



# Surplus Lines Results and Market Trends

2021 CAS Annual Meeting

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# What is Surplus Lines (Non-Admitted) Market?

- Surplus Lines (Non-Admitted) Market insure risks not easily accepted by Standard (Admitted) Market.
- Emerging risks, unusual risks, high risks (mostly commercial).
- Surplus Lines insurers not subject to rate and form regulations (more flexibility).
- No guaranteed fund protection in case of insolvency; however, State's minimum capital requirement generally higher than for admitted insurers.
- Surplus lines business written through retail producers, wholesale brokers, managing general agents (MGAs), program managers.
- When market hardens, Standard Market will accept less risks, more risks will go to Surplus Lines Market.
- Surplus Lines growth also from emerging risks and product innovation.





# Surplus Lines (Non-Admitted) Data Source

Data is from Aon defined composite of 147 U.S. property and casualty insurance companies that predominantly wrote E&S business in 2020 and represents ~98% of the total US surplus lines business (excluding Lloyd's). If the total amount of E&S premium to total premium was greater than 65 percent, we included the company in the composite. All Risk Retention Groups, Reciprocal insurance companies and Lloyd's were eliminated from this composite.

Licensing status from Schedule T, Part 1 of the annual statements:

Status	Description
L	<b>Licensed or Chartered</b> Licensed insurance carrier or domiciled RRG
E	<b>Eligible</b> Reporting entities eligible or approved to write surplus lines in the state (other than their state of domicile – see DSLI)
D	<b>Domestic Surplus Lines Insurer (DSLI)</b> Reporting entities authorized to write surplus lines in the state of domicile
R	<b>Registered</b> Non-domiciled RRGs
Q	<b>Qualified</b> Qualified or accredited reinsurer
N	<b>None of the above</b> Not allowed to write business in the state

Admitted

Non-Admitted

Other

# Non-Admitted Lines Grouping

Line of Business
Commercial auto no-fault
Other commercial auto liability
Commercial auto physical damage
Fire
Allied lines
Commercial multiple peril (non-liability portion)
Inland marine
Earthquake
Medical Professional Liability
Other liability – claims made
Commercial multiple peril (liability portion)
Other liability – occurrence
Products liability
Homeowners multiple peril

Group	2020 DWP (\$M)	All Lines%
Commercial Auto	2,239	4.8%
Commercial Property	13,978	29.8%
Medical Professional Liability	2,282	4.9%
Other liability – claims made	8,782	18.7%
Other liability – occurrence	17,049	36.4%
Personal Property	1,306	2.8%
Group Total	45,636	<b>97.4%</b>
All Lines	46,858	

Note: Alien insurers also wrote 18,668 DWP in 2020 (Lloyds 12,821, Other 5,847 ).

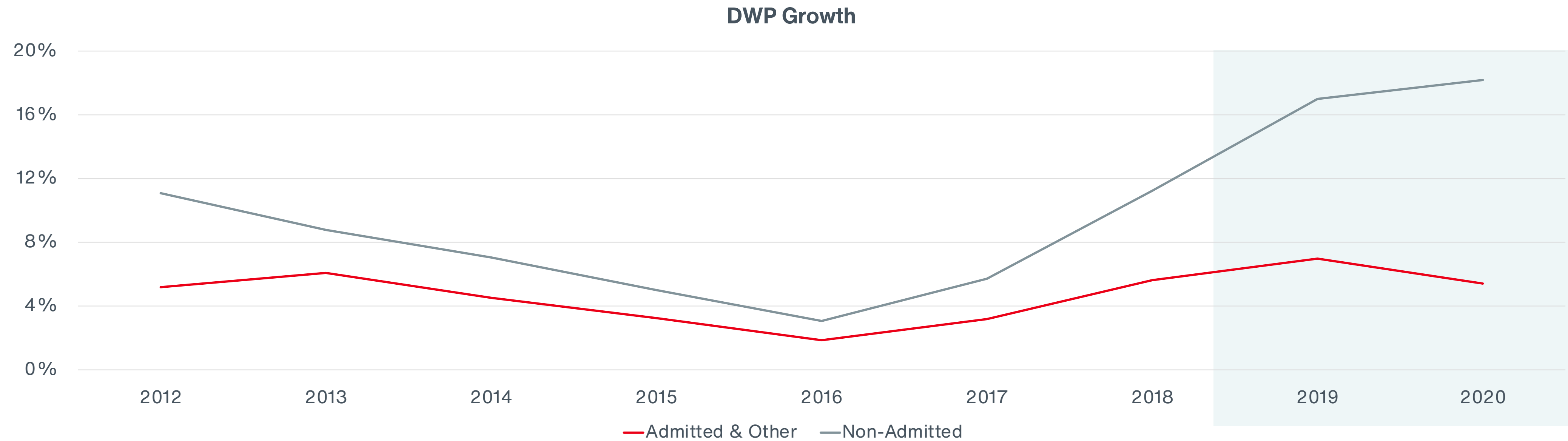
Source: A.M. Best.

# Historical Premium Groups

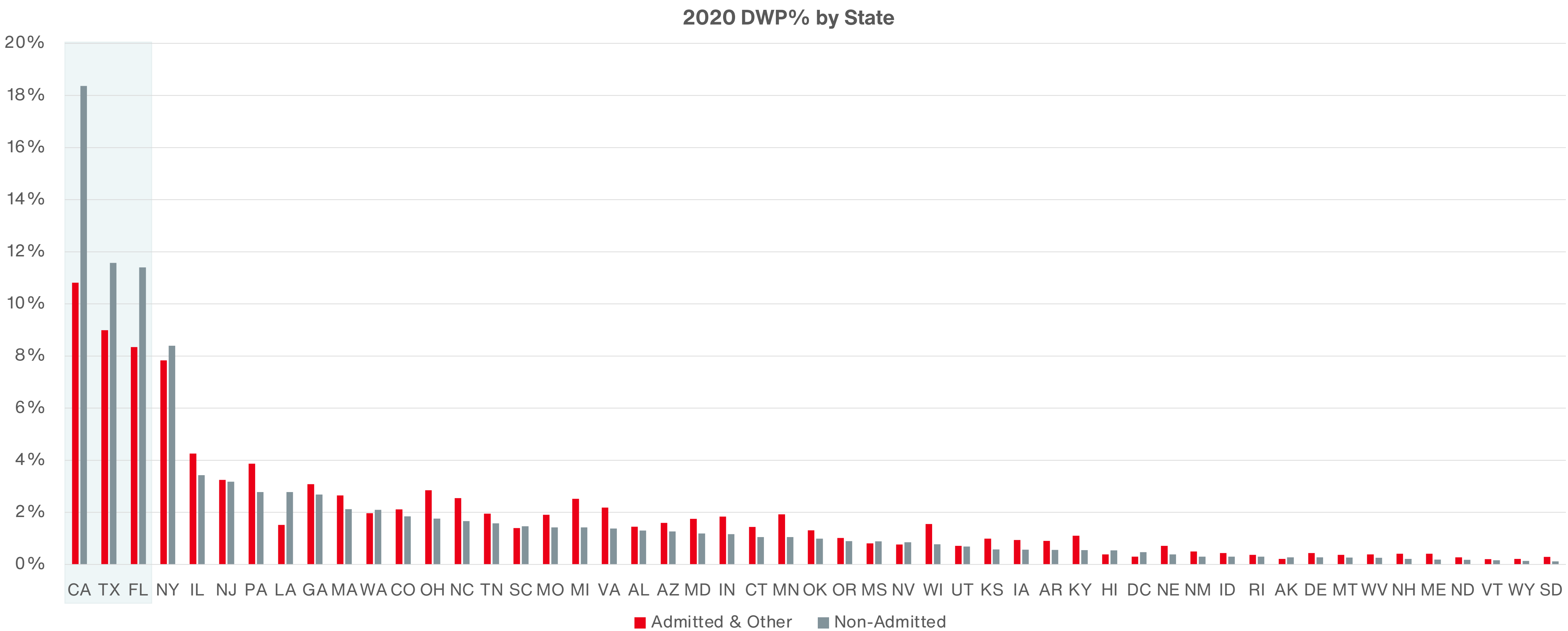
	Direct Written Premiums (\$M)					Direct Written Premiums (\$M)				
Market Segment	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	209,208	220,045	233,419	243,959	251,864	256,545	264,731	279,635	299,147	315,345
Non-Admitted	20,048	22,272	24,226	25,933	27,232	28,067	29,673	33,006	38,614	45,636

		Direct Written Premiums Growth				Direct Written Premiums Growth				
Market Segment	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other		5.2%	6.1%	4.5%	3.2%	1.9%	3.2%	5.6%	7.0%	5.4%
Non-Admitted		11.1%	8.8%	7.0%	5.0%	3.1%	5.7%	11.2%	17.0%	18.2%



