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Financial Review
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Challenging Market Conditions Yield Opportunities for Surplus Lines' Insurers

Surplus lines' insurers have adjusted strategies during difficult periods, leading to the market's expansion

Principal Takeaways

- Consistently troubled P/C lines are providing key growth opportunities for surplus lines' insurers.
- Despite representing a modest percentage of overall surplus lines premium, increasingly volatile homeowners multi-peril results are driving more business to the surplus lines market.
- As new technologies emerge, and risk exposures evolve, surplus lines' insurers will become critically important for insureds employing these technologies.

The US surplus lines market enjoyed double-digit year-over-year (YoY) premium growth from 2018-2023, as wholesale brokers tapped this market with greater frequency to explore coverage solutions for businesses amid expanding risks. The magnitude of the YoY growth peaked at 30% in 2021, based on data from the AM Best report: [Improved Underwriting and Operating Results Sustain US Surplus Lines Market Momentum](#). The U.S. Surplus Lines and Stamping Offices detailed the continuation of premium momentum, highlighting a 12.1% YoY premium increase in 2024 for surplus lines' insurers reporting data to the 15 individual state service and stamping offices nationwide. Across the last full three years from 2022-2024, premiums produced by the service and stamping offices increased by 28.8% (**Exhibit 1**).

Exhibit 1

US Surplus Lines Premiums, Service and Stamping Offices

Ranked by 2024 Direct Premiums Written
(\$ thousands)

State	Direct Premiums Written			% Growth 2022-2024
	2022	2023	2024	
California	16,221,093	16,801,119	18,746,908	15.6
Florida	12,049,438	15,402,259	17,024,866	41.3
Texas	11,587,658	14,575,905	16,583,829	43.1
New York	7,702,358	8,100,068	9,164,350	19.0
Illinois	3,640,885	3,990,178	4,400,660	20.9
Pennsylvania	2,456,273	2,811,733	3,240,591	31.9
Washington	2,017,077	2,251,361	2,601,318	29.0
North Carolina	1,696,855	1,998,578	2,046,548	20.6
Arizona	1,353,249	1,538,432	1,720,343	27.1
Minnesota	1,203,961	1,242,920	1,628,226	35.2
Oregon	866,330	1,025,151	1,140,822	31.7
Nevada	785,320	970,650	1,046,230	33.2
Mississippi	822,752	949,380	997,007	21.2
Utah	712,873	842,025	861,789	20.9
Idaho	275,339	335,305	436,088	58.4
Totals	63,391,461	72,835,063	81,639,576	28.8

Source: U.S. Surplus Lines Service and Stamping Offices Annual Reports

Several segments have been key in contributing to the growth in premiums generated by surplus lines—or nonadmitted—insurers in the three-year period, including lines directly experiencing turbulence post-COVID from macroeconomic pressures. Although personal lines coverage, specifically homeowners insurance, remains a relatively small part of the

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overall surplus lines market, increased writings in that segment has contributed to the consistent premium growth for surplus lines—or nonadmitted—insurers. Many states, in addition to multiple lines of business, have been key contributors to the momentum buoying the surplus lines market.

Largest States Drive Heightened Premium

The four states that consistently account for the largest share of US surplus lines DPW annually—California, Florida, Texas, and New York—are the same states that generate the majority of total property/casualty (P/C) insurance direct premium. In Exhibit 1, the first three states all generated over \$16 billion in surplus lines premium for the year, with New York lagging behind, comparatively, at \$9.1 billion. For the segment in 2024, these states produced over 75% of total US surplus lines DPW, based on the Services and Stamping Offices data.

