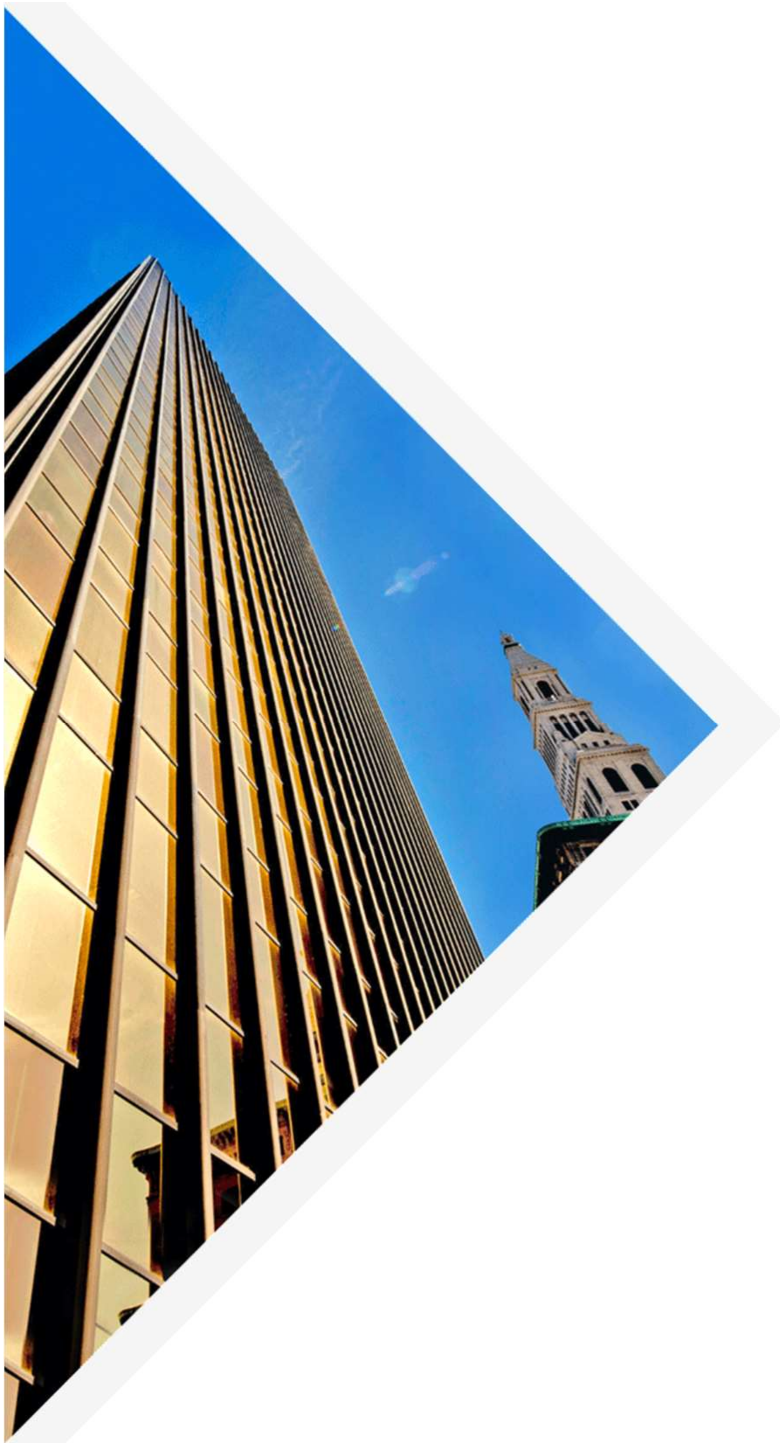

Wholesale and Specialty Insurance Association

Analysis of Non-Loss Costs by Conning Insurance Research

September 2021

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Purpose of Report

Wholesale and Specialty Insurance Association (“WSIA”) retained Conning, Inc.’s Insurance Research Division (“Conning”) to conduct an analysis of the relative non-loss costs of commercial insurance policies distributed through wholesale brokerage channels as compared to retail brokerage channels.

For purposes of this analysis, non-loss costs are defined as underwriting expenses, as filed in insurers’ statutory statements.

Executive Summary

Conning measured all non-loss costs relative to premium from 2016 to 2020 for individual insurance companies that predominantly write commercial insurance.

Two composites were defined and analyzed: a Wholesale Composite, which included 99 individual companies with $38 billion in premium, and a Retail Composite, which included 205 companies with $69 billion in premium.

When comparing the two composites, Conning found:

- For the period of 2016-2020, the total median non-loss cost ratio for the wholesale composite was lower than the retail composite by 1.8 percentage points.
- Wholesale non-loss cost ratios were lower each year of the study period, 2016-2020.
- The wholesale composite's commission ratio is consistently around 3 points higher than the retail composite but is offset by the wholesale composite's non-commission cost ratios that average nearly 4 points lower than the retail composite.
- The wholesale composite non-commission cost ratio has improved each year, while that of the retail composite increased in 2018 before improving in 2019 and 2020.
- In each of the years measured, the annual growth rate in direct premium written for insurers in the wholesale composite exceeded the annual growth rate in direct premium written for insurers in the retail composite.

METHODOLOGY

Summary Methodology

Measurement

- Conning measured total non-loss costs (commissions; taxes, licenses, and fees; other acquisition expenses; and general expenses) relative to written premiums for individual insurance companies.
- Premiums and expenses were measured on a direct basis, excluding the effects of reinsurance or pooling.