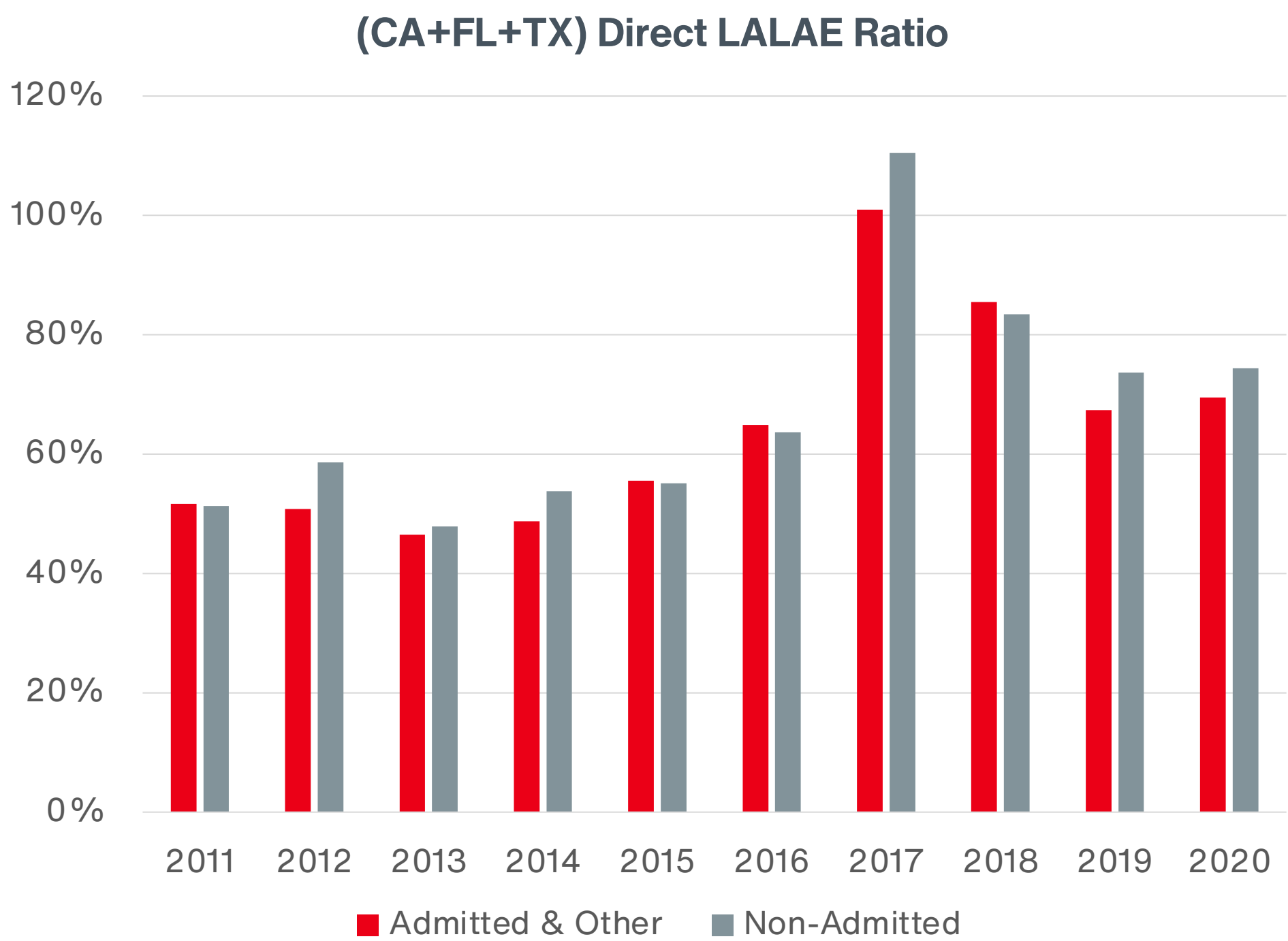
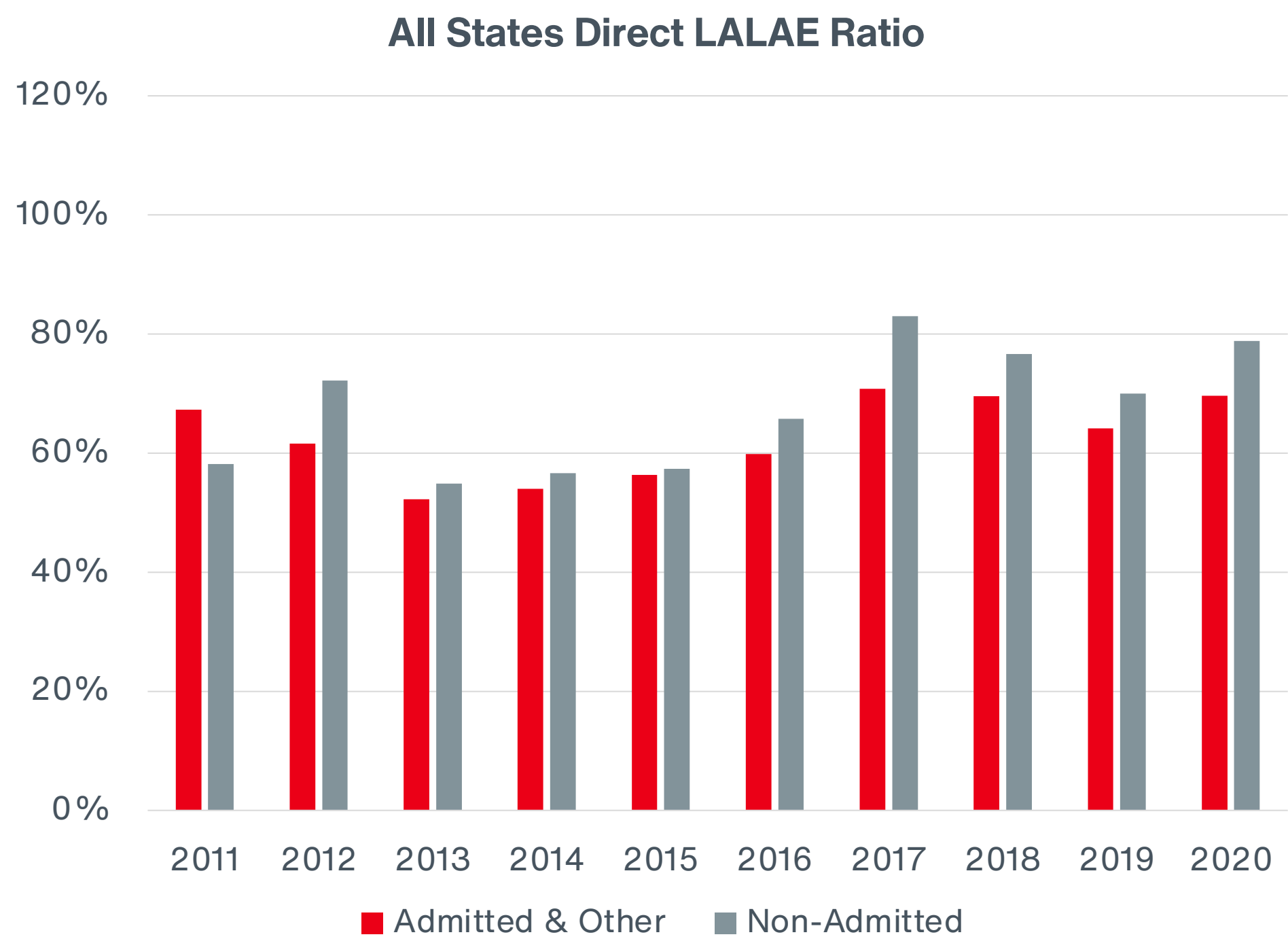
# 2020 Premium by State Groups