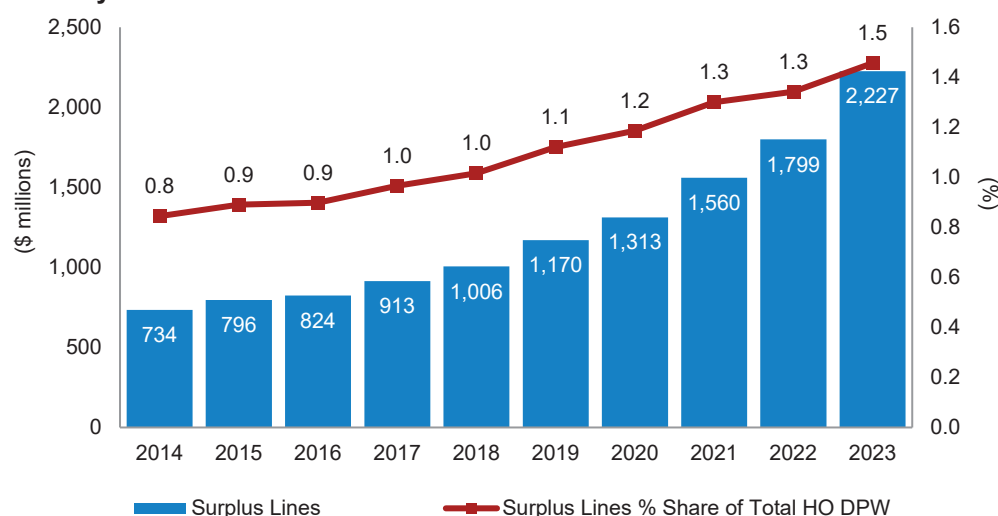
Even before the devastating 2025 California wildfires, extreme weather, including heavy rains that subsequently yielded mudslides, created unfavorable results for writers of homeowners and commercial property coverage in the state, which affected 2023 and 2024 results. Additionally, some admitted insurers reassessed their appetite for property business and pushed more of that business into the surplus lines market. The California property market is likely to face more challenges in the near term, and surplus lines' insurers could look to fill supply gaps as more admitted insurers become reluctant to provide market capacity in areas of the state. If this occurs, it would be similar to market dynamics that occurred previously in Florida and Louisiana following the impact of elevated weather-related losses. Companies are still claims handling from the wildfires, which occurred during a usually quiet period for California property insurers. Typically, Southern California peak fire season spans late spring (May-June) and runs until October, whereas peak fire season in Northern California usually begins in June or July and runs through late October or November.

Troubled Coverage Lines Provide Opportunities for Surplus Lines Insurers

Volatility in the underwriting results of insurers writing property insurance has led to the higher rates/pricing for both commercial and personal lines property businesses. As shown in **Exhibit 2**, that percentage (1.5%) grew to its highest level during the decade in 2023, surpassing the \$2 billion mark for the first time. AM Best expects once 2024 surplus lines data is fully aggregated, it will reveal a continuation of the

trend. Surplus lines' insurers have had the flexibility to meet demand during tough market times, which has led to surplus lines' homeowners premium more than doubling during the last six years, from \$1.0 billion in 2018 to \$2.2 billion in 2023. During this time, the P/C industry's year-over-year homeowners market profitability has exhibited a

Exhibit 2
US Surplus lines – Homeowners Direct Premiums Written Share of Total P/C Industry Homeowners DPW



Source: AM Best data and research

higher-than-normal level of volatility. Line of business premium data serves as an indicator of the types of business being supplied in the surplus lines market during any given period. From 2022 through 2024, Surplus Lines Service Office data revealed that total surplus lines premium grew by 28.8% (**Exhibit 3**).

Liability business includes general liability, products liability, umbrella, and excess liability coverage. AM Best has found the coverages which fall under the general liability banner have combined to consistently represent the largest portion of the surplus lines market from a DPW perspective. Early data aggregation for 2024 indicates an almost ten percentage point deterioration the P/C industry's net incurred loss ratio for the other liability (occurrence) coverage line, which represents the larger of the two general liability coverage lines. The combination of general liability (36.9%) and commercial property (32.9%) coverage represented almost 70% of surplus lines market premium written through the service and stamping offices over the last three years. Commercial property included business interruption coverage associated with commercial property policies, in addition to standalone coverages including but not limited to Difference in Conditions, earthquake, flood and terrorism. No other coverage accounted for as much as 10% of the surplus lines market. The trend showing increasing premium growth underscores the surplus lines market's ability to adapt to shifting demands, utilizing its freedom of rate and form to provide coverage for troubled risk classes and lines of coverage when admitted market carriers display reticence to do the same.

