

Surplus Lines Market Overview



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Characteristics of Insurance



- *Purchase of a promise - intangible*
- *Complex document - legal contract*
- *Provides important benefits – payment of losses, reduction of uncertainty, loss control, supports credit, reduces social burdens, satisfies legal or business requirements, source of investment funds*

Why the need for Regulation?



- *To protect consumers*
- *To maintain insurer solvency*
- *To prevent destructive competition*

Regulations can limit a carriers' ability to provide coverage. There are risks standard carriers are not able/willing to write. This is why the Surplus Lines Market is needed.

Why the need for Surplus Lines?



- **Distressed Risk** – characterized by unfavorable attributes that have made it unacceptable to admitted carriers. Ex - risks poor loss experience
- **Unique Risk** – a specialized or unusual risk that is difficult for an admitted insurer to insure because no policy form meets its particular needs. Ex. - Mardi Gras Krews, Asbestos remediation contractor
- **High Capacity Risk** – a risk that requires high limits of insurance that may exceed the underwriting criteria of an admitted insurer. Ex. - airport, sports facility
- **New or Emerging Risk** – require special expertise and flexibility. Ex - cyber liability

Surplus Lines Market



- Surplus lines insurers and their intermediaries constitute a distribution system called the surplus lines market.
- The surplus lines market provides insurance to consumers whose needs are not met by the standard/admitted insurance market.
- The surplus lines insurers are also referred to as Excess and Surplus (E&S), Non-admitted, Approved Unauthorized Insurers, Eligible Unauthorized Insurers.

Characteristics of the Surplus Market



- Surplus lines insurers are not licensed by the state.
- In Louisiana and many states, a “white list” indicates which insurers meet the state’s eligibility requirement.
- Surplus lines laws permit specialty licensed intermediaries/brokers to “export” risks to eligible surplus lines insurers.
- Surplus lines tax is collected directly from the insured and remitted to the state by the surplus lines broker.
- Surplus lines carriers are normally not subject to guaranty fund protection.
- Surplus lines have primacy over residual markets.

What Empowers the Surplus Lines Market?



- Freedom of Rate and Form - Surplus line carriers are not bound by most of the rate and form regulations, allowing them the flexibility to change the coverage offered and the rate charged without time constraints and financial costs associated with the filing process.