Data Employed

- Annual statutory-based financial information for the five years ended 2020.
- Analysis included ten lines of business, for insurers that predominantly write commercial insurance. The ten lines ("Selected Lines") include other liability, commercial multiperil, commercial auto, allied lines, fire, inland marine, products liability, medical professional liability, earthquake, and ocean marine.

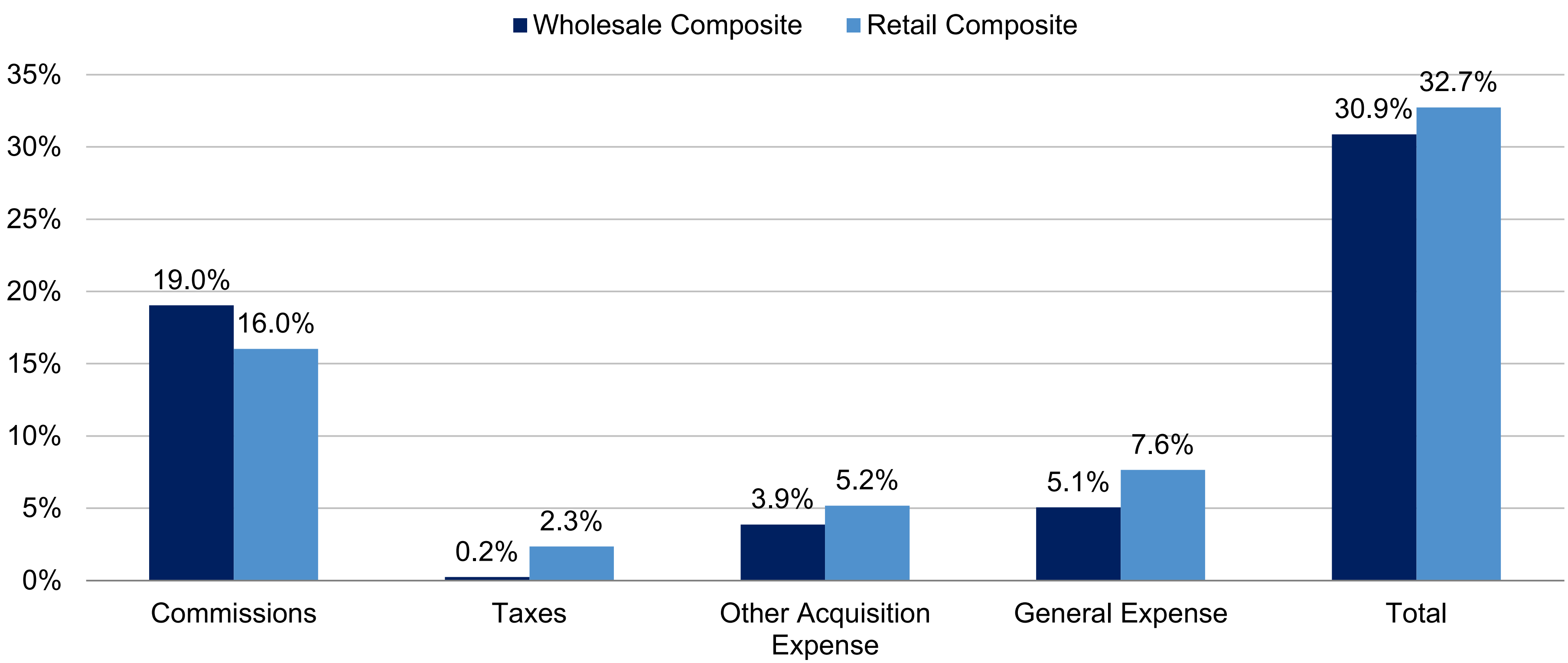
Development of Wholesale and Retail Composites

- Two composite groups of companies were formed as a proxy for retail and wholesale distribution.
- Companies were placed into each composite based on a combination of S&P Capital IQ Pro's distribution identification tag as well as through WSIA's company-by-company review, based on WSIA's collective knowledge of commercial insurance distribution.
- The selection process resulted in 99 companies representing $38 billion in premium for the Wholesale Composite and 205 companies representing $69 billion in premium for the Retail Composite.

ANALYSIS OF NON-LOSS COST EXPENSES

Wholesale Non-Loss Cost Ratios Less Than Retail Ratios

Median Annual Non-Loss Cost Ratios, Five-Year Average, Selected Lines



The median five-year average commission ratio for the wholesale composite was three percentage points above the retail composite, but this difference was more than offset by lower reported tax, other acquisition expense and general expense ratios. Over the five years analyzed, the wholesale composite had a 1.8-percentage-point advantage in non-loss cost expense.