Surplus Lines Insurers Selectively Growing in Adversely Trending Coverage Lines

The lines of coverage surplus lines have been providing a greater percentage of market coverage are some of the same lines that generated unfavorable underwriting results for the overall P/C industry

Exhibit 3

US Surplus Lines Premium Growth, By Line of Coverage

Ranked by 2024 Direct Premiums Written

(\$ thousands)

Line of Business	Direct Premiums Written			% of Total 2024 DPW	DPW % Growth 2022-2024
	2022	2023	2024		
Liability ¹	23,430,889	27,099,604	30,149,846	36.9	28.7
Property ²	18,342,426	24,162,743	26,828,917	32.9	46.3
Professional Liability ³	7,890,981	7,341,107	7,562,783	9.3	-4.2
Multi-Peril ⁴	3,789,393	4,613,656	5,239,110	6.4	38.3
Residential, Homeowners, and Other Personal Property ⁵	2,832,587	3,048,346	3,993,376	4.9	41.0
Auto Liability ⁶	2,013,937	2,124,168	3,422,282	4.2	69.9
Other ⁷	1,691,411	1,651,388	1,714,784	2.1	1.4
Auto Physical Damage ⁸	1,156,729	1,508,437	1,227,917	1.5	6.2
Inland Marine ⁹	923,271	976,598	1,160,573	1.4	25.7
Disability/Accident & Health ¹⁰	301,827	309,017	339,987	0.4	12.6
Total	63,391,461	72,835,063	81,639,576	100.0	28.8

¹ Includes aviation, general and products liability.

² Includes aircraft physical damage, commercial property and related business interruption, commercial package and a variety of standalone commercial coverages (e.g., DIC, earthquake, flood, terrorism, vacant building).

³ Includes E&O, D&O, EPL, sexual misconduct, representation and warranties, patent, trademark, and copyright infringement, architects and engineers, medical malpractice, etc.

⁴ Generally includes packaging of commercial GL, inland marine, crime, boiler and machinery, auto and farm.

⁵ Includes auto dealer liability, commercial auto liability, excess auto liability, garage owners liability, storage, etc.

⁶ Includes credit, crime, hole-in-one, kidnap, ransom, ocean marine, pet insurance, etc.

⁷ Includes auto dealer inventory, commercial auto collision, comprehensive, fire and theft, etc.

⁸ Includes liability for cargo during transit, physical loss or damage to data processing equipment, furrier's stock and various floater policies (personal effects, personal property, jewelry, furs, fine arts, etc.).

¹⁰ Includes coverage for loss by sickness or bodily injury, and for accidental death, disability and medical expenses while traveling.

Source: U.S. Surplus Lines Service and Stamping Offices Annual Reports

Exhibit 4

P/C Industry, Net Combined Ratios for Troubled Lines of Business

	Homeowners/ Farmowners	Fire & Allied Lines	Commercial Automobile	Other & Products Liability	Commercial Multi-Peril	Property Catastrophe ¹
2014	92.7	86.4	103.3	101.7	99.3	94.6
2015	91.8	85.5	108.8	103.2	94.8	93.5
2016	93.1	89.6	110.5	110.9	101.8	96.1
2017	107.1	123.9	111.1	101	107.9	105.2
2018	103.6	107.7	108	101.3	106.5	99.8
2019	98.6	97.6	109.3	105.5	105.1	96.6
2020	107.4	103.2	101.8	104.8	109.8	99.7
2021	103.4	98.9	98.8	97.2	106.2	102.2
2022	104.7	95.6	105.4	96.1	105.7	105
2023	110.9	92.8	109.2	99.4	107.1	103.1
5-Year Average	105.0	97.6	104.9	100.6	106.8	101.3
10-Year Average	101.3	98.1	106.6	102.1	104.4	99.6

¹ Property catastrophe lines of business include fire, allied lines, multi-peril crop, private crop, federal flood, private flood, farmowners multi-peril, homeowners multi-peril, commercial multi-peril (non-liability), inland marine, earthquake, private passenger auto physical damage, and commercial auto physical damage.