# Historical Loss Ratios

## All Groups

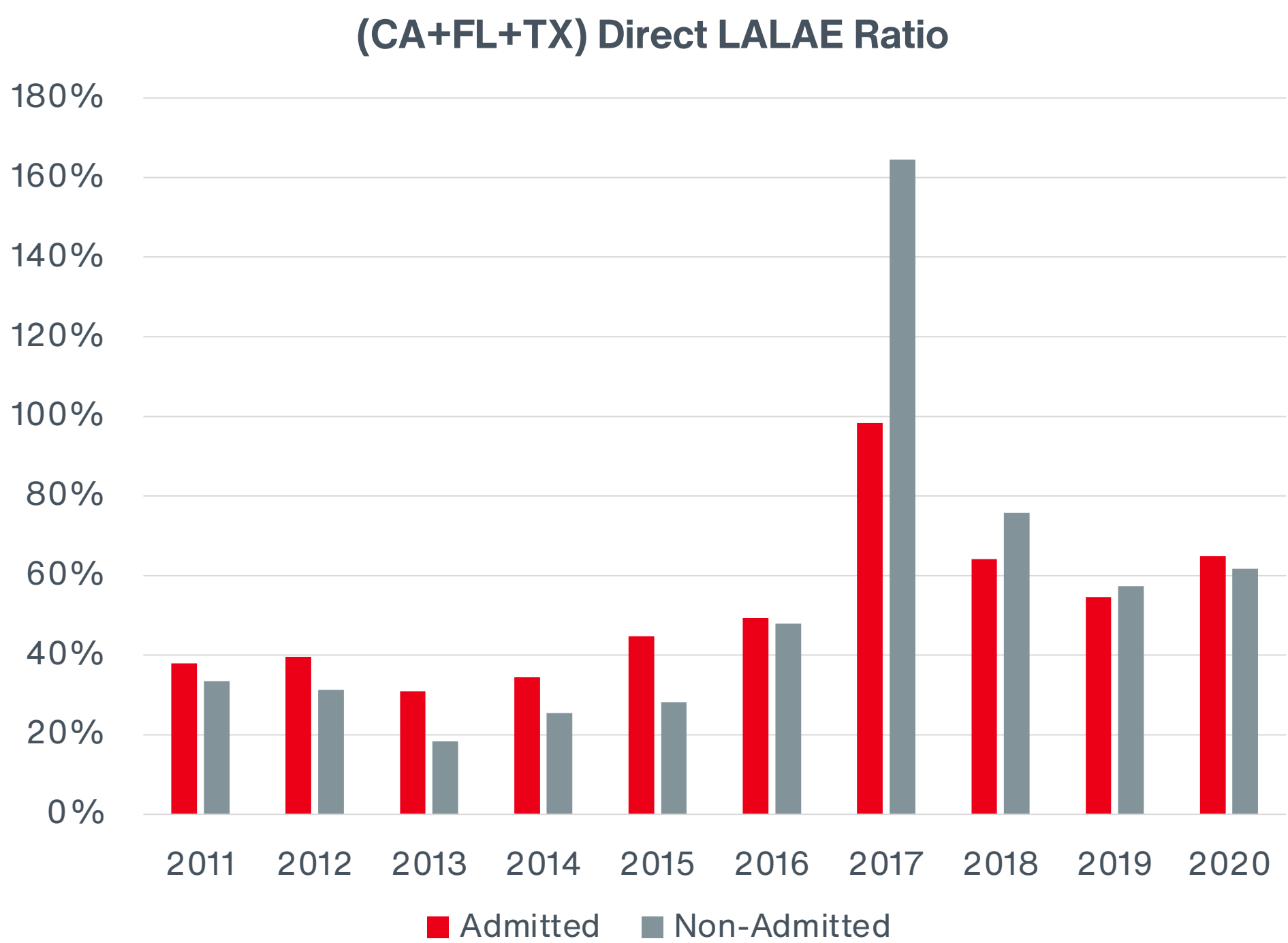
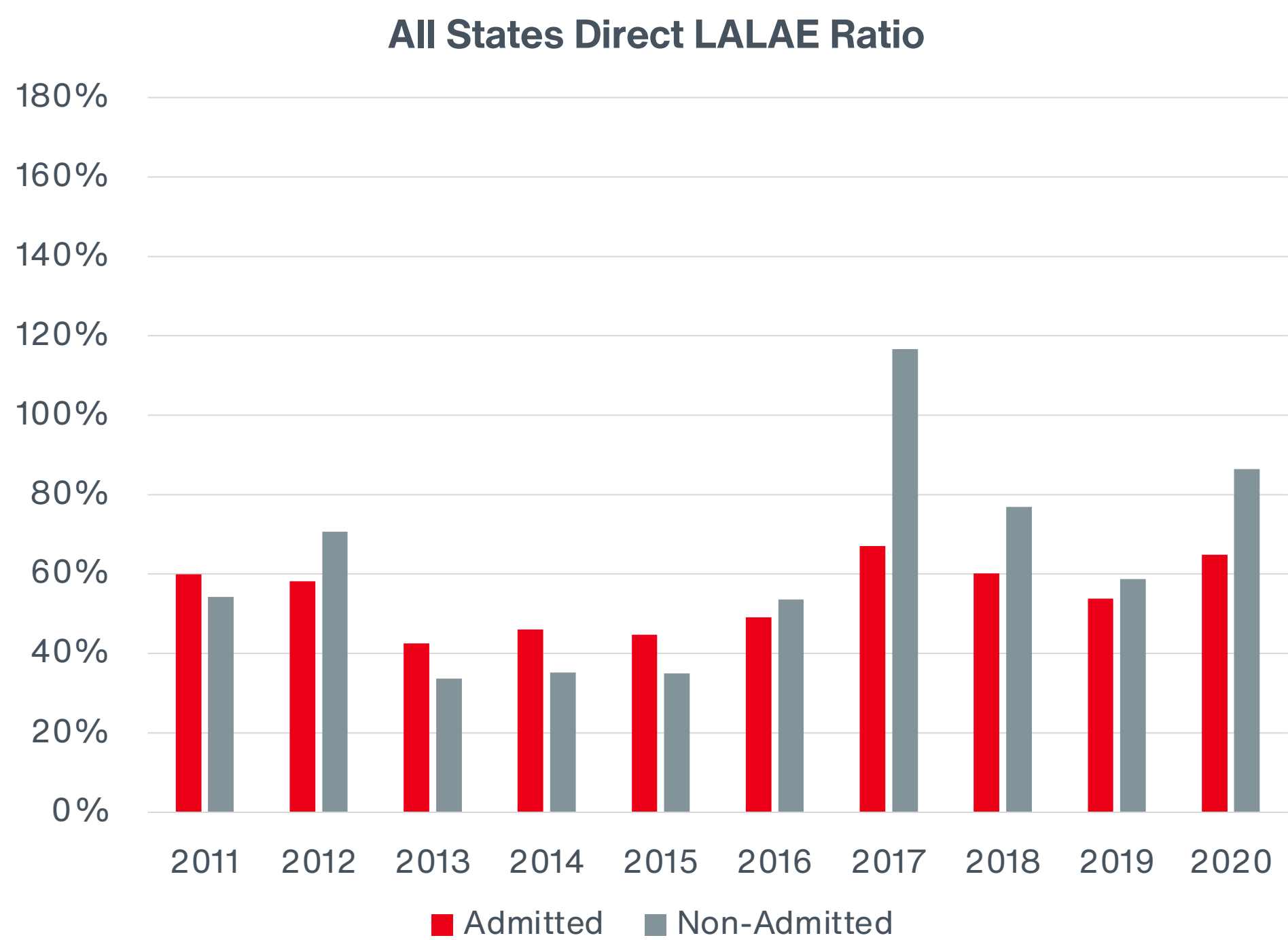
Market Segment	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	206,509	215,289	227,091	238,731	247,535	254,105	260,435	272,008	288,879	304,714
Non-Admitted	19,698	21,648	23,423	24,964	26,617	27,572	28,502	31,218	35,432	42,324



# Historical Loss Ratios

## Commercial Property

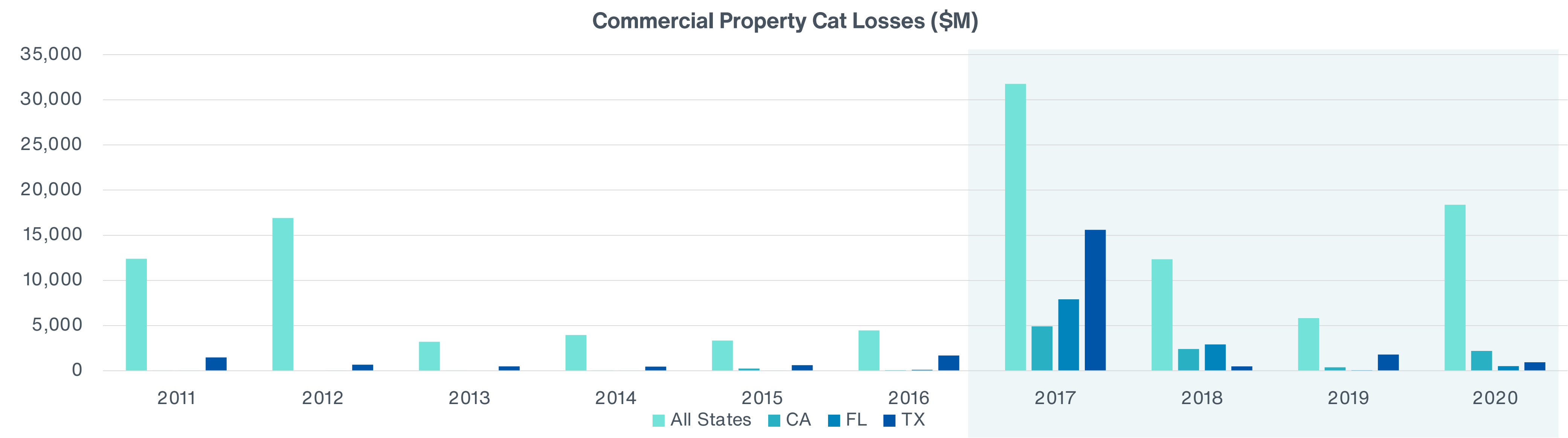
Market Segment	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	54,559	57,537	60,444	62,409	63,772	64,086	64,761	66,427	70,442	74,434
Non-Admitted	6,515	7,240	7,961	7,973	8,267	8,101	7,927	8,755	10,248	12,885





# Commercial Property Cats

Location	Incurred Losses (\$M)					Incurred Losses (\$M)				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
All States	12,385.9	16,904.4	3,215.4	3,953.8	3,354.0	4,454.8	31,760.8	12,330.8	5,816.4	18,374.1
CA	18.4	-	3.0	39.7	251.1	52.2	4,922.0	2,410.4	369.5	2,191.1
FL	10.6	21.3	-	6.2	2.9	121.1	7,910.3	2,914.1	52.1	523.7
TX	1,466.4	681.0	492.9	468.3	612.2	1,693.5	15,604.1	496.4	1,788.9	942.4