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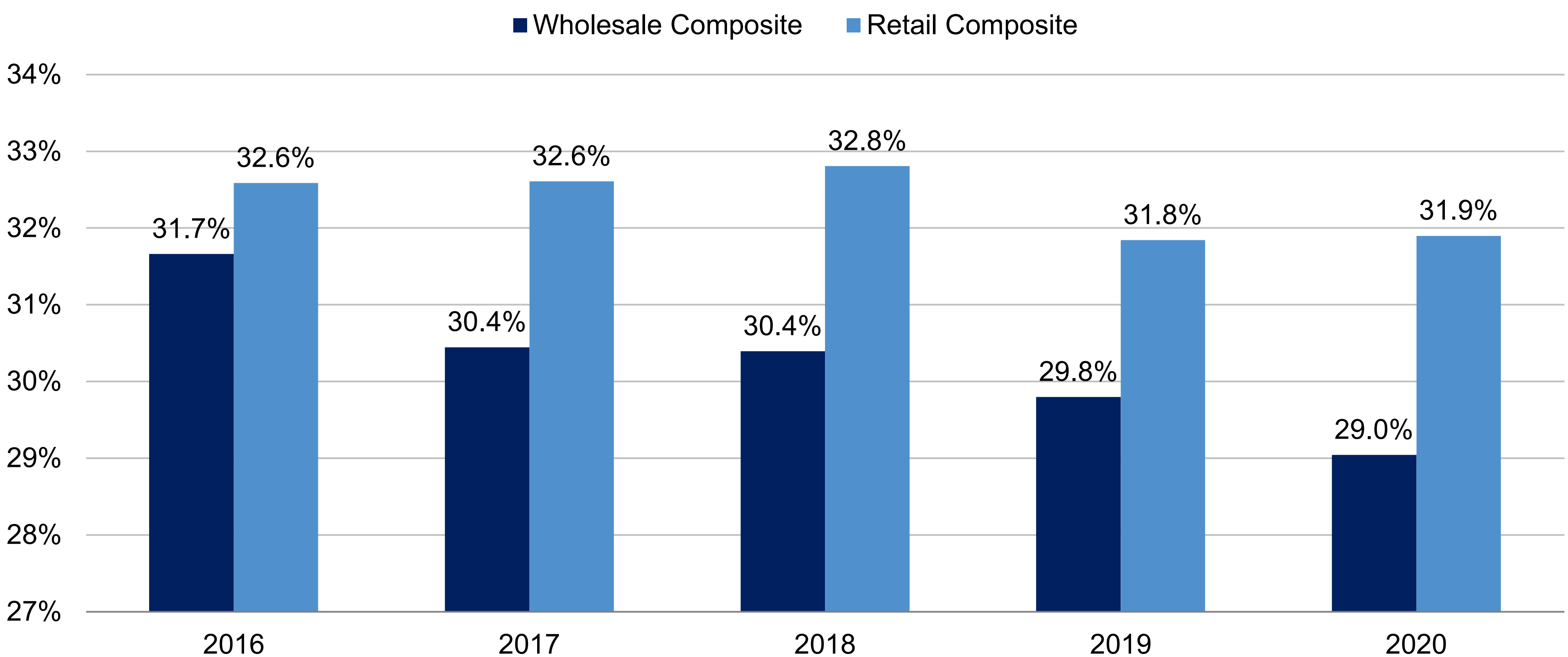
Non-Loss Costs Fluctuate by Year, but in a Narrow Range

Median Annual Non-Loss Cost Ratios by Year, Selected Lines



Wholesale non-loss cost ratios were lower each year of the study period, 2016-2020. The wholesale channel non-loss cost advantage relative to the retail composite ranged from a low of 0.9 percentage point (2016) to a high of 2.9 points (2020).

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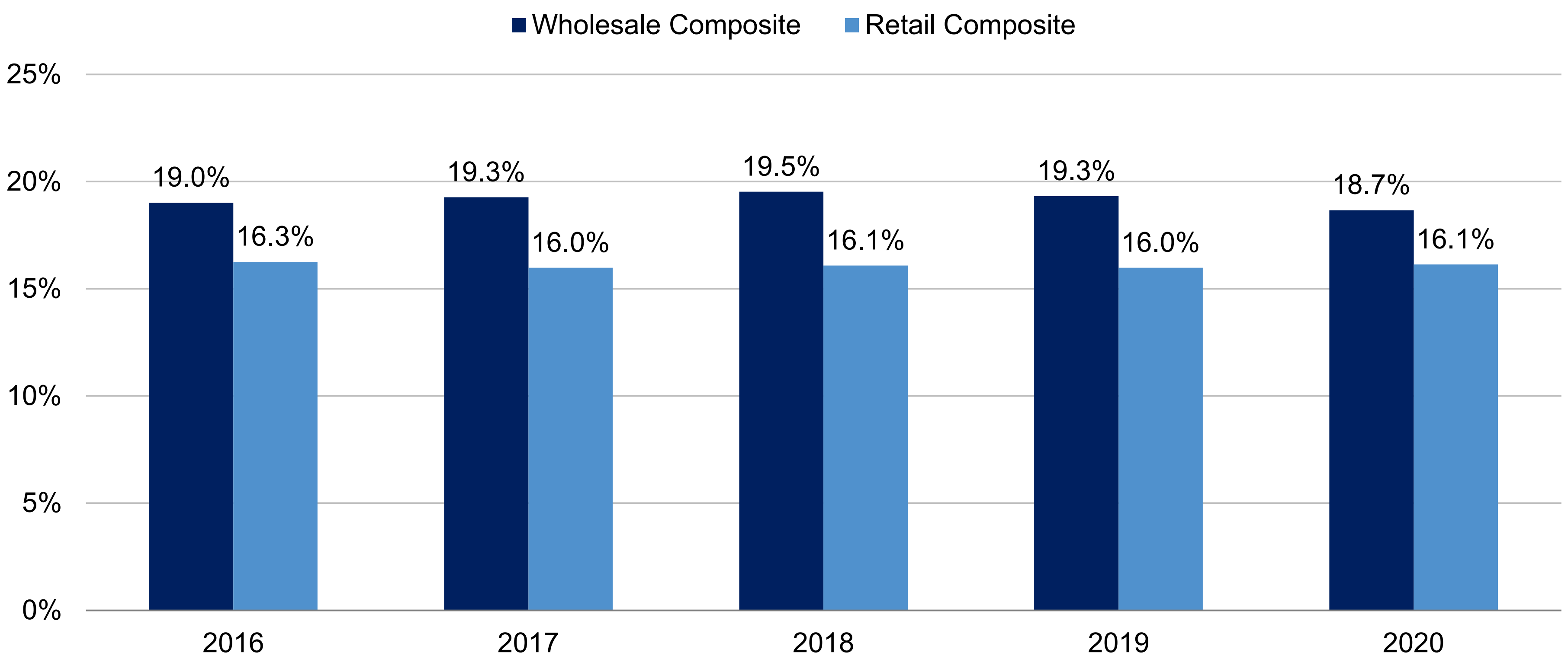
Wholesale Commission Ratio Higher Than Retail