Source:  BESTLINK

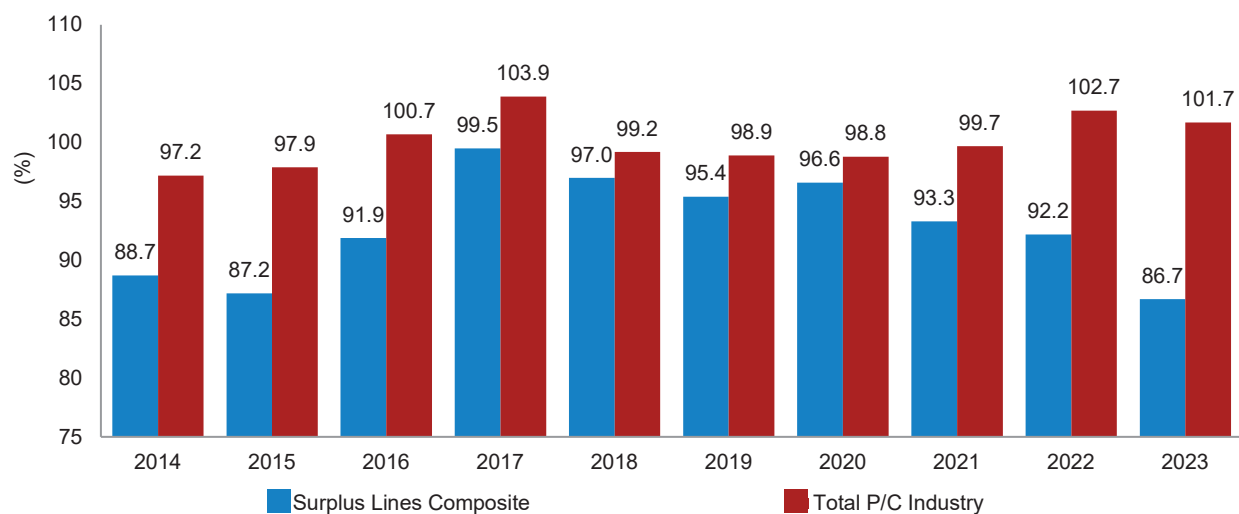
during the past decade. For most of these lines, industry underwriting results have been trending poorly and have exhibited notable volatility in recent years, as shown in **Exhibit 4**. The five-year average net combined ratios for the homeowners, commercial auto, and property catastrophe lines of insurance—which encompass commercial property, and both homeowners and farmowners multi-peril lines of coverage among others—all exceeded the breakeven combined ratio of 100. The commercial multi-peril line, which largely reflects coverage written for small and medium-sized commercial enterprises posted the highest combined ratio (106.8) during that period and generated a combined ratio almost as high (104.4) over the last 10 years.

During the 2014-2023 period, as changing climate-related risks led to more frequent weather-related events, and inflationary pressures on claim costs added to the challenges faced by insurers underwriting—line property, commercial auto, and general liability, which have been robust growth areas for surplus lines' insurers. Many standard market insurers have reassessed their risk appetite and underwriting strategies for these coverage lines. Surplus lines' companies have proven adept at opportunistically selecting the risks they are willing to insure and using their freedom to develop bespoke policy provisions to produce unique products to meet the needs of policyholders. That effectiveness has resulted in surplus lines' companies, in the aggregate, generating superior underwriting results compared to the results of the total P/C industry looking through the lens of AM Best's Surplus Lines composite and its Total P/C Industry Composite (**Exhibit 5**). AM Best's surplus lines composite reflects the results of companies for which more than 50% of their business is written on a nonadmitted or surplus lines basis.

Need for Creative Insurance Protection Will Continue Growing

The surplus lines segment has successfully pivoted during challenging conditions by adjusting strategies, developing innovative coverage solutions, and modifying enterprise risk management principles. These strengths have been vital to the market's expansion and as carriers adopt practices that generally have led to short-term improvements during difficult periods, while seeking to establish long-term success. As businesses continue integrating newer technologies such as generative artificial intelligence into their daily operations and use new scientific discoveries and tools in their operations that present new

Exhibit 5

Key Net Combined Ratio Comparison – AM Best Surplus Lines and Total P/C Industry CompositesSource: 

risk exposures, AM Best believes the role of surplus lines' insurers will continue to expand. These insurers will be critically important to insureds in manufacturing, engineering, construction, and other businesses that require nimble coverage solutions to protect their businesses.

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