplus Ins Corp	PROF	932,901		A	r	Stable
10	**18557**	**XL America Companies**		**1,963,766**	**-3.3**			
10	11340	Indian Harbor Insurance Co	PROF	1,962,057		A+	g	Stable
10	789	T.H.E. Insurance Company	MISC	1,709		A+	g	Stable
11	**18777**	**AXIS US Operations**		**1,946,325**	**23.3**			
11	12515	AXIS Surplus Insurance Company	PROF	1,946,325		A	g	Stable
12	**18878**	**Sompo Holdings US Group**		**1,942,572**	**6.5**			
12	13033	Endurance American Spec Ins Co	PROF	1,942,572		A+	g	Stable
12	743	Lexon Insurance Company	MISC	0		A+	r	Stable
13	**14027**	**Kinsale Insurance Company**		**1,568,815**	**42.3**			
13	14027	Kinsale Insurance Company	PROF	1,568,815		A		Positive
14	**18753**	**Munich-American Hldg Corp Cos**		**1,543,920**	**37.1**			
14	2666	American Modern Select Ins Co	PROF	240		A+	g	Stable
14	3763	American Western Home Ins Co	PROF	660		A+	g	Stable
14	20791	Bridgeway Insurance Co	PROF	535,290		A+	g	Stable
14	14838	HSB Specialty Insurance Co	PROF	27,347		A++	r	Stable
14	12170	Princeton E&S Lines Ins Co	PROF	980,284		A+	g	Stable
15	**18733**	**Tokio Marine US PC Group**		**1,537,326**	**2.4**			
15	3286	Houston Casualty Company	PROF	1,068,975		A++	g	Stable
15	21159	PURE Specialty Exchange	PROF	68,824		A		Stable
15	22607	Safety Specialty Insurance Co	PROF	71,807		A++	g	Stable
15	763	Tokio Marine Specialty Ins Co	PROF	327,721		A++	p	Stable
16	**18313**	**CNA Insurance Companies**		**1,482,166**	**18.5**			
16	3538	Columbia Casualty Company	PROF	1,482,166		A	g	Stable
17	**18484**	**Arch Insurance Group**		**1,467,393**	**9.6**			
17	12523	Arch Specialty Insurance Co	PROF	1,467,393		A+	g	Stable
18	**18549**	**Zurich Ins US PC Group**		**1,454,560**	**8.2**			
18	2147	Empire Fire and Marine Ins Co	MISC	950		A+	g	Positive
18	2148	Empire Indemnity Ins Co	MISC	27		A+	g	Positive
18	3557	Steadfast Insurance Company	PROF	1,453,163		A+	g	Positive
18	3565	Zurich Amer Ins Co of Illinois	MISC	420		A+	g	Positive

Appendix A (Cont'd/.)

US Surplus Lines – Top 50 Groups and Lloyd's, 2023

Ranked by 2023 nonadmitted direct premiums written; ratings are as of August 15, 2024.

($ thousands)

Rank	AMB #	Group/Company	Type	Surplus Lines DPW	% Change in DPW 2022/2023	FSR	Affiliation Code	Best's FSR Implication/ Outlook
19	**18975**	**Core Specialty Insurance Group**		**1,402,161**	**78.5**			
19	11432	StarStone Specialty Ins Co	PROF	1,402,161		A-	g	Positive
20	**18674**	**Travelers Group**		**1,384,920**	**43.0**			
20	4869	Northfield Insurance Co	PROF	363,223		A++	g	Stable
20	4025	Northland Casualty Company	MISC	1,437		A++	g	Stable
20	712	Northland Insurance Company	MISC	1		A++	g	Stable
20	3592	St. Paul Surplus Lines Ins Co	PROF	19,788		A++	g	Stable
20	241	Travelers Excess & Surp Lines	PROF	999,722		A++	g	Stable
20	11763	Travelers Specialty Ins Co	PROF	750		A++	g	Stable
21	**5696**	**Everest Re U.S. Group**		**1,250,621**	**6.4**			
21	12096	Everest Indemnity Insurance Co	PROF	1,250,621		A+	g	Stable
22	**4835**	**Great American P & C Ins Group**		**1,237,661**	**14.4**			
22	3735	Great Amer Risk Sol Surplus	PROF	313,137		A+	r	Stable
22	3837	Great American E & S Ins Co	PROF	843,203		A+	r	Stable
22	3293	Great American Fidelity Ins Co	PROF	72,199		A+	r	Stable
22	14150	Mid-Continent E&S Ins Co	PROF	9,122		A+	r	Stable
23	**18944**	**Trisura US Insurance Group**		**1,236,108**	**5.5**			
23	21059	Bricktown Specialty Ins Co	PROF	40,494		A-	g	Stable
23	20575	Trisura Specialty Insurance Co	PROF	1,195,614		A-	g	Stable
24	**48**	**Hartford Insurance Group**		**1,174,817**	**13.0**			
24	2611	Hartford Ins Co of Illinois	MISC	2,400		A+	p	Positive
24	12563	Maxum Indemnity Company	PROF	191,995		A+	r	Positive
24	10761	Navigators Specialty Ins Co	PROF	859,332		A+	r	Positive
24	11654	Pacific Insurance Company, Ltd	PROF	120,382		A+	p	Positive
25	**18626**	**James River Group**		**1,067,494**	**9.9**			
25	22509	Falls Lake Fire & Casualty Co	MISC	60,474		A-	g	Negative
25	14313	Falls Lake National Ins Co	MISC	14,084		A-	g	Negative
25	12604	James River Insurance Co	PROF	992,936		A-	g	Negative
26	**5658**	**QBE North America Ins Group**		**1,059,855**	**-13.7**			
26	12562	QBE Specialty Insurance Co	PROF	1,059,855		A	p	Stable
27	**18991**	**BAMR US PC Group**		**1,042,495**	**11.8**			
27	2803	American Natl General Ins Co	MISC	51,519		A u	g	Developing
27	11700	American Natl Lloyds Ins Co	PROF	144,162		A u	g	Developing
27	3283	Colony Insurance Company	PROF	642,185		A-	g	Positive
27	2619	Colony Specialty Insurance Co	MISC	8,333		A-	g	Positive
27	11035	Peleus Insurance Company	PROF	196,297		A-	g	Positive
28	**18533**	**AmTrust Group**		**987,838**	**15.1**			
28	11693	Associated Industries Ins Co	PROF	647,284		A-	r	Stable
28	4070	Republic-Vanguard Ins Co	PROF	265,546		A-	r	Stable
28	2522	Security National Ins Co	MISC	49,577		A-	p	Stable
28	2011	Sierra Specialty Insurance Co	MISC	25,430		A-	r	Stable
29	**18782**	**MS&AD US Insurance Group**		**873,588**	**137.7**			
29	20633	MS Transverse Specialty Ins Co	PROF	790,721		A		Stable
29	3746	MSIG Specialty Ins USA Inc.	PROF	82,867		A+	g	Stable
30	**18783**	**Aspen US Insurance Group**		**827,092**	**-4.4**			
30	12630	Aspen Specialty Insurance Co	PROF	827,092		A	g	Stable
31	**3883**	**RLI Group**		**794,051**	**28.5**			
31	2591	Mt. Hawley Insurance Company	PROF	794,051		A+	g	Stable