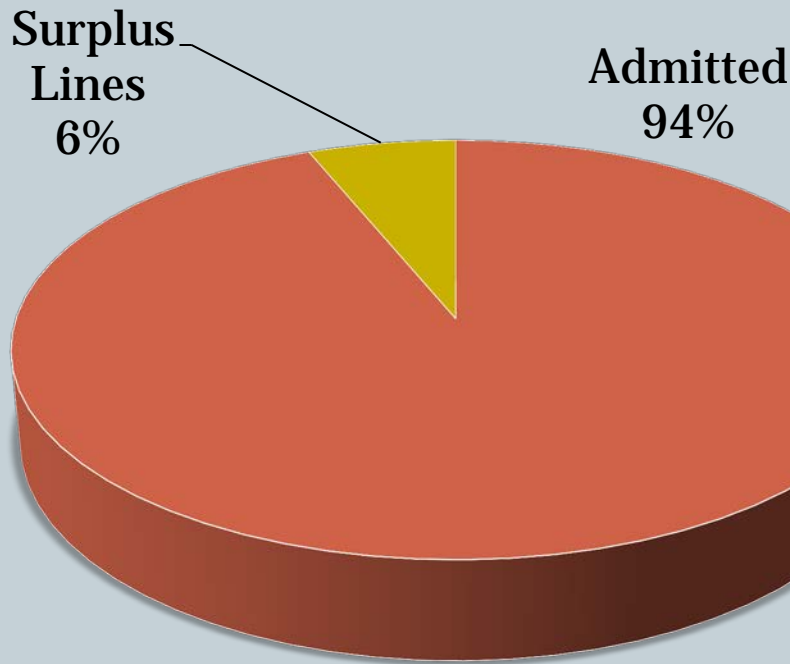
Surplus Lines Insurance Products



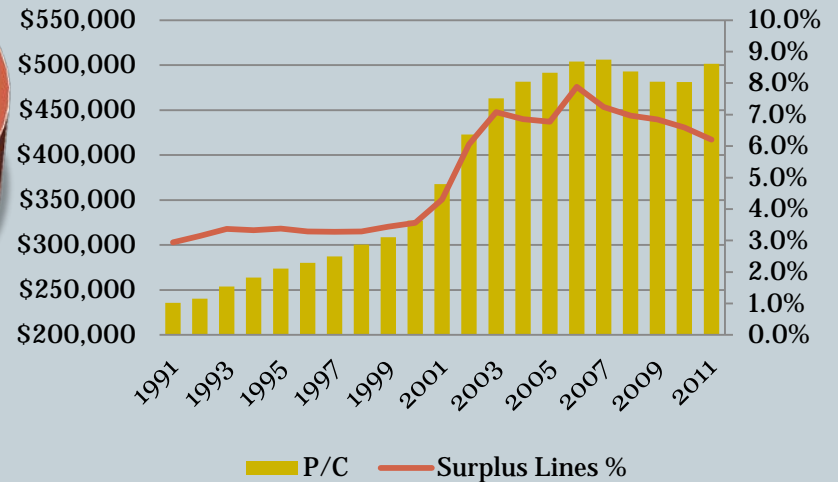
- **General Liability**
- **Management Liability**
- **Professional Liability**
- **Commercial Auto**
- **Environmental**
- **Excess and Umbrella Liability**
- **Commercial Property**
- **Ocean Marine and Inland Marine**
- **Commercial Crime**
- **Aviation**
- **Personal Insurance**