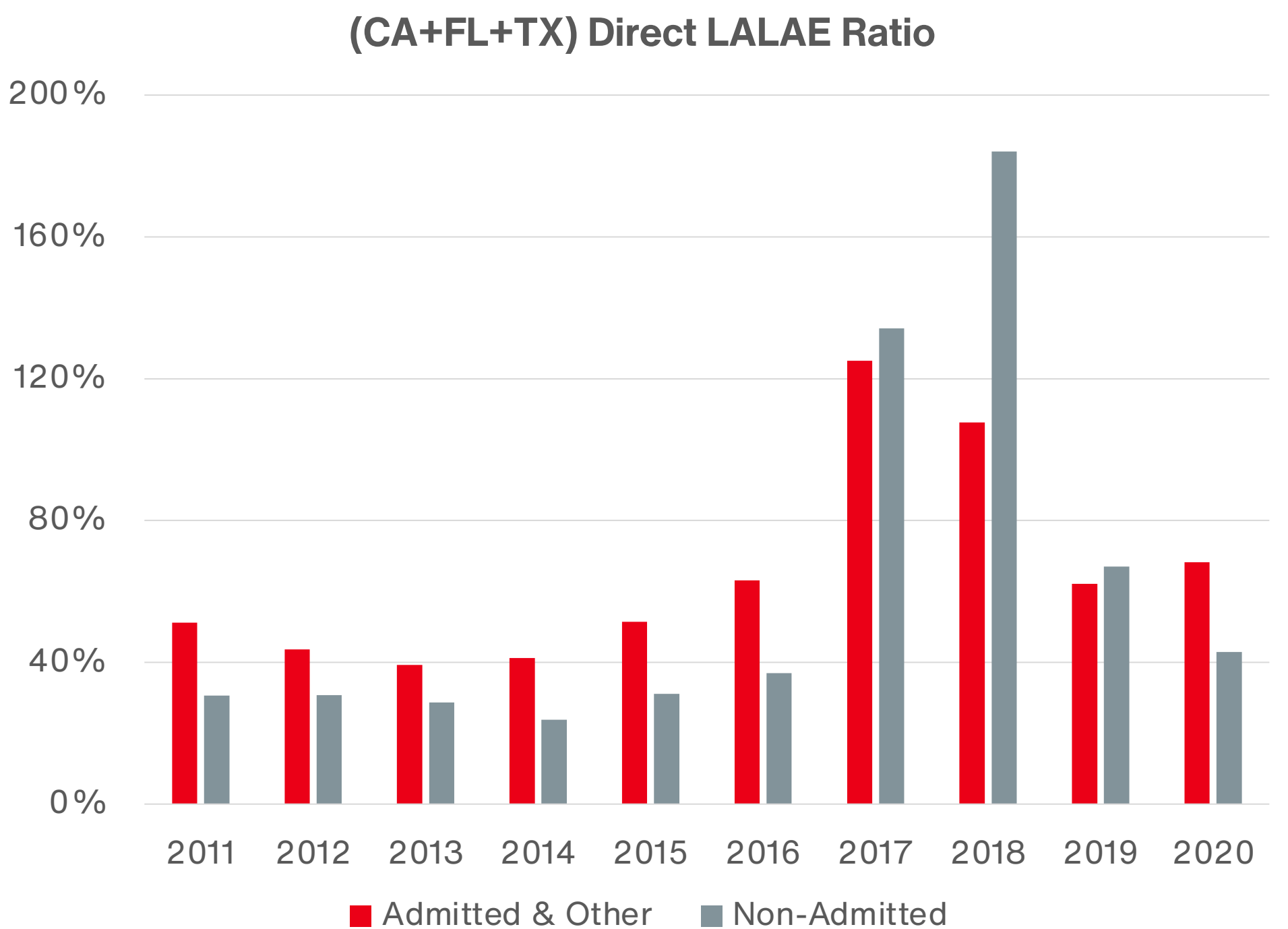
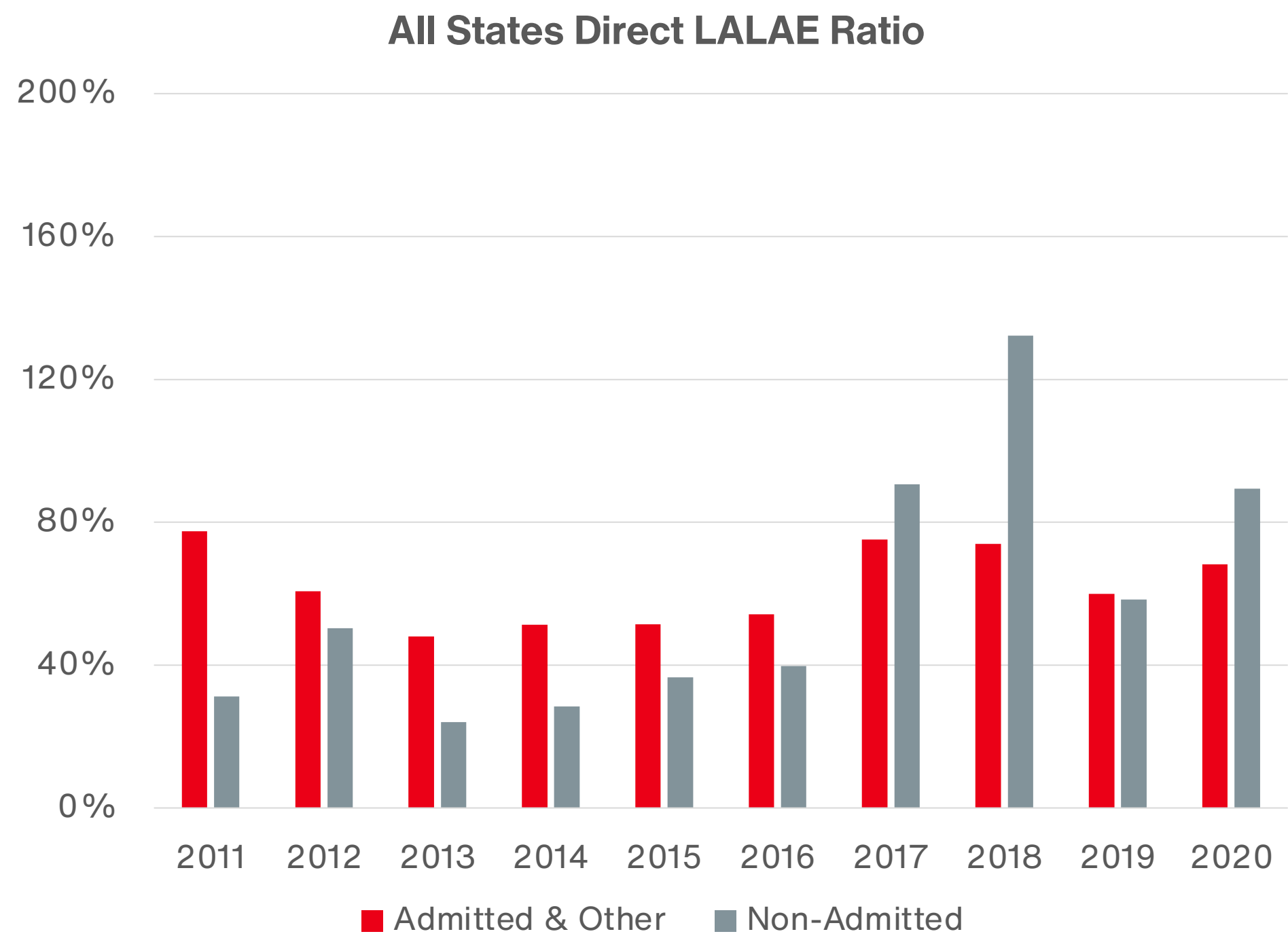
Source: PCS



# Historical Loss Ratios

## Personal Property

Market Segment	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	71,778	75,121	79,639	83,752	86,611	89,657	91,768	95,362	100,179	105,665
Non-Admitted	403	469	582	654	719	791	862	955	1,094	1,253