Appendix A (Cont'd/.)

US Surplus Lines – Top 50 Groups and Lloyd's, 2023

Ranked by 2023 nonadmitted direct premiums written; ratings are as of August 15, 2024.
($ thousands)

Rank	AMB #	Group/Company	Type	Surplus Lines DPW	% Change in DPW 2022/2023	FSR	Affiliation Code	Best's FSR Implication/ Outlook
32	**18429**	**Allianz US PC Insurance Cos**		**762,626**	**23.4**			
32	2618	Allianz Underwriters Ins Co	PROF	220,387		A+	g	Stable
32	1892	Fireman's Fund Indemnity Corp	PROF	336,483		A+	g	Stable
32	2267	Interstate Fire & Casualty Co	PROF	205,756		A+	g	Stable
33	**18868**	**Clear Blue Insurance Group**		**727,042**	**8.4**			
33	22328	Clear Blue Specialty Ins Co	PROF	631,736		A-		Stable
33	20920	Highlander Specialty Ins Co	PROF	95,306		A-	g	Stable
34	**4294**	**The Cincinnati Insurance Cos**		**725,286**	**20.1**			
34	13843	Cincinnati Specialty Undrs Ins	PROF	725,286		A+	g	Stable
35	**3262**	**Swiss Reinsurance Group**		**656,171**	**-26.0**			
35	11135	North American Capacity Ins Co	PROF	367,415		NR		
35	10783	Swiss Re Corp Sol Capacity Ins	PROF	288,756		A+	g	Stable
36	**18680**	**AF Group**		**640,996**	**241.8**			
36	13044	Accident Fund General Ins Co	MISC	12,160		A	r	Stable
36	12011	Ameritrust Insurance Corp	PROF	4,156		A	p	Stable
36	3780	Century Surety Company	PROF	446,367		A	p	Stable
36	2180	ProCentury Insurance Company	MISC	3,720		A	p	Stable
36	11876	Third Coast Insurance Company	PROF	174,593		A	r	Stable
37	**18458**	**Intact US Insurance Group**		**607,339**	**56.3**			
37	14398	Homeland Ins Co of Delaware	PROF	43,132		A+	r	Stable
37	10604	Homeland Ins Co of New York	PROF	564,207		A+	r	Stable
38	**3873**	**SCOR US Group**		**599,868**	**-3.6**			
38	2837	General Security Indem Co AZ	PROF	599,868		A u	g	Developing
39	**18943**	**AU Holding Company Group**		**595,639**	**37.3**			
39	22281	Texas Insurance Company	PROF	595,639		A-	p	Negative
40	**18915**	**Ascot Insurance U.S. Group**		**586,553**	**27.7**			
40	20561	Ascot Insurance Company	MISC	1,620		A	g	Stable
40	11545	Ascot Specialty Insurance Co	PROF	584,933		A	g	Stable
41	**18460**	**CSAA Insurance Group**		**586,229**	**32.0**			
41	20790	Mobilitas Ins Co of Arizona	PROF	505,424		A	r	Negative
41	20628	Mobilitas Insurance Company	PROF	80,805		A	r	Negative
42	**18965**	**Accelerant US Holdings Group**		**558,191**	**28.3**			
42	20951	Accelerant Specialty Ins Co	PROF	558,191		A-	g	Stable
43	**18717**	**Skyward Specialty Ins Group**		**535,531**	**26.2**			
43	13825	Houston Specialty Insurance Co	PROF	535,514		A-		Stable
43	14363	Oklahoma Specialty Ins Co	PROF	17		A-	r	Stable
44	**124**	**American Family Ins Group**		**532,506**	**50.9**			
44	22142	Homesite Ins Co of Florida	PROF	295,027		A	r	Negative
44	22141	Homesite Insurance Company	MISC	218,470		A	r	Negative
44	13037	MSA Insurance Company	PROF	19,010		A	r	Negative
45	**18738**	**Randall Group**		**523,483**	**18.3**			
45	20930	Accredited Specialty Ins Co	PROF	523,483		A- u	g	Stable
46	**419**	**Coaction Specialty Ins Group**		**513,068**	**37.4**			
46	728	Gotham Insurance Company	PROF	376,520		A-	g	Stable
46	13309	Southwest Marine & Gen Ins Co	PROF	136,548		A-	g	Stable
47	**4354**	**Auto-Owners Insurance Group**		**496,838**	**29.3**			
47	1780	Atlantic Casualty Insurance Co	PROF	496,838		A+		Stable