U.S. Insurance Market

2011 Total Property and Casualty Industry



US P/C Total Premium



Top States for Surplus Lines

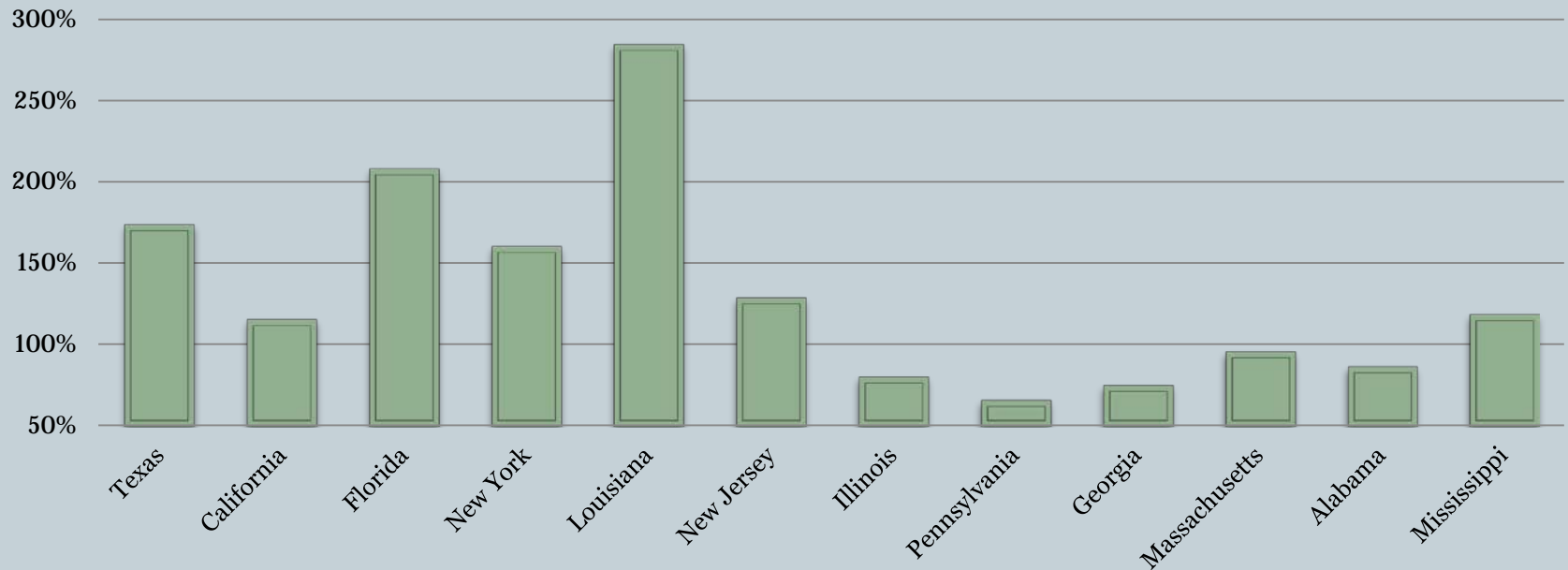


State	2010 Surplus Lines Premium	% of U.S. Surplus Premium	% of U.S. Population	Surplus Premium Rank	U.S. Population Rank	Rank Difference	# of Fortune 500 Companies	2010 Surplus Lines Tax Collected	Tax Rate
Texas	\$4,342,933,747	14.00%	8.04%	1	2	1	51	\$160,957,958	4.90%
California	\$4,281,088,592	13.80%	11.91%	2	1	-1	57	\$113,567,663	3.00%
Florida	\$3,887,288,162	12.53%	6.01%	3	4	1	16	\$175,425,869	5.00%
New York	\$3,086,813,224	9.95%	6.19%	4	3	-1	58	\$72,555,433	3.60%
Louisiana	\$1,279,435,677	4.13%	1.45%	5	25	20	3	\$63,971,459	5.00%
New Jersey	\$1,126,682,343	3.63%	2.81%	6	11	5	20	\$50,072,658	5.00%
Illinois	\$1,026,856,572	3.31%	4.10%	7	5	-2	30	\$33,384,215	3.50%
Pennsylvania	\$832,833,859	2.69%	4.06%	8	6	-2	23	\$25,689,664	3.00%
Georgia	\$725,432,250	2.34%	3.10%	9	8	-1	12	\$29,017,289	4.00%
Massachusetts	\$622,576,217	2.01%	2.09%	10	14	4	13	\$23,303,366	4.00%
Alabama	\$413,137,083	1.33%	1.53%	18	23	5	1	\$24,788,225	6.00%
Mississippi	\$351,940,243	1.13%	0.95%	20	32	12	0	\$14,078,306	4.00%

Surplus Utilization



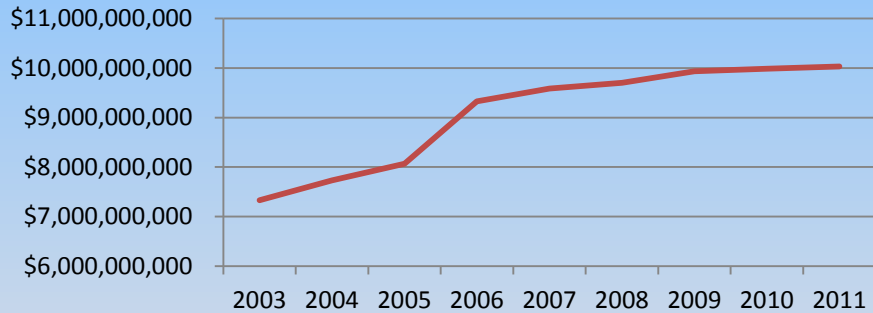
Surplus Lines Utilization Ratio



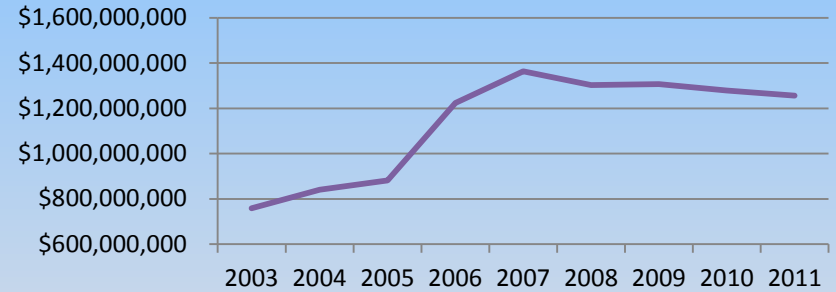
Louisiana Surplus Premium Volume

Year	Total P&C Premiums	Surplus Lines Premiums	Surplus Lines % of Total
2003	\$7,332,109,125	\$758,734,765	10.35%
2004	\$7,734,316,558	\$840,477,720	10.87%
2005	\$8,067,909,252	\$882,190,525	10.93%
2006	\$9,325,316,819	\$1,223,623,323	13.12%
2007	\$9,587,521,425	\$1,363,644,232	14.22%
2008	\$9,704,602,435	\$1,303,436,066	13.43%
2009	\$9,936,890,482	\$1,307,567,784	13.16%
2010	\$9,989,283,268	\$1,279,435,677	12.81%
2011	\$10,034,800,736	\$1,255,578,355	12.51%