Median Annual Commission Cost Ratios by Year, Selected Lines



The wholesale commission ratio is consistently 1.4 to 3.4 percentage points higher than that of the retail composite.

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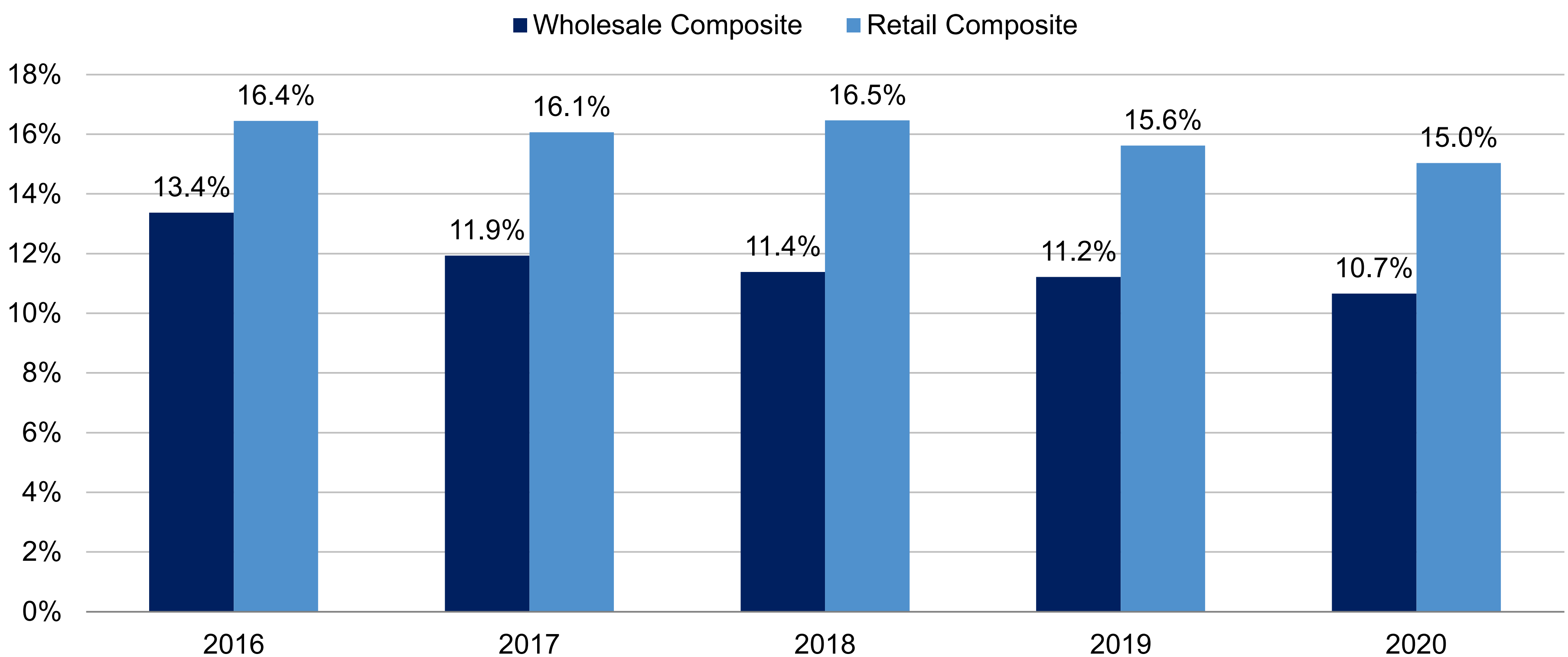
Yet Wholesale Non-Commission Ratios Are Much Lower Than Retail

Median Annual Non-Commission Cost Ratios by Year, Selected Lines



Wholesale non-commission cost ratios average 4.7 points lower than retail. The wholesale composite non-commission cost ratio has improved each year for 2016-2020.