Appendix A (Cont'd/.)

US Surplus Lines – Top 50 Groups and Lloyd's, 2023

Ranked by 2023 nonadmitted direct premiums written; ratings are as of August 15, 2024.

($ thousands)

Rank	AMB #	Group/Company	Type	Surplus Lines DPW	% Change in DPW 2022/2023	FSR	Affiliation Code	Best's FSR Implication/ Outlook
48	**730**	**Westfield Group**		**480,691**	**76.0**			
48	20985	Westfield Specialty Ins Co	PROF	480,691		A	p	Negative
49	**18954**	**Palomar Holdings US Group**		**478,551**	**25.5**			
49	20907	Palomar Excess and Surplus Ins	PROF	478,551		A-	p	Stable
50	**734**	**Old Republic Insurance Group**		**458,806**	**23.8**			
50	3769	Old Republic Union Ins Co	PROF	458,806		A+		Stable

FSR = Financial strength rating; u = under review

Affiliation codes; g = group; p = pooled; r = reinsured

Source: AM Best data and research

Appendix B

US DPSL Composite Companies

X denotes domestic professional surplus lines companies (those whose surplus lines business generates more than 50% of their total premium).

Company	2019	2020	2021	2022	2023
Accelerant Specialty Ins. Co.				X	X
Acceptance Casualty Ins. Co.	X	X	X	X	X
Acceptance Indemnity Ins. Co.	X	X	X	X	X
Accredited Specialty Ins. Co.				X	X
Admiral Ins. Co.	X	X	X	X	X
Adriatic Ins. Co.	X	X	X	X	X
Agent Alliance Ins. Co.	X	X	X	X	X
AIG Specialty Ins. Co.	X	X	X	X	X
AIX Specialty Ins. Co.	X	X	X	X	X
Allianz Underwriters Ins. Co.	X	X	X	X	X
Allied World Asr Co. (US) Inc.		X	X	X	X
Allied World Surplus Lines Ins.	X	X	X	X	X
AM Specialty Insurance Company					X
American Empire Surplus Lines	X	X	X	X	X
American Federation Ins. Co.					X
American Modern Select Ins. Co.					X
American Modern Surplus Lines Ins. Co.	X				
American Mutual Share Ins. Corp.	X	X	X	X	X
American Natl Lloyds Ins. Co.				X	X
American Safety Ins. Co.	X	X	X	X	X
American Western Home Ins Co					X
Ameritrust Insurance Corp					X
Appalachian Ins. Co.	X				
Arch Specialty Ins. Co.	X	X	X		X
Ascot Specialty Ins. Co.				X	X
Aspen Specialty Ins. Co.	X	X	X	X	X
Associated Industries Ins. Co.	X	X	X	X	X
Atain Ins. Co.	X	X			
Atain Specialty Ins. Co.	X	X	X	X	X
At-Bay Specialty Insurance Co					X
Ategrity Specialty Ins. Co.		X	X	X	X
Atlantic Casualty Ins. Co.	X	X	X	X	X
AXIS Surplus Ins. Co.	X	X	X	X	X
AZGUARD Ins. Co.				X	X
Bankers Specialty Insurance Co					X
Berkley Assurance Co.	X	X	X	X	X
Berkley Prestige Insurance Co					X
Berkley Specialty Ins. Co.	X	X	X	X	X
BHHC Special Risks Ins Co					X
Blackboard Specialty Ins. Co.	X	X	X		
Blue Hill Specialty Ins. Co.				X	X
Bricktown Specialty Ins Co					X
Bridgeway Ins. Co.				X	X
Burlington Ins. Co.	X	X	X	X	X
Canal Indemnity Co.	X	X			
Canopius US Ins., Inc.	X	X	X	X	X