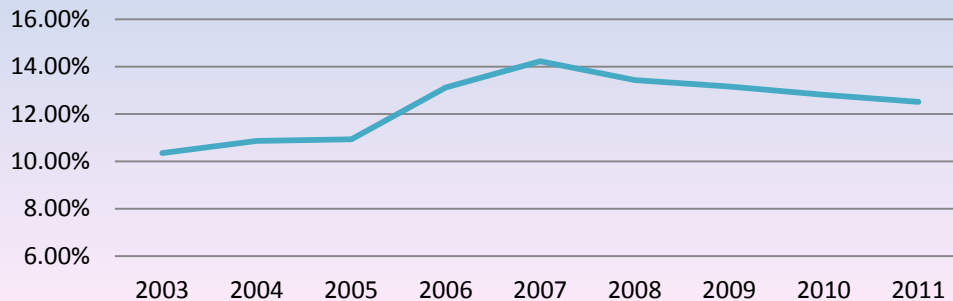
Louisiana P&C Premiums



Louisiana Surplus Lines Premiums



Louisiana Surplus Lines %



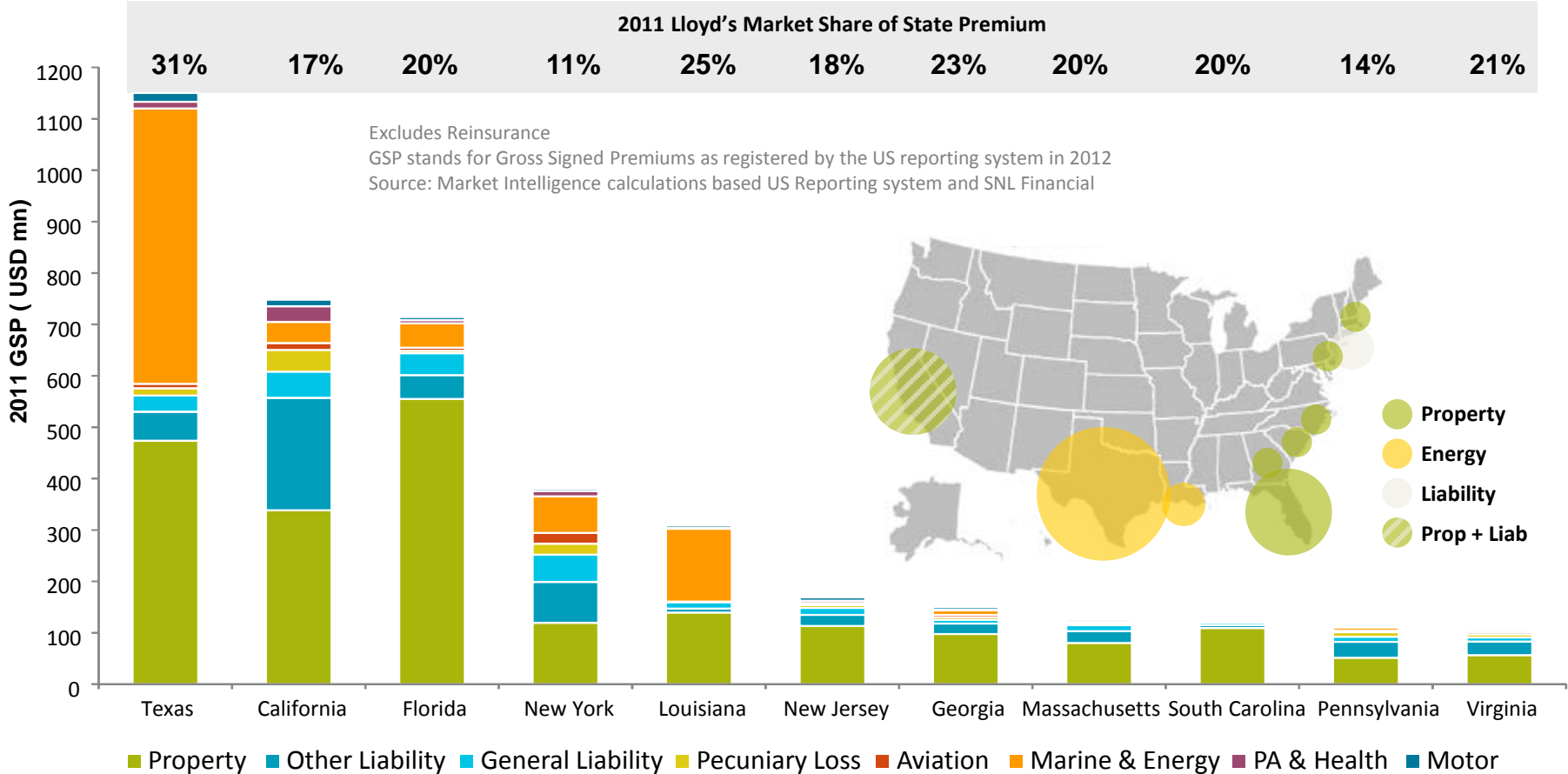
Top Ten U.S. Surplus Lines Providers



Rank	Group Name	Surplus DPW	Surplus Market Share
1	Lloyd's	\$5,790	18.6%