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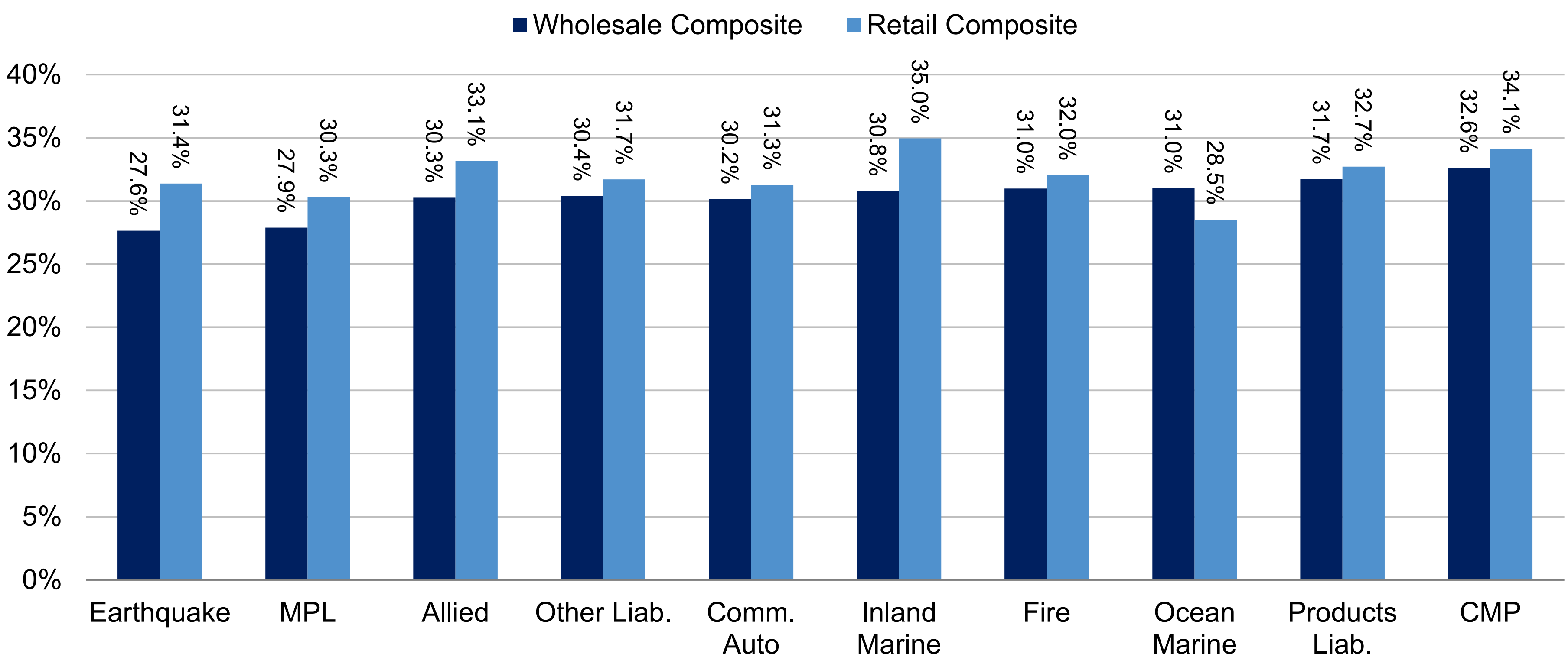
Results by Line Are Mostly in Favor of Wholesalers

Median Annual Non-Loss Cost Ratios by Line, Five-Year Average



The lines of business with the greatest differential were: inland marine (4.2 points), earthquake (3.8 points), allied lines (2.8 points), and MPL (2.4 points). Only ocean marine had higher non-loss cost ratios for wholesale than for retail. This is a change from the 2010-2015 analysis in which MPL, fire, and products liability lines had higher non-loss cost ratios for wholesale than for retail.

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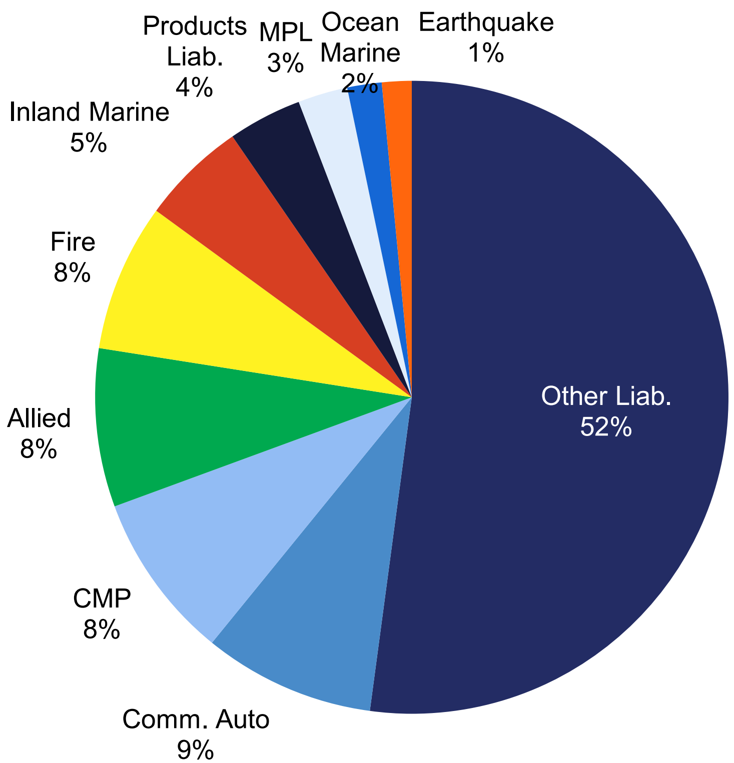
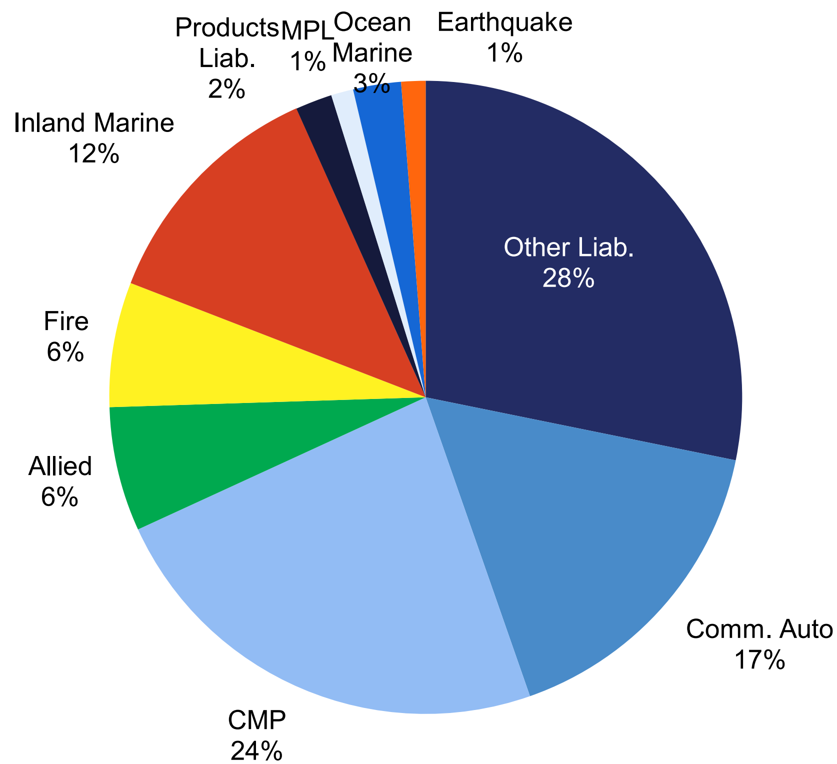
PROFILE OF COMPOSITES