Capitol Specialty Ins. Corp.	X	X	X	X	X
Catlin Specialty Ins. Co.	X	X			
Centennial Casualty Co.					X
Centerline Ins. Co.					X
Centerline Prop and Cas Ins. Co.				X	
Century Surety Co.	X	X	X	X	X
Champlain Specialty Ins Co					X
Chubb Custom Ins. Co.	X	X	X	X	X
Cincinnati Specialty Undrs. Ins.	X	X	X	X	X
Clear Blue Specialty Ins. Co.	X	X	X	X	X
CM Vantage Specialty Ins. Co.	X	X	X	X	X
Colony Ins. Co.	X	X	X	X	X
Columbia Casualty Co.	X	X	X	X	X
Commercial Alliance Ins. Co.					X
Concert Specialty Ins. Co.					X
Concord Specialty Ins. Co.				X	X
Conifer Ins. Co.		X	X	X	
Coverys Specialty Ins. Co.	X	X	X	X	X
Covington Specialty Ins. Co.	X	X	X	X	X
Crum & Forster Specialty Ins.	X	X	X	X	X
CUMIS Specialty Ins. Co. Inc.	X	X	X	X	X
Dorchester Ins. Co., Ltd				X	X
Dover Bay Specialty Ins. Co.	X	X	X	X	X
Empire Indemnity Ins. Co.	X	X	X		
Endurance American Spec Ins. Co.	X	X	X	X	X
Evanston Ins. Co.	X	X	X	X	X
Everest Indemnity Ins. Co.	X	X	X	X	X
Everspan Indemnity Ins. Co.				X	X
Executive Risk Specialty Ins.	X	X		X	X
Fair American Select Ins. Co.	X	X	X	X	X
Firemen's Fund Indemnity Corp.					X
First Mercury Ins. Co.	X	X	X	X	X
First Specialty Ins. Corp.	X	X	X	X	
Fortegra Specialty Ins. Co.					X
Frontline Ins. Unlimited Co.		X	X	X	X
Gemini Ins. Co.	X	X	X	X	X
General Security Indem Co. AZ	X	X	X	X	X
General Star Indemnity Co.	X	X	X	X	X
GeoVera Specialty Ins. Co.	X	X	X	X	X
GNY Custom Ins. Co.	X	X	X	X	X
Gotham Ins. Co.	X	X	X	X	X
Gray Surplus Lines Ins. Co.				X	X
Great Amer Risk Sol Surplus					X
Great American E&S Ins. Co.	X	X	X	X	X
Great American Fidelity Ins. Co.	X	X	X	X	X
GuideOne National Ins. Co.	X	X	X	X	X
Guilford Ins. Co.	X	X	X		
Hallmark National Ins. Co.	X	X	X	X	X
Hallmark Specialty Ins. Co.	X	X	X	X	X
Hamilton Select Ins. Inc.					X
Harleysville Ins Co of NY					X
HDI Specialty Ins. Co.					X
Highlander Specialty Ins. Co.					X
Hilltop Specialty Ins. Co.					X
Homeland Ins. Co. NY	X	X	X	X	X
Homeland Ins. Co. of DE	X	X	X	X	X
Homesite Ins. Co. of Florida					
Housing Specialty Ins. Co. Inc.	X	X	X	X	X
Houston Casualty Co.	X	X	X	X	X
Houston Specialty Ins. Co.	X	X	X	X	X
HSB Specialty Ins. Co.	X	X	X	X	X
Hudson Excess Ins. Co.	X	X	X	X	X
Hudson Specialty Ins. Co.	X	X	X		
Illinois Union Ins. Co.	X	X	X	X	X
Independent Specialty Ins. Co.		X	X	X	X
Indian Harbor Ins. Co.	X	X	X	X	X
Insurors Indemnity Select Ins.				X	X
Interstate Fire & Casualty Co.	X	X	X	X	X
Ironshore Specialty Ins. Co.	X	X	X	X	X
ISMIE Indemnity Co.				X	X

Appendix B

US DPSL Composite Companies

X denotes domestic professional surplus lines companies (those whose surplus lines business generates more than 50% of their total premium).