2	AIG	\$5,345	17.2%
3	Nationwide Group	\$1,254	4.0%
4	Zurich Financial	\$1,061	3.4%
5	W.R. Berkley	\$977	3.1%
6	ACE	\$860	2.8%
7	Markel	\$770	2.5%
8	CNA	\$712	2.3%
9	Ironshore	\$610	2.0%
10	QBE Americas	\$583	1.9%

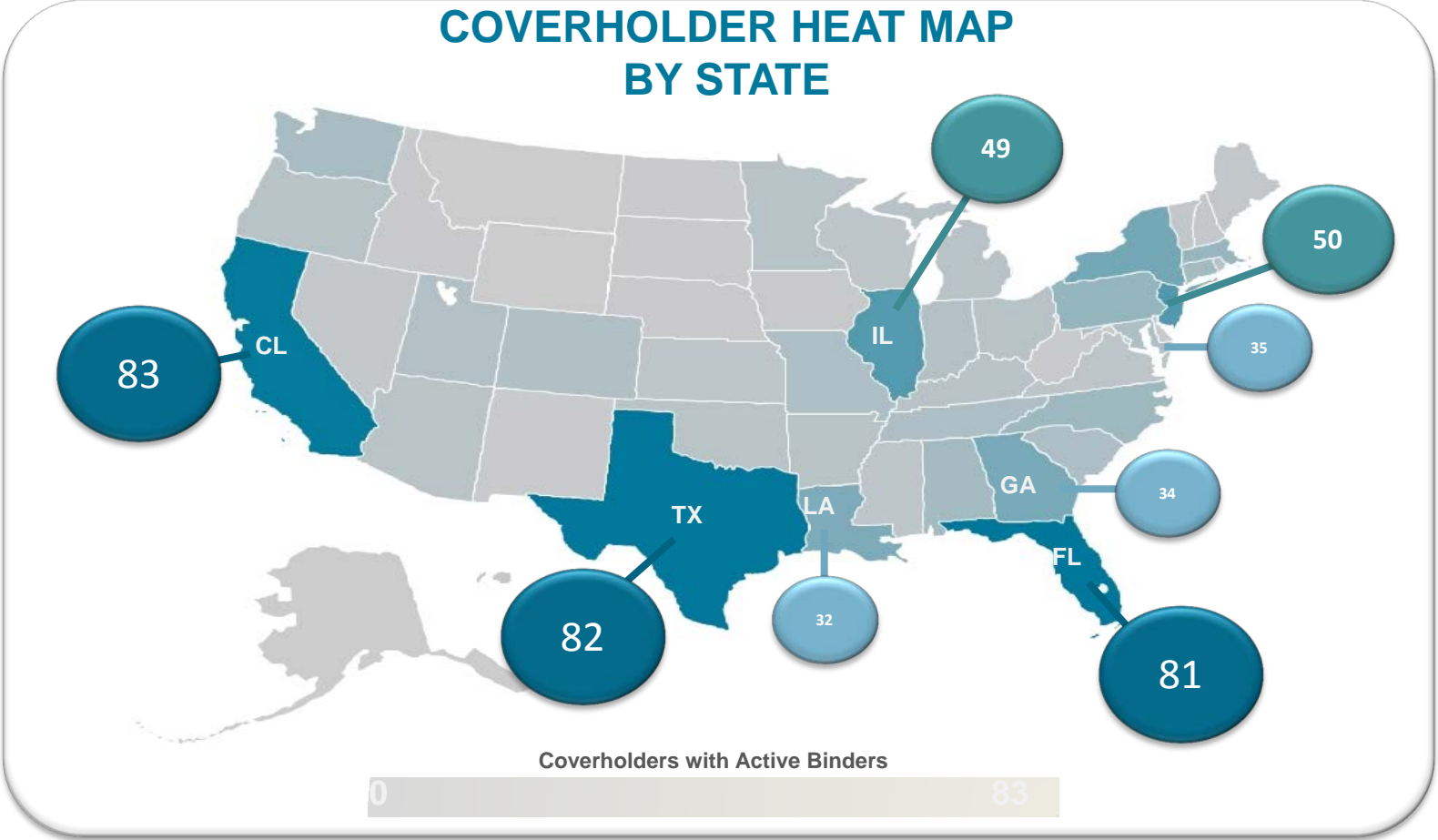
Lloyd's > Top 10 States (E&S Premium)