Business Mix

Wholesale Composite



Retail Composite



In each composite, the top 3 lines account for about 70% of aggregate DPW and were the same in each composite (other liability, commercial multiperil, commercial automobile).

Other liability dominates wholesale, accounting for greater than 50% of DPW, versus 28% for retail. Conversely, commercial multiperil's 24% weighting in retail is about triple the 8% weighting in wholesale.

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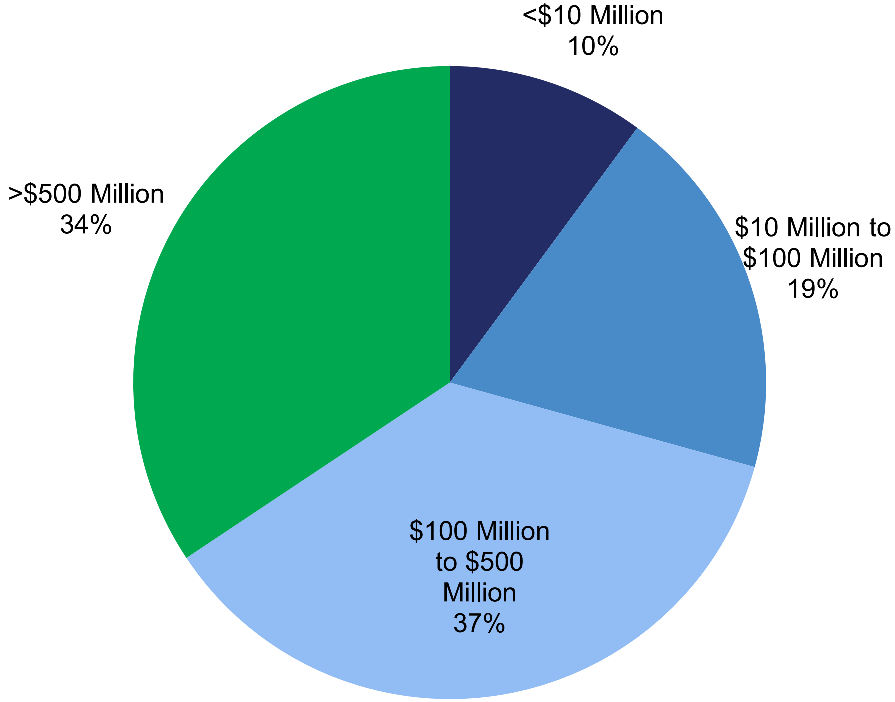
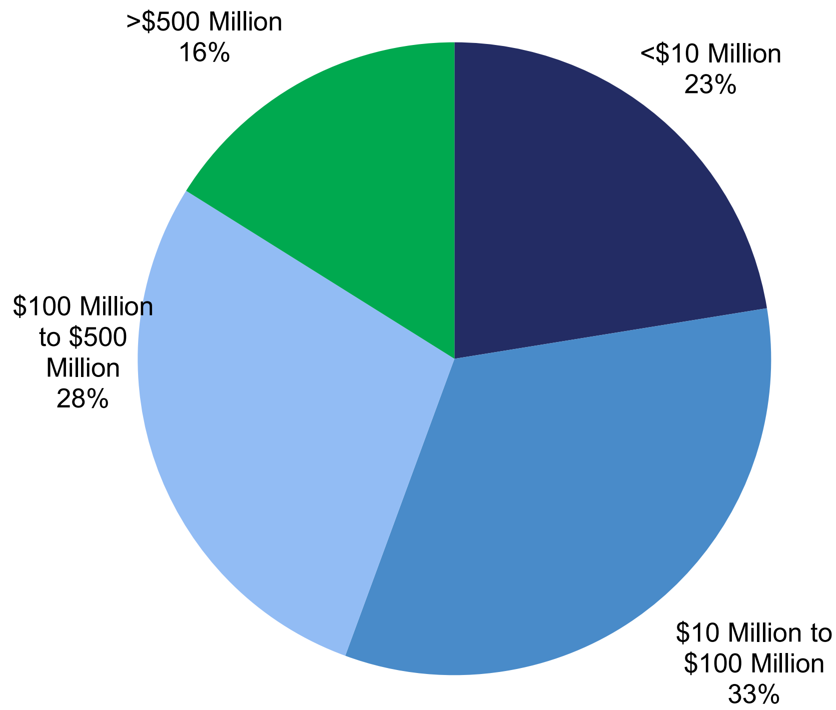
Company Size