Company	2019	2020	2021	2022	2023
James River Casualty Co.	X	X	X	X	
James River Ins. Co.	X	X	X	X	X
Kinsale Ins. Co.	X	X	X	X	X
Knight Specialty Ins. Co.	X	X	X	X	X
KW Specialty Ins. Co.				X	X
Landmark American Ins. Co.	X	X	X	X	X
Lexington Ins. Co.	X	X	X	X	X
Liberty Surplus Ins. Corp.	X	X	X	X	X
LIO Specialty Ins. Co.					X
Maxum Indemnity Co.	X	X	X	X	X
Medical Security Ins. Co.	X	X	X	X	X
Mercer Ins. Co.	X	X	X	X	X
Merchants National Ins. Co.	X	X	X	X	X
Mesa Underwriters Spec Ins. Co.	X	X	X	X	X
Mid-Continent Excess & Surplus	X	X	X	X	X
Mobilitas Ins. Co.				X	X
Mobilitas Ins. Co. of Arizona				X	X
MSA Ins. Co.	X	X	X	X	X
MSIG Specialty Ins. USA Inc.		X	X	X	X
Mt Hawley Ins. Co.	X	X	X	X	X
Mt Vernon Fire Ins. Co.	X	X	X	X	X
Mt. Vernon Specialty Ins. Co.	X	X	X	X	X
NAMIC Ins. Co., Inc.	X	X	X	X	X
National Fire & Marine Ins. Co.	X	X	X	X	X
National Guaranty Ins. Co. of Vermont	X	X	X	X	X
Nautilus Ins. Co.	.X	X	X	X	X
Navigators Specialty Ins. Co.	X	X	X	X	X
Noetic Specialty Ins. Co.	X	X	X		
NORCAL Specialty Ins. Co.				X	X
North American Capacity Ins. Co.	X	X	X	X	X
North Light Specialty Ins. Co.	X	X	X	X	X
Northfield Ins. Co.	X	X	X	X	X
Obsidian Specialty Ins. Co.				X	X
Oklahoma Specialty Ins. Co.	X	X	X	X	X
Old Republic Union Ins. Co.	X	X	X	X	X
Orion 180 Ins. Co.					X
Pacific Ins. Co., Ltd	X	X	X	X	X
Palms Specialty Ins Co, Inc.					X
Palomar Excess and Surplus Ins.				X	X
Peleus Ins. Co.	X	X	X	X	X
Penn-America Ins. Co.	X	X	X	X	X
Penn-Patriot Ins. Co.	X	X	X	X	X
Penn-Star Ins. Co.	X	X	X	X	X
Prime Ins. Co.	X	X	X	X	X
Princeton Excess & Surplus Lines	X	X	X	X	X
ProAssurance Specialty Ins. Co.	X	X	X	X	X
Professional Security Ins. Co.	X	X	X	X	X
Protective Specialty Ins. Co.	X	X	X	X	X
PURE Specialty Exchange					X
QBE Specialty Ins. Co.	X	X	X	X	X
Radnor Specialty Ins. Co.	X	X	X	X	X

Company	2019	2020	2021	2022	2023
Rainier Ins. Co.				X	X
Republic-Vanguard Ins. Co.	X	X	X	X	X
Richmond National Ins. Co.					X
Rockhill Ins. Co.	X	X	X		
Rockingham Specialty, Inc.					X
Safety Specialty Ins. Co.	X	X	X	X	X
Savers Property and Cas Ins. Co.	X				
Scottsdale Ins. Co.	X	X	X	X	X
Scottsdale Surplus Lines Ins.	X	X	X	X	X
Seneca Specialty Ins. Co.	X	X	X	X	X
Sirius Point Specialty In Corp.					X
Southwest Marine & General	X	X	X	X	X
Specialty Builders Ins Co					X
Spinnaker Specialty Ins Co					X
St. Paul Surplus Lines Ins. Co.	X	X	X	X	X
Starr Surplus Lines Ins. Co.	X	X	X	X	X
StarStone Specialty Ins. Co.	X	X	X	X	X
Steadfast Ins. Co.	X	X	X	X	X
Summit Specialty Ins. Co.					X
Superior Specialty Ins. Co.					X
Sutton Specialty Ins. Co.					X
Swiss Re Corp. Sol Capacity Ins.					X
TDC National Assurance Co.	X	X	X		X
TDC Specialty Ins. Co.	X	X	X	X	X
Texas Insurance Company					X
Third Coast Insurance Company					X
TM Specialty Ins. Co.		X			
Tokio Marine GRV Re, Inc.	X	X			
Tokio Marine Specialty Ins. Co.	X	X	X	X	X
Topa Insurance Company					X
Transverse Specialty Ins. Co.					X
Travelers Excess & Surplus Lines	X	X	X	X	X
Travelers Specialty Ins Co					X
Trisura Specialty Ins. Co.	X	X	X	X	X
Tudor Ins. Co.	X	X	X	X	X
United National Ins. Co.	X	X	X	X	X
United National Specialty Ins. Co.	X	X	X		
United Specialty Ins. Co.	X	X	X	X	X
Upland Specialty Ins. Co.					
US Underwriters Ins. Co.	X	X	X	X	X
Vantage Risk Specialty Ins. Co.					X
Vault E&S Ins. Co.					X
Velocity Specialty Ins Co					X
VerTerra Ins. Co.	X				
Victor Insurance Exchange					X
Voyager Indemnity Ins. Co.	X	X	X	X	X
Watford Specialty Ins. Co.	X	X	X	X	X
Westchester Surplus Lines Ins.	X	X	X	X	X
Western World Ins. Co.	X	X	X	X	X
Westfield Specialty Ins Co					X
Wilshire Ins. Co.	X	X	X	X	X

Source: AM Best data and research

Appendix C

US Surplus Lines – State Survey Capital & Surplus Requirements for Surplus Lines Companies