Lloyd's share of the E&S market in Texas, Louisiana, Georgia, Virginia and Florida ranges from 20 – 31%. Catastrophe capacity provided by Lloyd's fills a critical need in these states.



Source: Market Intelligence calculations based on: US Reporting system and SNL Financial; Gross of outward reinsurance; GSP stands for Gross Signed Premiums as registered by the US reporting system in 2012

Lloyd's > Coverholder Profile



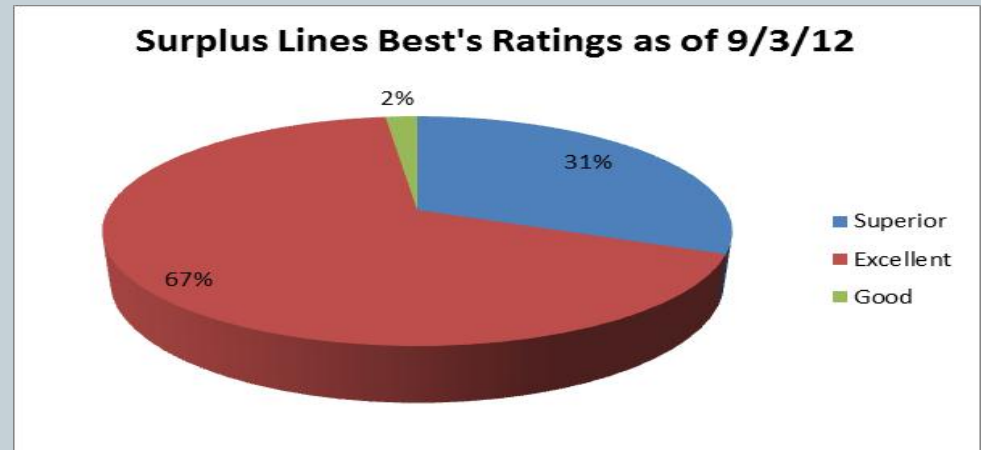
- Total premium written by Lloyd's coverholders (MGA's) in 2011 was US\$ 2.8bn

Source: Market Intelligence calculation based on: Delegated Authority Team, (May 2012); * only counting active binding authorities as of May 2012

Solvency



- 100% of surplus lines carriers rated “Secure” by A.M. Best
- No vulnerable ratings for 103 domestic professional surplus lines insurers
- 2012 will mark the 9th year without a financially impaired surplus line company