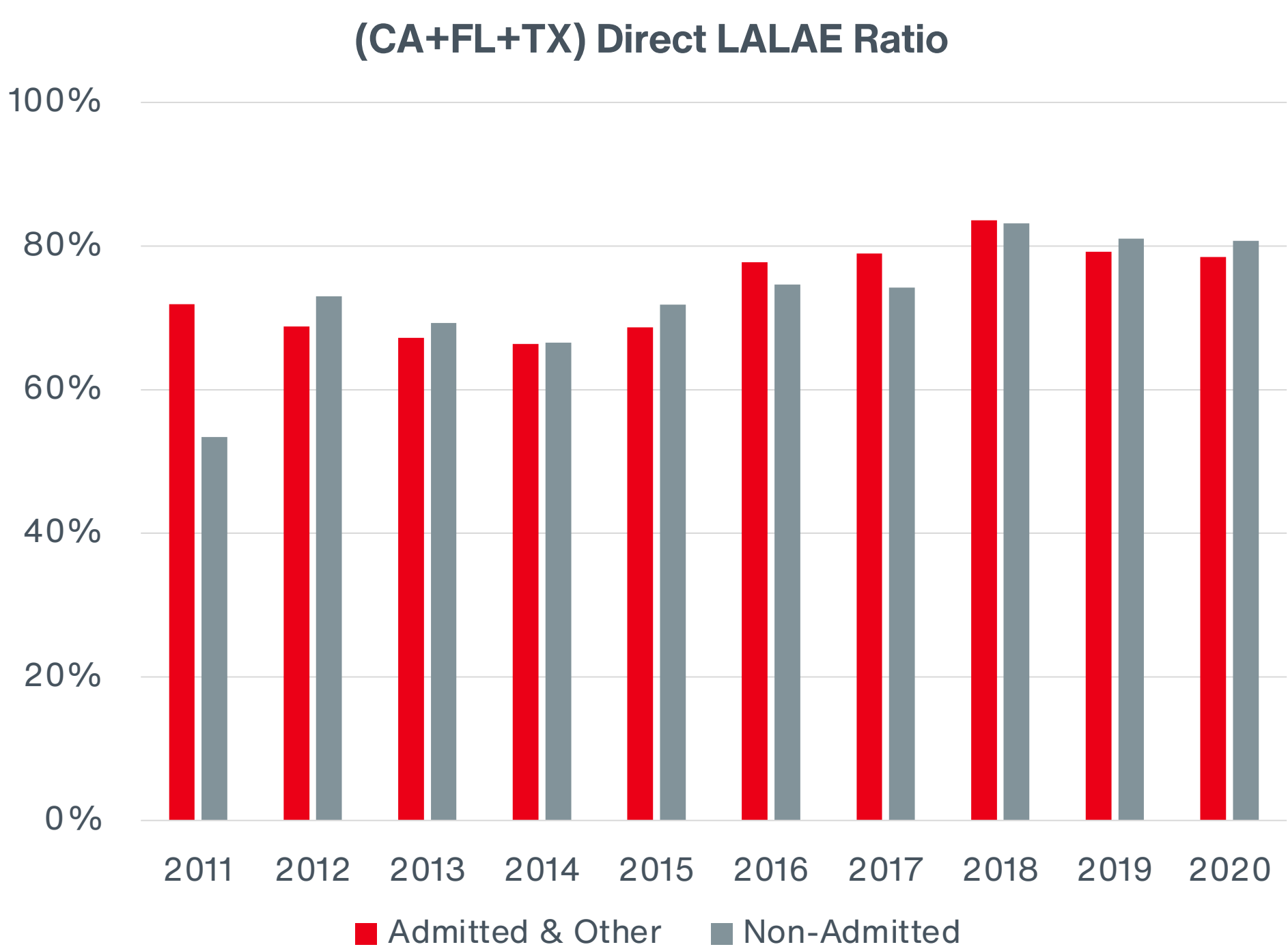
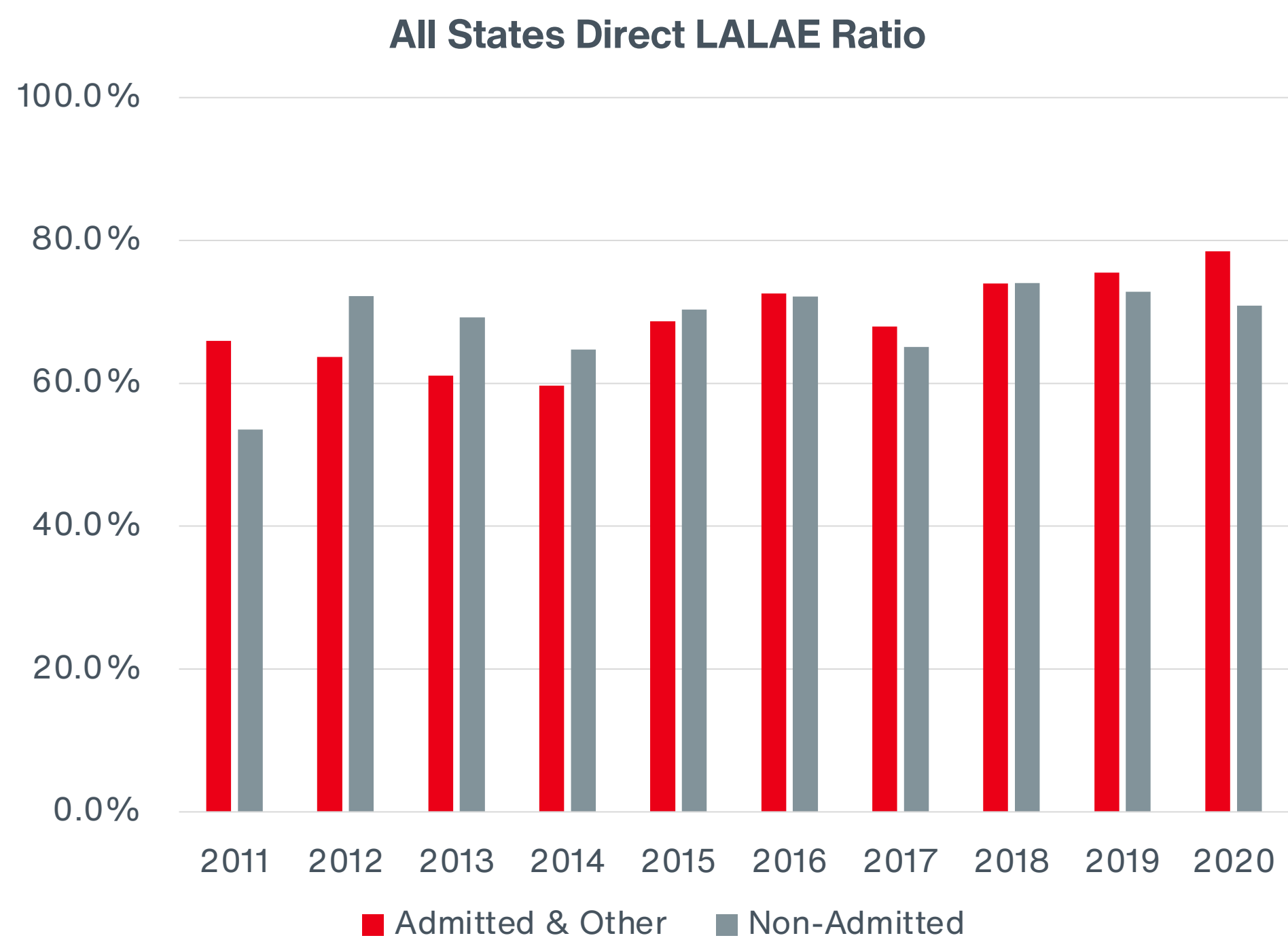




# Historical Loss Ratios

## Other Liability Occurrence

Market Segment	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	35,022	37,143	39,277	42,260	44,545	46,187	47,645	49,855	52,901	55,112
Non-Admitted	6,498	7,150	8,313	9,362	10,220	11,061	11,546	12,368	13,683	15,757