Wholesale Composite



Retail Composite



In general, larger companies populate wholesale and small companies populate retail, with twice as many companies with $100 million or more in DPW in wholesale (percentage basis).

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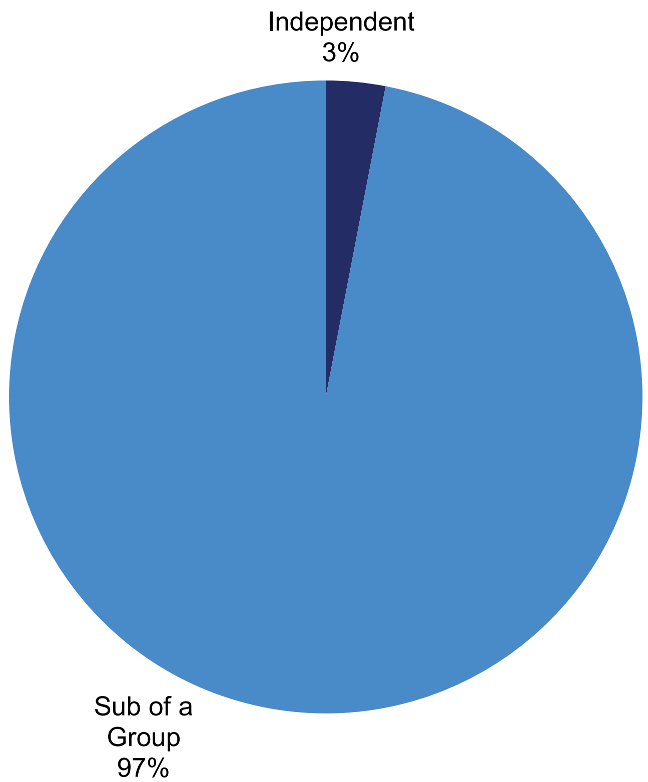
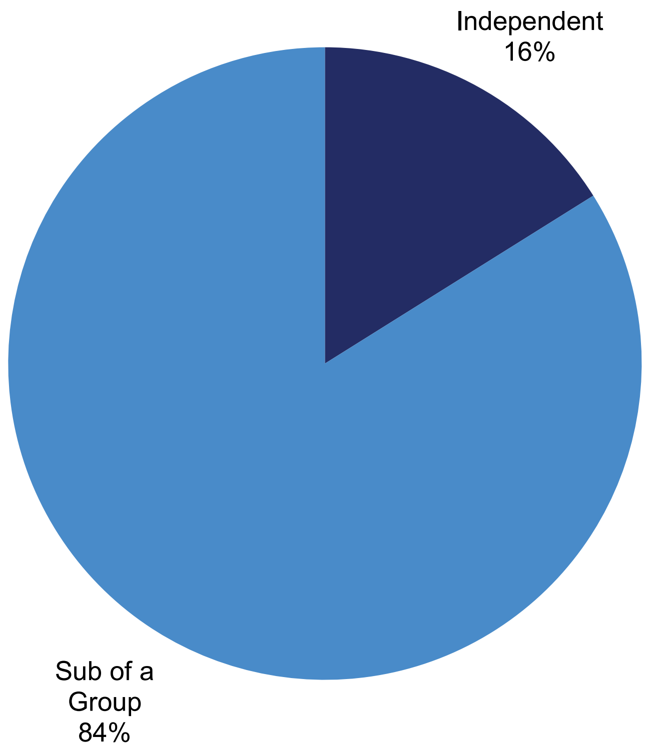
Company Affiliation

Wholesale Composite



Retail Composite



Few of the insurers in wholesale are standalone entities, while standalone entities accounted for 16% of the total number of companies in retail.

Based on DPW, entities affiliated with larger groups represented more than 96% of the premium in each composite.