Market Cycles

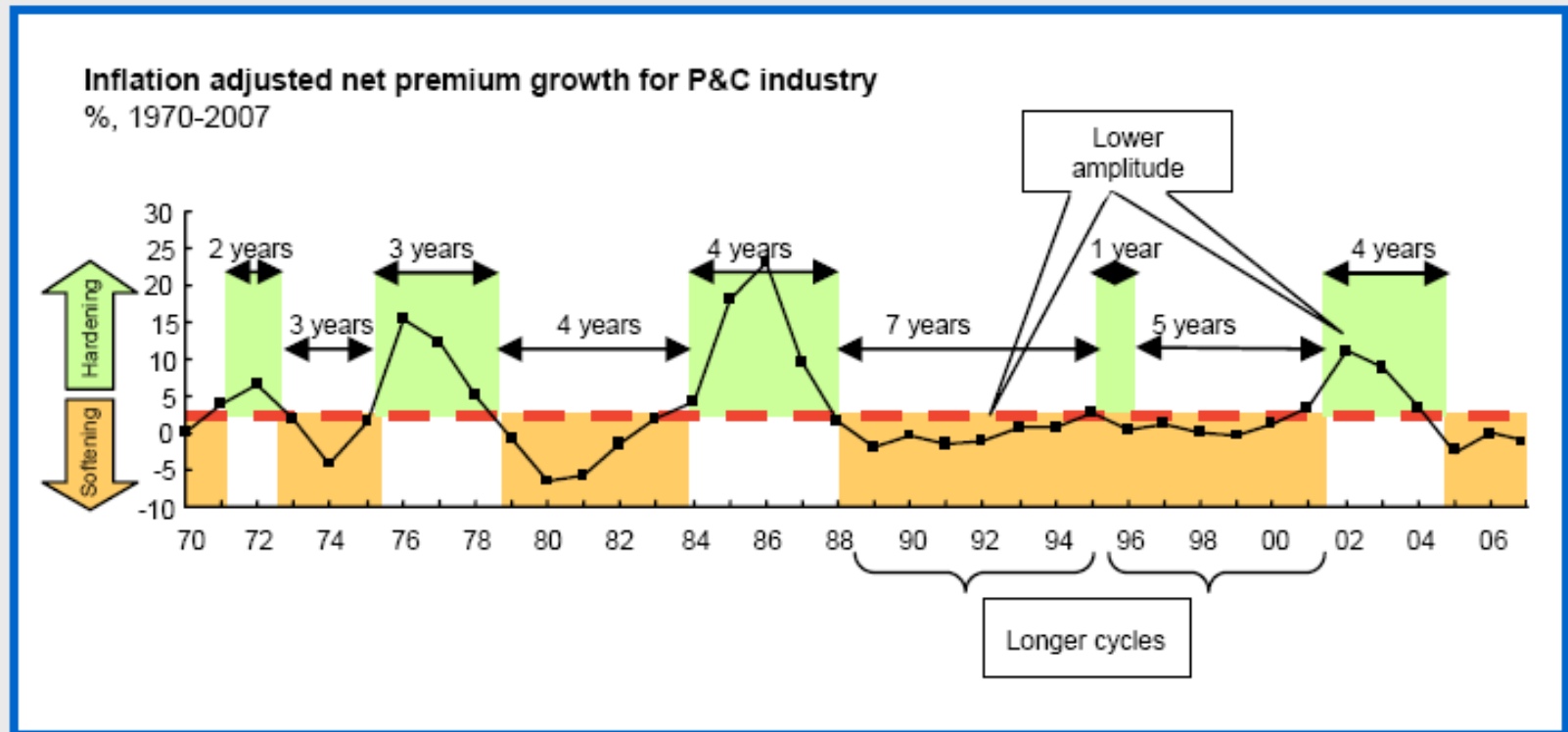


- **Soft market** — lower rates, relaxed underwriting, underwriting losses
- **Hard market** — higher rates, restrictive underwriting, underwriting gains
- **Factors that drive the market cycle**
 - Change in non-catastrophic losses
 - Change in interest rates
 - Change in policy holder surplus
 - Change in catastrophic losses
 - Momentum

Are Cycles Changing?



The cycle is lengthening; amplitude is decreasing



Sources: Conning & Company; Standard & Poor's; Insurance Information Institute; McKinsey team analysis

Factors Weakening the Cycle



- Regulation
- Rating Services
- Information Technology
- Globalization
- Modeling
- Investment Options

2013 Louisiana Surplus Lines Legislation



- **ACT 203 – HB 543**
- **Liberalized the rules for obtaining surplus lines insurance coverage by allowing the use of surplus lines insurance without regard to the availability of admitted coverage**
- **Requires written authorization to procure personal lines insurance in the surplus market**
- **Implements the Dodd-Frank Act of 2010 and makes the “white list” voluntary**
- **Added new definition of “eligible unauthorized insurer”**

Thanks



- **Tommy Coco – LDI**
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- **Madeleine Landry – Academy of the Sacred Heart**

Questions