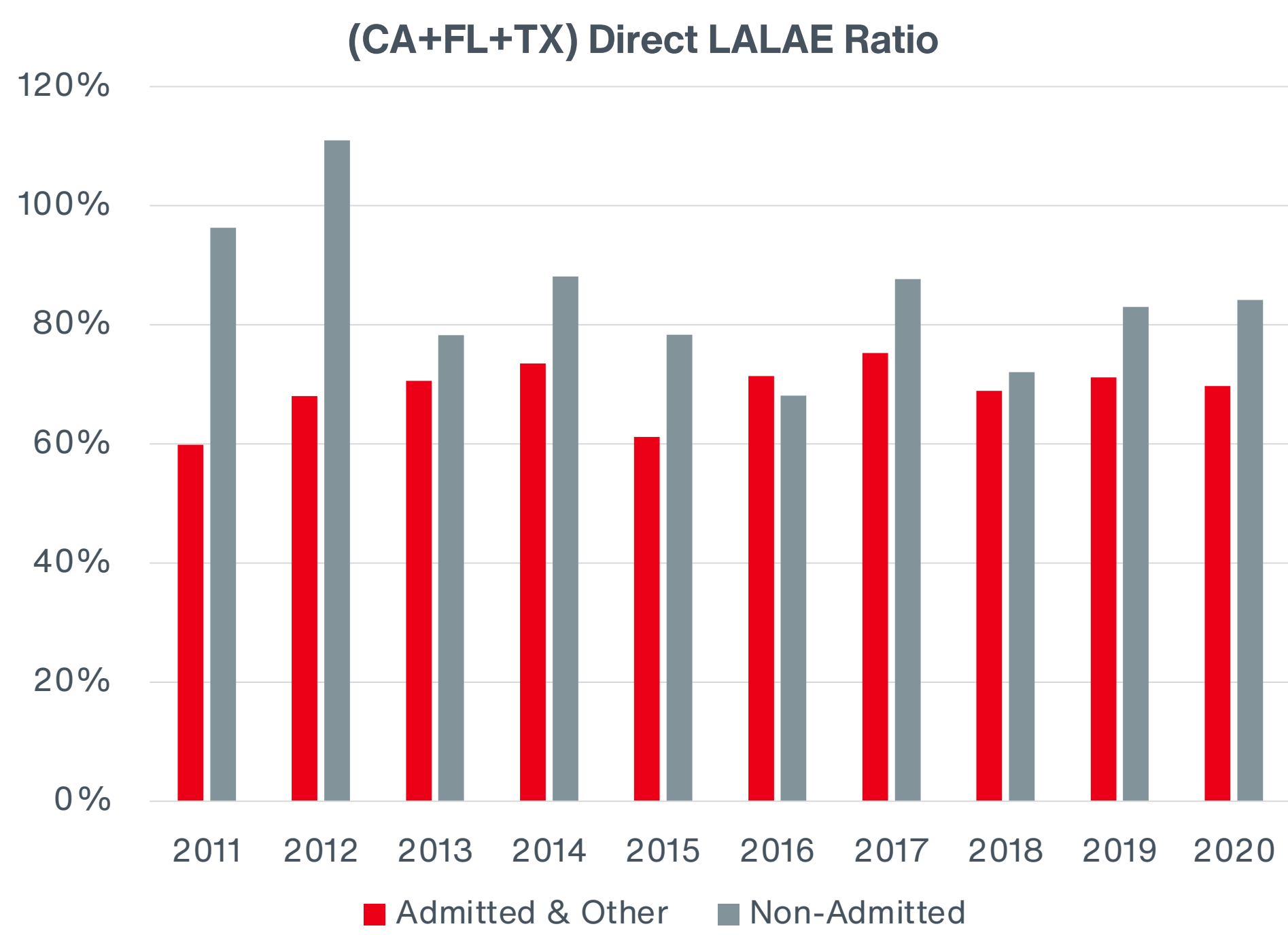
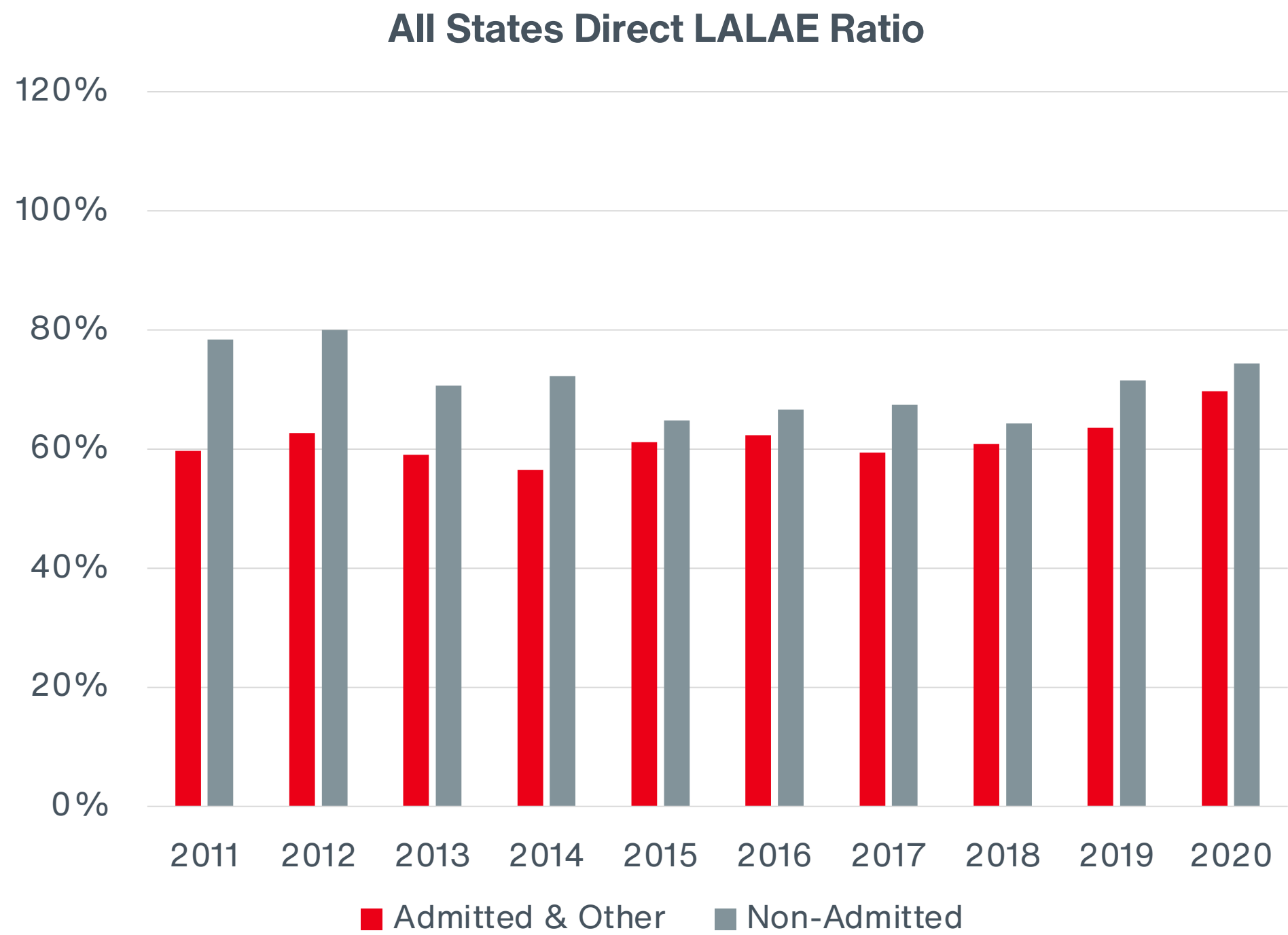




# Historical Loss Ratios

## Other Liability Claims-made

	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
Market Segment	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	13,607	13,379	14,225	14,898	15,341	15,169	15,344	15,781	16,784	19,456
Non-Admitted	4,274	4,708	4,493	4,818	5,157	5,209	5,375	5,890	6,575	7,986

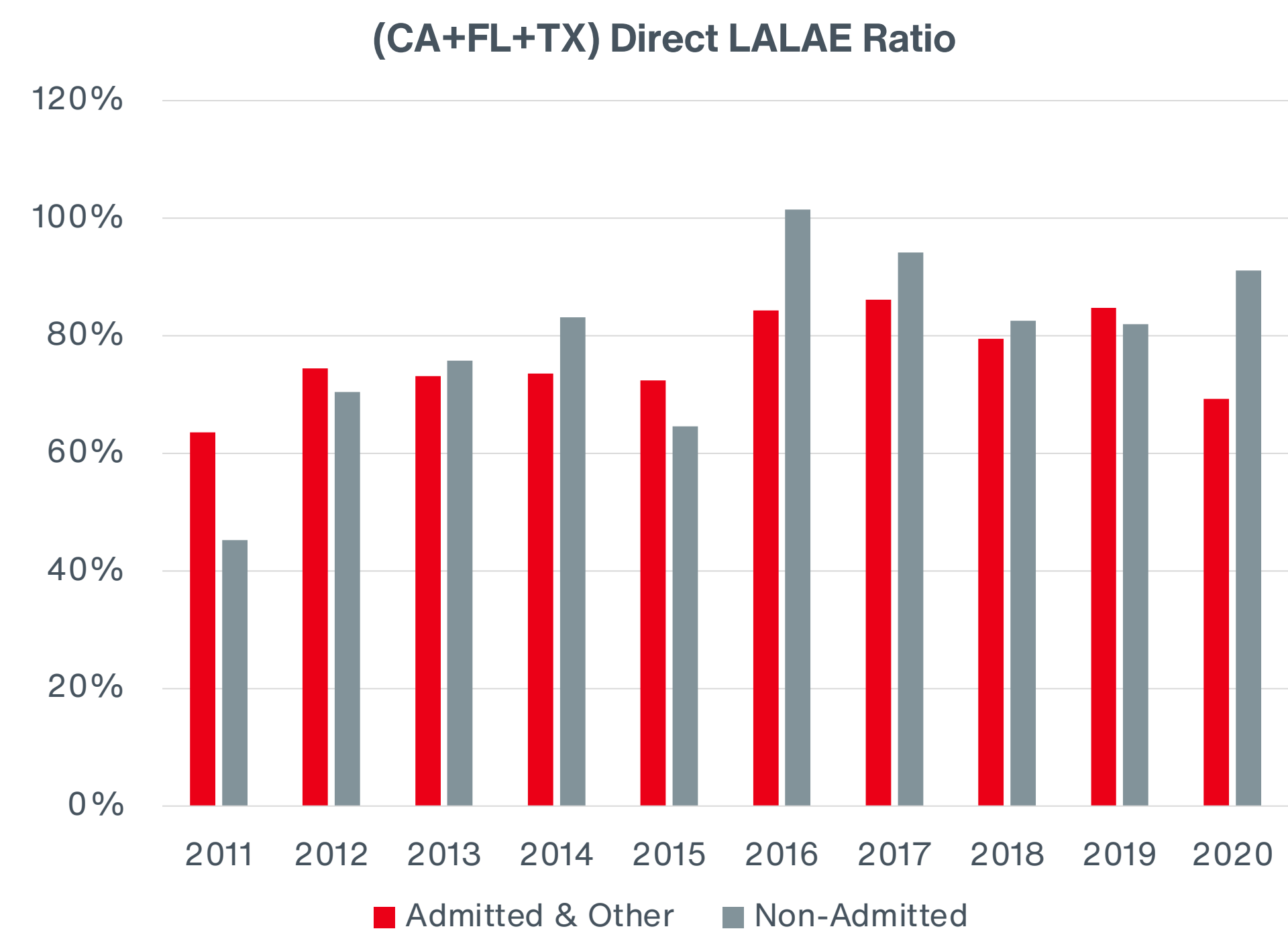
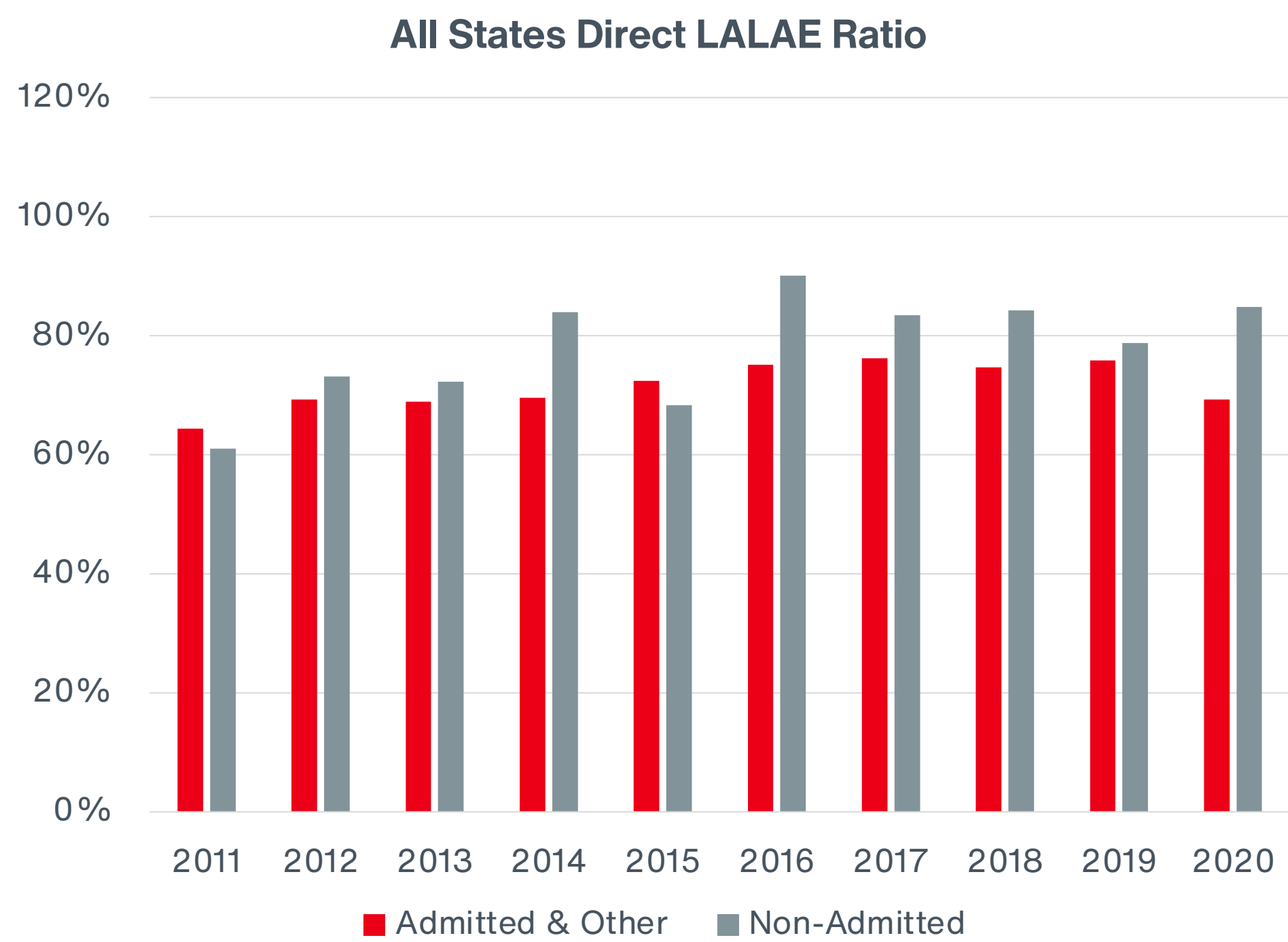