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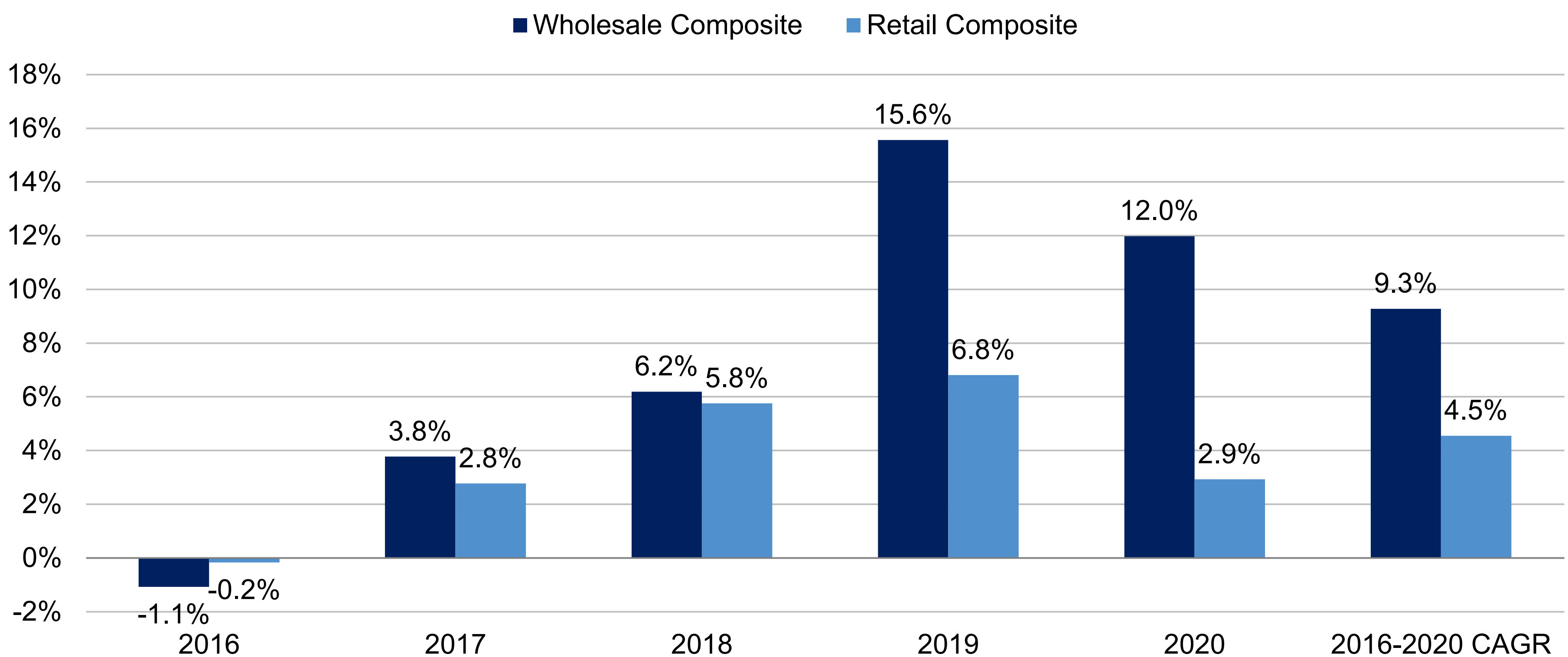
Premium Growth

Aggregate Direct Premium Growth, Selected Lines



Over the measurement period the annual growth rate in direct premium written for insurers in the wholesale composite exceeded the annual growth rate in direct premium written for insurers in the retail composite.

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Measurement and Data Employed

Measurement

For the analysis, Conning measured total non-loss costs of insurance companies ("Non-Loss Costs"), by select lines of business, that predominantly write commercial insurance.

Data Employed

- In its analysis, Conning used statutory financial information for the five years ended 2020.
- Premiums and other data were measured on a direct basis.
- Companies were analyzed on an individual basis (not on a group basis).
- The initial universe of companies included the companies that composed the composites in the previous report from July 2016 (86 companies in the wholesale composite and 277 companies in the retail composite). This universe was updated to determine (1) whether the company remains in existence and (2) whether the company continues to meet the criteria set in the previous report. (Note the criteria are listed in the next slide.)
- Next, all companies that wrote business in 2020 were re-examined to determine whether each company now meets the criteria set in the previous report, resulting in a set of 314 companies that were labeled as "potential new inclusions."
- Both sets of companies were submitted to WSIA staff along with a ratio of premium taxes to direct premiums, which was determined to be a good predictor of the company's distribution channel, wholesale or retail. From these sets, WSIA then determined a final set of insurers to be analyzed, resulting in two composites of 99 wholesale insurers and 205 retail.
- Ten individual commercial lines were examined ("selected lines").

Selected Commercial Lines:

Allied Lines	Commercial Automobile	Commercial Multiperil	Earthquake
Fire	Inland Marine	Medical Professional Liability	
Ocean Marine	Other Liability	Products Liability	

CONNING

Building the Composites (2016 Report)

Reasons Company Was Excluded from Composite

Companies with less than 70% of DPW in commercial lines

Workers' compensation & excess workers' compensation insurers (greater than 50% DPW in this line)

Risk retention groups

Insurers employing direct response distribution as their predominant or exclusive distribution

Monoline surety writers (greater than 50% DPW in this line)

Insurers with zero or negative DPW

Workers' compensation state funds

Mortgage guaranty insurers (greater than 50% DPW in this line)

Financial guaranty insurers (greater than 50% DPW in this line)

Crop insurers (greater than 50% DPW in this line)

Captive insurers

Companies in liquidation or run-off

Student travel & accident insurers and trade credit insurers

Data Analyzed

Summary of Data Components Analyzed

For each of the companies in the Final Wholesale and Final Retail Composite, Conning analyzed the following financial measures:

- DPW
- Non-Loss Costs (underwriting expenses)
- Included in the components of Non-Loss Costs are the following individual expenses:
- Commissions
- Taxes, Licenses, and Fees
- Other Acquisition Expenses
- General Expenses

Conning used a median measurement of Non-Loss Cost ratios for each Composite.

A median measurement was used as the most representative of the Select Commercial Lines.
Use of an average or weighted average would have favored larger companies rather than weighting equally all companies in their respective Composites.

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