	Domestic Company Minimum Surplus	Alien Company Minimum Surplus	Alien Companies Required to Maintain a Trust Fund	Pending Revisions
Alabama	$15,000,000	(1)	No	No
Alaska	15,000,000	(1)	Yes: $2,500,000	No
Arizona	15,000,000	(1)	Yes: $2,500,000	No
Arkansas	15,000,000	(1)	No	No
California	45,000,000	(1)	No	No
Colorado	15,000,000	(1)	No	No
Connecticut	15,000,000	(1)	No	No
Delaware	15,000,000	(1)	No	No
Dist of Columbia	15,000,000	(1)	No	No
Florida	15,000,000	$15,000,000	Yes: $5,400,000	No
Georgia	15,000,000	(1)	No	No
Hawaii	15,000,000	(1), (2)	Yes: $5,400,000	No
Idaho	15,000,000	(1)	No	No
Illinois	15,000,000	(1)	No	No
Indiana	(3)	(1)	No	No
Iowa	15,000,000	(1)	No	No
Kansas	4,500,000	(1)	No	No
Kentucky	15,000,000	(1)	No	No
Louisiana	15,000,000	(1), (2)	Yes: $5,400,000	No
Maine	15,000,000	(1)	No	No
Maryland	15,000,000	(1)	No	No
Massachusetts	15,000,000	(1)	No	No
Michigan	15,000,000	(1)	No	No
Minnesota	15,000,000	(1)	(4)	No
Mississippi	15,000,000	(1)	Yes: $5,400,000; (2)	No
Missouri	15,000,000	(1)	No	No
Montana	15,000,000	(1)	Yes: $5,400,000; (2)	No
Nebraska	15,000,000	(1)	No	No
Nevada	15,000,000	(5)	No	No
New Hampshire	15,000,000	(1)	No	No
New Jersey	15,000,000	(1)	No	No
New Mexico	15,000,000	(1)	No	No
New York	47,000,000	(1)	No	No
North Carolina	15,000,000	(1)	No	No
North Dakota	15,000,000	(1)	No	No
Ohio	15,000,000	(1)	No	No
Oklahoma	15,000,000	(1)	No	No
Oregon	15,000,000	(1)	Yes: $5,400,000; (2)	No
Pennsylvania	15,000,000	(1), (6)	No	No
Puerto Rico	15,000,000	(7)	No	No
Rhode Island	15,000,000	(1)	No	No
South Carolina	15,000,000	(1)	No	No
South Dakota	15,000,000; (8)	(1)	No	No
Tennessee	15,000,000	(1)	No	No
Texas	15,000,000	(1)	No	No
Utah	15,000,000 (9)	(1)	No	No
Vermont	15,000,000	(1)	No	No
US Virgin Islands	15,000,000	(1)	No	No
Virginia	15,000,000	(1)	No	No
Washington	15,000,000	(1)	No	No
West Virginia	15,000,000	(1)	No	No
Wisconsin	15,000,000	(1)	No	No
Wyoming	15,000,000	(1)	No	No

Notes on following page.

Notes:

(1) Surplus lines brokers may do business with nonadmitted insurers that are domiciled outside the US (including Lloyd's syndicates) that appear on the Quarterly Listing of Alien Insurers maintained by the International Insurers Department (IID) of the NAIC and that comply with minimum capital requirements in the state (generally $15,000,000; $45,000,000 in California).

(2) Approved alien insurers are required to maintain a trust fund in the US designed to reasonably protect all policyholders, with a minimum amount set by state law. In Florida, Hawaii, Louisiana, Mississippi, and Oregon, the stipulated minimum is $5.4 million.

(3) Indiana does not impose formal eligibility requirements other than requiring a sponsoring broker for foreign surplus lines insurers. A licensed surplus lines producer must request by letter or email that a foreign (US) surplus lines insurer be added to the state's eligibility list.

(4) Trust of a minimum $1,500,000 must be maintained under Minnesota 60A. 206, Subd. 5.

(5) The Nevada Division of Insurance no longer has the authority to maintain a list of eligible insurers, and there are no requirements that a foreign or alien insurer must meet other than the objective eligibility criteria specified in the Nonadmitted and Reinsurance Reform Act of 2010 (NRRA) and reaffirmed in Chapter 685A of NRS, as amended by Senate Bill 289.

(6) If the company is listed on the Quarterly List of Alien Insurers maintained by the IID, a written request for surplus lines eligibility must include documentation evidencing its listing by the NAIC.

(7) Puerto Rico no longer imposes a fee or financial premium; nor does it require other information from a foreign or alien insurer for surplus lines eligibility purposes, aside from the eligibility requirements set forth in the NRRA.

(8) South Dakota requirements for a surplus lines insurer remain the same as before, aside from the requirements under the NRRA. Surplus lines insurers will be required to file the Unauthorized Insurer Business Written & Premium Tax Report, along with the Schedule T & State Page for foreign Cos. Alien surplus lines Cos will be required to file the Unauthorized Insurer Business Written & Premium Tax Report.

(9) As of July 21, 2011, Utah cannot prohibit placement of surplus lines insurance with a nonadmitted insurer domiciled outside the US if the insurer is listed on the Quarterly Listing of Alien insurers maintained by the IID of the NAIC.