# Historical Loss Ratios

## Commercial Auto

	Direct Earned Premiums (\$M)					Direct Earned Premiums (\$M)				
Market Segment	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Admitted & Other	22,818	23,597	25,197	27,221	29,245	31,184	33,335	36,999	40,908	42,258
Non-Admitted	505	562	598	725	822	926	1,236	1,522	1,958	2,344





# Covid Impact



**Reduced supply and increased demand means prices soared. Supply needs time to catch up to demand for prices to come back to equilibrium.**

## Supply Changes

- Uncertainty about future demand caused producers to halt or reduce production of a wide variety of goods.
  - Lockdowns and COVID precautions also limited production capacities.
- Once plants are shut down, it can take time to get them restarted. It takes even longer to build new plants.
- Inventory and resources were sold off to generate cash flow (Hertz is a prime example).
- **General expectation was for a decrease in demand across most sectors.**

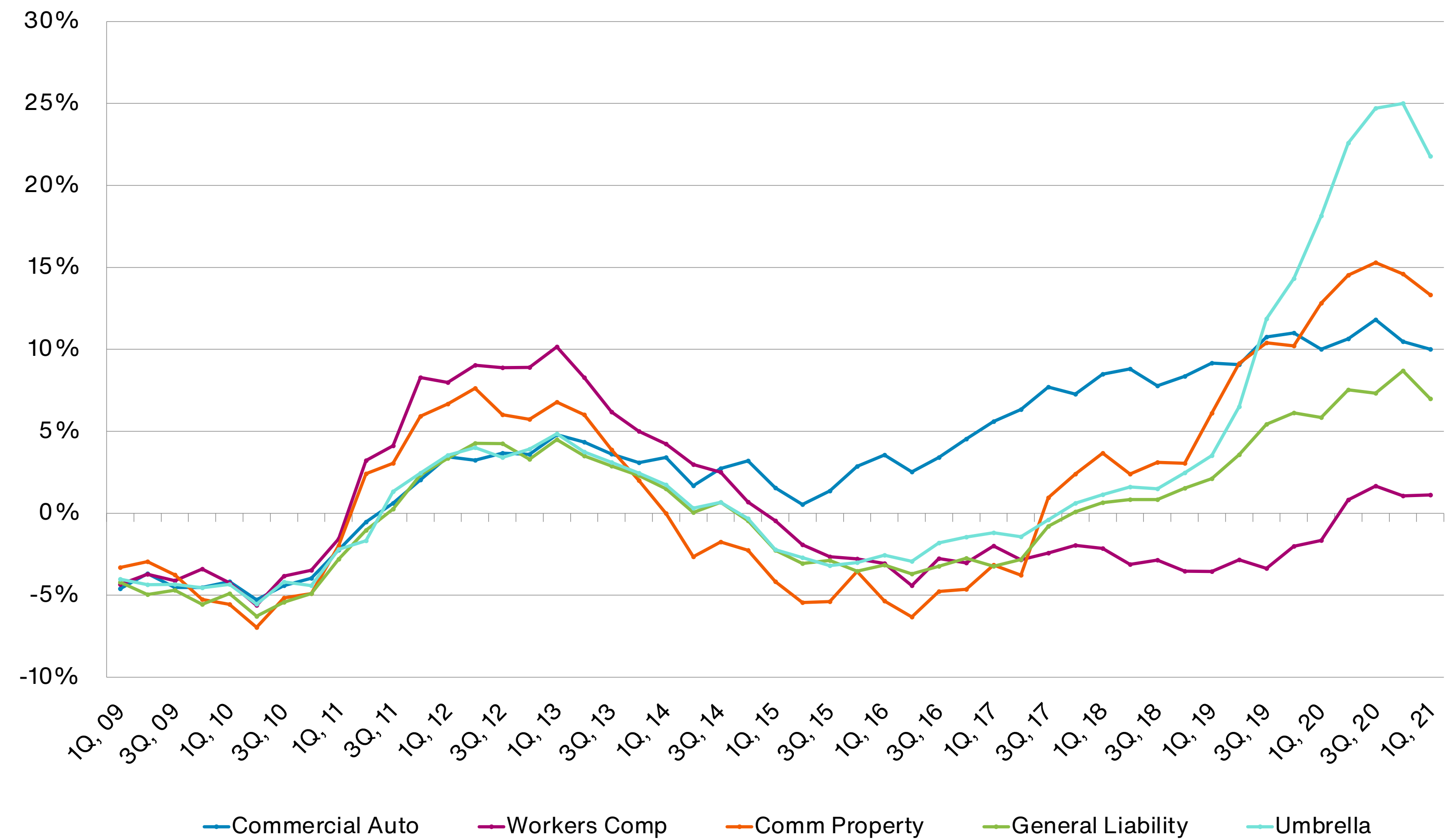
## Demand Changes

- Aside from some select products (toilet paper, Clorox wipes, etc.), there actually was an initial decrease in demand for a few months. Then **demand skyrocketed**.
- Economy transformed practically overnight and so did demand for:
  - Building materials for new homes, additions, and home office rehabs as people stayed home
  - Used cars as comfort with mass transit disappeared
- Multiple rounds of stimulus checks and enhanced unemployment benefits lifted household finances.



# Commercial Rate Changes

The average premium increase across all major lines of business is **9.6% in Q1 2021**; compared to **10.2% in Q4 2020** and **11.3% in Q3 2020**.



Source: CIAB.



# Historical Perspective



## Admitted

- Actuarial driven – filings
- Homogeneous, credible
- Publicly available info
- Stronger data capture

## Non-Admitted

- Underwriter driven –flexibility
- Unique, higher variance
- Challenging to acquire data
- Outsourced data capture

Source: K2 Insurance Services



# Current Conditions



## Admitted

- Keeping up with trends challenging
- Data Capture improved
- Automation
- Predictive Models

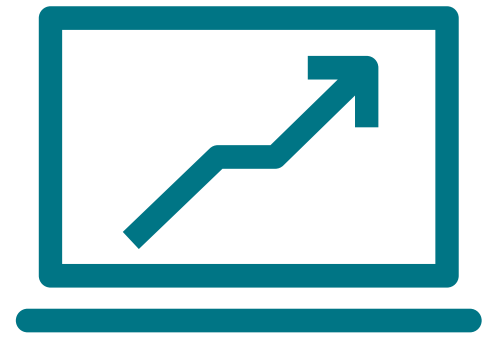
## Non-Admitted

- Still quick to enter or adapt
- Data capture improved
- Automation improved
- Longer tail

Source: K2 Insurance Services



# General Trends



## Lines Blurring

- Direct competition in larger “gray” area
- What makes something unacceptable fluid

## Critical Drivers in Growth

- Fast emerging trends
- Complexity of Risk
- Innovation
- New Company Formations

Source: K2 Insurance Services



# Innovation

How to deal with getting initial assumptions right



## Cyber

- Forms adjusted frequently from 2015-2021
- Rate movement
- Exposure base



## Covid

- Unprecedented global event
- Business Interruption
- What next, how to adjust



## Parametric

Wide variety of perils

- Earthquake
- Hurricane
- Deductibles
- Construction delays

Source: K2 Insurance Services



# Social Inflation

## Increased liabilities and higher claims costs due to:

- Increasing litigation
- Broader definitions of liability
- More plaintiff-friendly legal decisions, and
- Larger compensatory jury awards

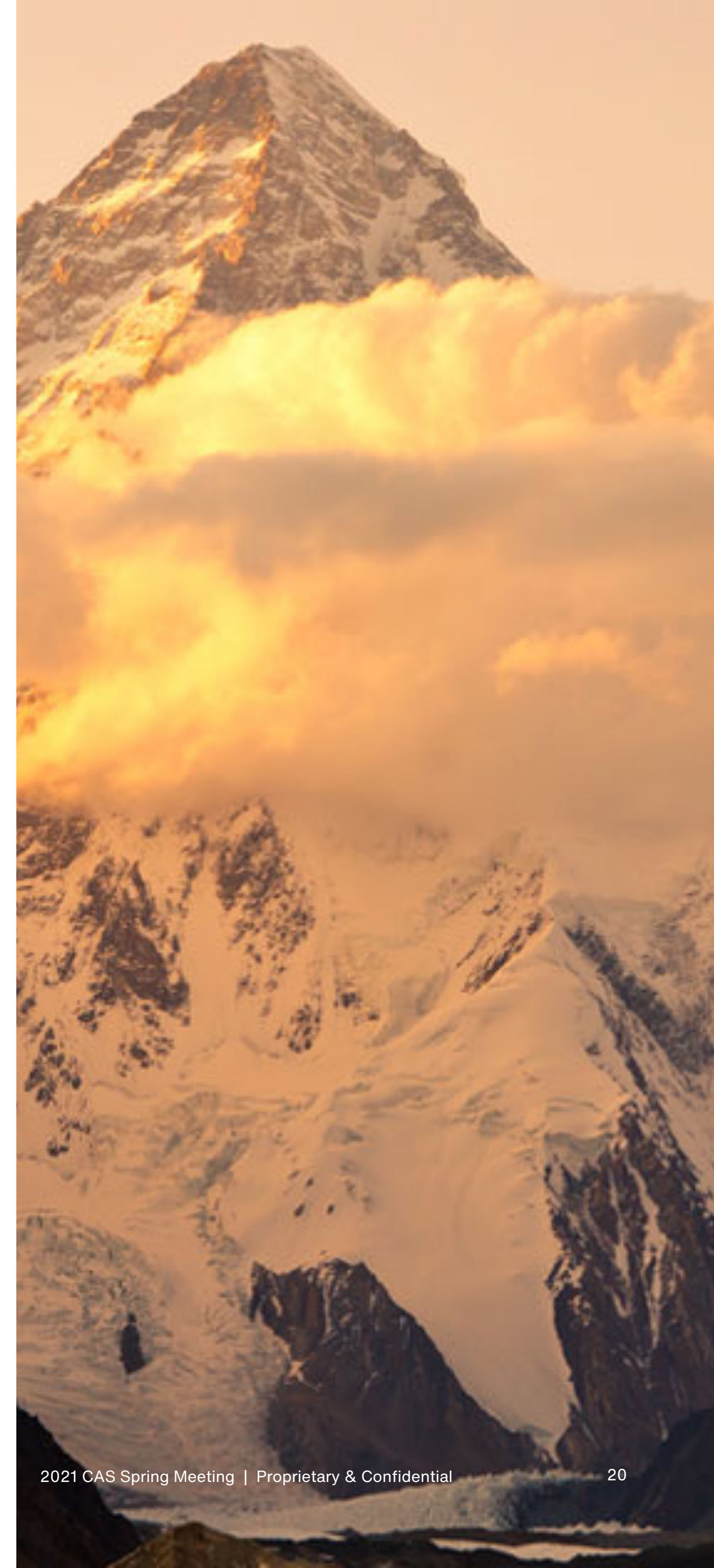
## Periods of social inflation have been seen in the 1980s and 1990s/2000s

- Responds to changes in the legal landscape
- Previously affected lines include Product and professional liability and medical malpractice

## Does Social Inflation impact all lines of business?

- Auto Liability
- General Liability/Excess Liability
- Directors & Officers (Cyan decision)
- Medical Malpractice

**Social Inflation was seen first in carrier results for Commercial Auto Liability and other lines have followed.**





# Actuarial Impact

## Find non-application data to advance underwriting

- Find something first – there are a lot of people looking
- Find wasteful items that have no correlation to results

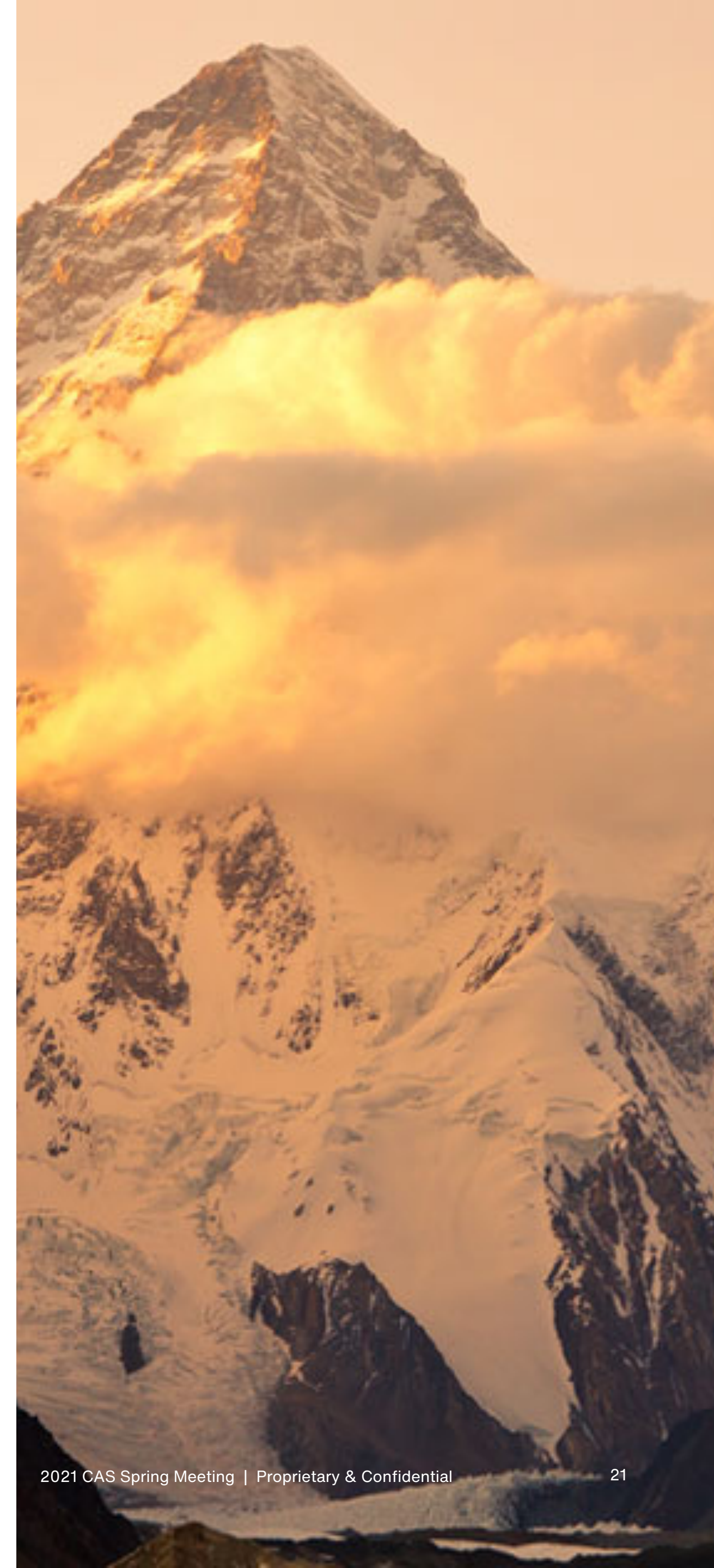
## Risk Taking

- Increasing variance increases actuarial insights
- Provide counsel on flexibility with boundaries

## Scenario Planning

- Range of outcomes versus worst case scenario
- Long tail evaluation

Source: K2 Insurance Services



# Contacts

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