Source: AM Best data and research

Appendix D

US Surplus Lines – State Survey Stamping Offices and Premium Taxes

State	Stamping Office	Premium Tax (%)	Stamping Fee (%)	State	Stamping Office	Premium Tax (%)	Stamping Fee (%)
Alabama	No	6.00	No	Nebraska	No	3.00	No
Alaska	No	2.70	1.00	Nevada	Yes	3.5	0.40
Arizona	Yes	3.00	0.20	New Hampshire	No	3.00	No
Arkansas	No	4.00	No	New Jersey	No	5.00	No
California	Yes	3.00	0.18	New Mexico	No	3.003	No
Colorado	No	3.00	No	New York	Yes	3.60 [7]	0.15
Connecticut	No	4.00	No	North Carolina	Yes	5.00	0.30
Delaware	No	3.00	No	North Dakota	No	1.75	No
Dist of Columbia	No	2.00	No	Ohio	No	5.00	No
Florida	Yes	4.94 [1]	0.06	Oklahoma	No	6.00	No
Georgia	No	4.00	No	Oregon	Yes	2.30 [8]	$10
Hawaii	No	4.68	No	Pennsylvania	Yes	3.00	$20
Idaho	Yes	1.50	0.50	Puerto Rico	No	9.00	No
Illinois	Yes	3.50	0.04	Rhode Island	No	4.00	No
Indiana	No	2.50	No	South Carolina	No	6.00	No
Iowa	No	0.975 [2]	No	South Dakota	No	2.5-3.0 [9]	No
Kansas	No	3.00 [3]	No	Tennessee	No	5.00	No
Kentucky	No	3.00 [4]	No	Texas	Yes	4.85	0.04
Louisiana	No	4.85	No	Utah	Yes	4.25	0.18
Maine	No	3.00	No	Vermont	No	3.00	No
Maryland	No	3.00	No	US Virgin Islands	No	5.00	No
Massachusetts	No	4.00	No	Virginia	No	2.25	No
Michigan5	No	2.00	No	Washington	Yes	2.00 [10]	0.10
Minnesota	Yes	3.00	0.04	West Virginia	No	4.55	No
Mississippi	Yes	4.00	0.25	Wisconsin	No	3.00	No
Missouri	No	5.00	No	Wyoming	No	3.00 [11]	No
Montana	No	2.75 [6]	0.25				

[1] Stamping fee lowered to 0.06% as of 4/1/20. Tax rate reduced from 5% to 4.94% for policies issued or renewed on or after 7/1/20.

[2] Surplus lines tax is 0.975% (for the 2024 calendar year); 0.0.95% (for the 2025 calendar year; 0.925% (for the 2026 calendar year; 0.9% (for 2027 and subsequent calendar years).

[3] Effective January 1, 2024, the surplus lines tax was reduced to 3% from 6%.

[4] Surplus lines tax is 3%, plus 1.8% surcharge payable by the broker.

[5] In Michigan, a 0.5% regulatory fee applies in addition to the premium tax.

[6] 0% stamping fee if policy is filed electronically by agent; 0.25% stamping fee if policy is mailed to the Office of the Commissioner of Securities

[7] Additional fee of $25 applies for late/erroneous filing.

[8] This amount includes a 0.3% collected for Oregon Fire Marshalls' office payable by the broker.

[9] 3% for fire insurance.

[10] Stamping fee will increase from 0.1% to 0.3% for all policies effective January 1, 2025.

[11] 0.175% SLAS Clearinghouse transaction fee.

Source: AM Best data and research

Appendix E

US Surplus Lines – Direct Premiums Written by Segment, 1988-2023

($ millions)

	Total P/C Industry		Total Surplus Lines		Domestic Professionals				Lloyd's			Regulated Aliens (Excluding Lloyd's)				Domestic Specialty			
Year	DPW	YoY % Chg.	DPW	YoY % Chg.	DPW	YoY % Chg.	SL Mkt Share	# of Cos.	DPW	YoY % Chg.	SL Mkt Share	DPW	YoY % Chg.	SL Mkt Share	# of Cos.	DPW	YoY % Chg.	SL Mkt Share	# of Cos.
1988	211,270	4.2	6,281	-4.3	3,704	-10.4	59.0	86	1,237	-7.5	19.7	1,012	31.3	16.1	104	328	2.2	5.2	128
1989	220,620	4.4	6,123	-2.5	3,530	-4.7	57.7	88	1,182	-4.4	19.3	1,050	3.8	17.1	101	361	10.1	5.9	123
1990	230,757	4.6	6,532	6.7	3,882	10.0	59.4	117	1,241	5.0	19.0	1,013	-3.5	15.5	85	396	9.7	6.1	149
1991	235,627	2.1	6,924	6.0	4,081	5.1	58.9	117	1,322	6.5	19.1	1,111	9.7	16.0	85	410	3.5	5.9	151
1992	240,410	2.0	7,549	9.0	4,491	10.0	59.5	120	1,388	5.0	18.4	1,220	9.8	16.2	74	450	9.8	6.0	151
1993	253,847	5.6	8,540	13.1	5,270	17.3	61.7	123	1,631	17.5	19.1	1,183	-3.0	13.9	70	456	1.3	5.3	138
1994	263,653	3.9	8,786	2.9	6,089	15.5	69.3	115	1,196	-26.7	13.6	992	-16.1	11.3	64	509	11.6	5.8	141
1995	273,929	3.9	9,245	5.2	6,511	6.9	70.4	112	1,300	8.7	14.1	1,022	3.0	11.1	57	412	-19.1	4.5	144
1996	279,990	2.2	9,205	-0.4	6,668	2.4	72.4	108	1,354	4.2	14.7	818	-20.0	8.9	57	365	-11.4	4.0	125
1997	287,196	2.6	9,419	2.3	6,569	-1.5	69.7	106	1,609	18.8	17.1	802	-2.0	8.5	59	439	20.2	4.7	114
1998	300,309	4.6	9,861	4.7	6,763	3.0	68.6	107	1,574	-2.2	16.0	1,196	49.1	12.1	58	328	-25.3	3.3	113
1999	308,671	2.8	10,615	7.6	7,265	7.4	68.4	105	1,912	21.5	18.0	1,140	-4.7	10.7	55	298	-9.1	2.8	116
2000	327,286	6.0	11,656	9.8	7,884	8.5	67.6	98	2,499	30.7	21.4	941	-17.5	8.1	46	332	11.4	2.8	106
2001	367,798	12.4	15,813	35.7	10,773	36.6	68.1	104	3,368	34.8	21.3	1,362	44.7	8.6	44	310	-6.6	2.0	91
2002	422,703	14.9	25,565	61.7	19,572	81.7	76.6	108	4,082	21.2	16.0	1,600	17.5	6.3	46	311	0.3	1.2	76
2003	463,033	9.5	32,799	28.3	25,662	31.1	78.2	115	4,492	10.0	13.7	2,400	50.0	7.3	45	245	-21.2	0.7	63
2004	481,588	4.0	33,012	0.6	25,744	0.3	78.0	115	4,596	2.3	13.9	2,400	0.0	7.3	53	272	11.0	0.8	59
2005	491,429	2.0	33,301	0.8	25,968	0.9	78.0	111	4,675	1.7	14.0	2,400	0.0	7.2	50	238	-12.5	0.7	57
2006	503,894	2.5	38,698	16.3	29,410	13.3	76.0	117	5,989	28.1	15.5	3,100	29.2	8.0	55	199	-16.4	0.5	54
2007	506,180	0.5	36,637	-3.5	27,675	-5.9	74.1	120	6,360	6.2	17.0	3,100	0.0	8.3	55	202	1.5	0.5	56
2008	492,881	-2.6	34,365	-6.2	24,612	-11.1	71.6	130	6,062	-4.7	17.6	3,403	9.8	9.9	53	288	42.6	0.8	70
2009	481,410	-2.3	32,952	-4.1	22,830	-7.2	69.3	139	6,090	0.5	18.5	3,735	9.8	11.3	55	297	3.1	0.9	69
2010	481,120	-0.1	31,716	-3.8	21,882	-4.2	69.0	143	5,789	-4.9	18.3	3,758	0.6	11.8	56	287	-3.4	0.9	66
2011	501,555	4.2	31,140	-1.8	22,582	3.2	72.5	146	5,790	0.0	18.6	2,537	-32.5	8.1	53	231	-19.5	0.7	60
2012	523,360	4.3	34,808	11.8	25,490	12.9	73.2	142	6,270	8.3	18.0	2,747	8.3	7.9	61	301	30.3	0.9	53
2013	545,760	4.3	37,719	8.4	26,818	5.2	71.1	140	7,099	13.2	18.8	3,362	22.4	8.9	59	440	46.2	1.2	49
2014	570,187	4.5	40,243	6.7	28,274	5.4	70.3	135	8,157	14.9	20.3	3,311	-1.5	8.2	60	501	13.9	1.2	58
2015	591,186	3.7	41,259	2.5	29,333	3.7	71.1	139	8,645	6.0	21.0	2,974	-10.2	7.2	58	307	-38.7	0.7	53
2016	612,906	3.7	42,425	2.8	29,112	-0.8	68.6	139	9,607	11.1	22.6	3,057	2.8	7.2	61	649	111.4	1.5	59
2017	642,127	4.8	44,879	5.8	30,594	5.1	68.2	138	10,325	7.5	23.0	3,289	7.6	7.3	59	671	3.4	1.5	58
2018	678,029	5.6	49,890	11.2	34,054	11.3	68.7	148	11,755	13.8	23.2	3,543	7.7	7.0	62	537	-20.0	1.1	61
2019	712,194	5.0	56,279	11.2	39,060	14.7	70.4	154	12,477	6.1	22.5	4,337	22.4	6.3	62	405	-24.6	0.7	60
2020	728,866	2.3	66,102	17.5	46,948	20.2	71.0	161	12,821	2.8	19.4	5,847	34.8	8.8	74	486	20.0	0.7	65
2021	798,393	9.5	82,653	25.0	61,200	30.4	74.0	169	13,872	8.2	16.8	6,864	17.4	8.3	75	717	47.5	0.9	69
2022	875,458	9.7	98,488	19.2	73,369	19.9	74.5	185	15,483	11.6	15.7	8,735	27.3	8.9	79	901	25.6	0.9	65
2023	966,817	10.5	115,646	17.4	83,830	14.3	72.5	192	19,947	28.8	17.2	10,667	22.1	9.2	80	1,202	33.4	1.0	60

Domestic professional surplus lines and domestic specialty surplus lines 2023 DPW totals are aggregated as of June 17, 2024. Lloyd's and Regulated Alien Co data is as of July 29, 2024.

Source: AM Best data and research

***Updates to the Report**

This report was updated on September 18, 2024 due to updated data.
This report has been updated on September 18, 2024 to reflect a data update.
This report was updated on September 23, 2024 to reflect a correction to data in the text.

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BEST'S MARKET SEGMENT REPORT

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