Surplus Lines Flood Insurance Market Data and Statistics

February 28, 2019

How much primary residential coverage written by the surplus lines market is currently satisfying the mandatory purchase requirement?

Primary residential premium was 23.3% of the $284.1 million in flood premium written on a surplus lines basis in the ten states reporting to WSIA in 2018.

Breaking this down further, the $66.1 million of primary residential flood premium, from stamping office states that collect flood insurance data, represents just 1.7% of the 2017 U.S. flood insurance market and just 0.15% of the $44.9 billion of 2017 total U.S. surplus lines market (Source: 2018 AM Best Report on U.S. Surplus Lines).

Exhibit I further demonstrates this breakdown and **Exhibit II** further illustrates each category's proportionate share of the $284.1 million in premium.

Exhibit I: Surplus Lines Flood Statistics
California, Florida, Illinois, Mississippi, New York, North Carolina, Pennsylvania, Texas, Utah and Washington
Calendar Year 2018

State	Primary Residential	Policy Count	Excess Residential	Policy Count	Primary Commercial	Policy Count	Excess Commercial	Policy Count	Unknown	Policy Count	Totals	Policy Count
California	7,962,163	10,651	599,303	444	22,357,602	12,475	4,258,591	939	-	-	35,177,659	24,509
Florida	26,300,567	27,462	23,414,746	8,155	44,764,637	9,603	15,832,311	1,910			110,312,261	47,130
Illinois	1,585,384	2,045			2,289,052	370			249,208	538	4,123,644	2,953
Mississippi	587,119	76	955,686	1,364	1,947,609	831					3,490,414	2,271
New York(1)									34,683,002	6,927	34,683,002	6,927
North Carolina(2)	3,219,008	1,706	4,351,784	1,783	2,423,367	242	1,924,509	281	1,888,789	264	13,807,457	4,276
Pennsylvania	7,533,210	6,936			7,909,633	1,298					15,442,843	8,234
Texas	11,985,087	14,783	1,675,506	1,319	17,504,954	2,635	4,900,339	534			36,065,885	19,271
Utah	4,047,136	4,474			19,301,408						23,348,544	4,474
Washington	2,905,068	3,748			4,750,711	2,352					7,655,779	6,100
Total	66,124,742	71,881	30,997,025	13,065	123,248,972	29,806	26,915,750	3,664	36,820,999	7,729	284,107,488	126,145

Residential	34.2%	**Primary Residential**	23.3%	
Commercial	52.9%	**Excess Residential**	10.9%	
Unknown	13.0%	**Primary Commercial**	43.4%	
Total	100.0%	**Excess Commercial**	9.5%	150,164,722
		Unknown	13.0%	
		Total	100.0%	

(1) New York standalone flood premium data is characterized by real property and personal property, so distinctions based upon residential versus commercial are not possible.
(2) North Carolina began collecting and reporting surplus lines data for 2018 which is included in **Exhibit 1**.

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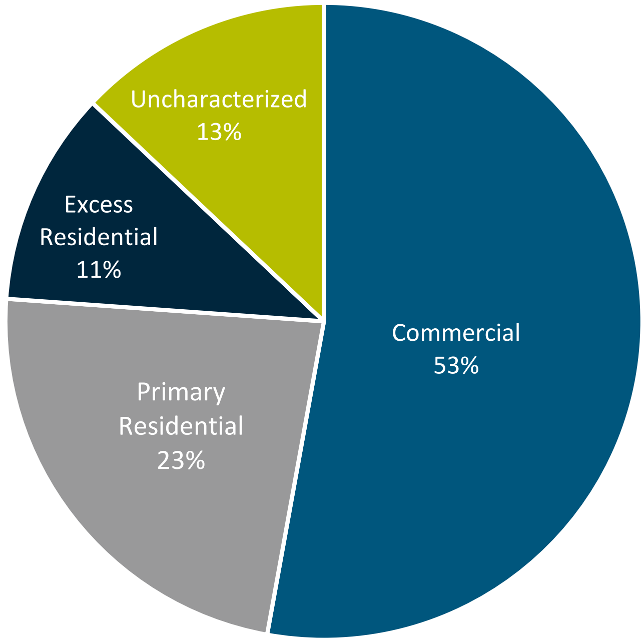
Exhibit II: 2018 Surplus Lines Flood Premium



Source: CA, FL, IL, MS, NY, NC, PA, TX, UT and WA Surplus Lines Stamping Offices

The stamping offices do not collect the level of data necessary to identify the amount of coverage written to satisfy the mandatory purchase requirement. However, using market share information from the stamping offices, we have identified the top underwriters of primary residential flood in CA, FL and TX to be:

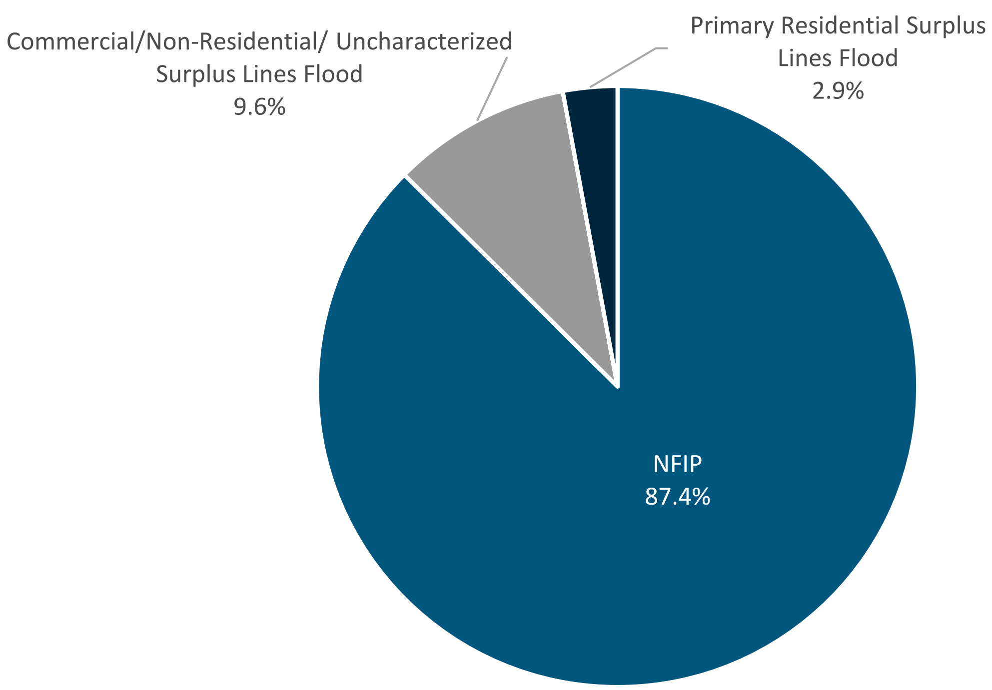
- Lloyd's
- Lexington

In 2018, the third largest underwriter of flood was Western World who was merged with AIG as part of an acquisition of the Validus Group. Since the merger the vast majority of policies have been underwritten by Lloyd's and Lexington. A number of other firms have taken significant market share writing flood insurance in recent years including, Chubb Custom, Great American Insurance Company and Landmark American Insurance Company. In speaking with these firms, and their brokers, we have learned the following:

- A large portion of the personal lines flood policies written in their market are used to satisfy the mandatory purchase requirement. However, there are also instances where property owners look to private insurers because they have higher value or unique homes that require their underwriting expertise of a specialist insurer.
- Companies in this space are offering additional coverage (i.e. additional living expenses), carefully underwriting premium among all flood zones and often eliminating the surcharge for secondary homes.
- The vast majority of primary residential flood policies that they have written satisfies the mandatory purchase requirement.

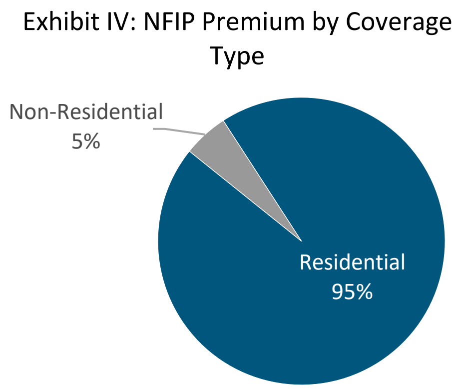
If we extrapolate the $284.1 million of flood premium written in CA, FL, IL, MS, NY, NC, PA, TX, UT and WA which comprised just 1.07% of total surplus lines premium in these states, we would estimate roughly $474.8 million in surplus lines flood insurance premium written nationwide. As illustrated in **Exhibit III**, the estimated $474.8 million of flood premium written on a surplus lines basis nationwide represents just 12.6% of total 2018 flood premium when combined with the $3.3 billion of premium written by the NFIP. Primary residential flood premium represents just 2.9%.

Exhibit III: 2018 Flood Insurance Market by Premium Volume

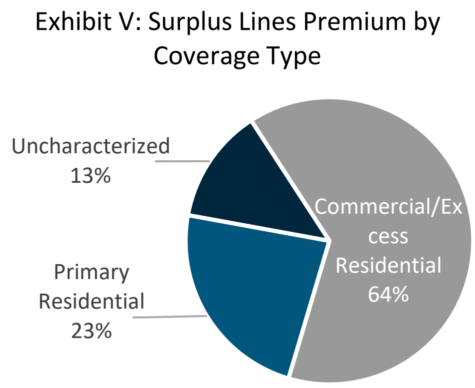


Sources: U.S. Stamping Offices, FEMA
http://fema.gov/total-earned-premium-calendar-year

Further, 95% of the NFIP's premium covers residential property (**Exhibit IV**), while virtually the opposite is true for the surplus lines market where primary residential flood premium represents just 23% of total flood premium written on a surplus lines basis (**Exhibit V**).



Source: FEMA
https://www.fema.gov/policies-force-occupancy-type



Source: CA, FL, IL, MS, NY, NC, PA, TX, UT and WA Surplus Lines Stamping Offices

The residential flood business written in the surplus lines market covers risks for which the NFIP is either unavailable or does not meet the coverage requirements the insured is looking for. As outlined in our January 13, 2016 testimony and **Attachment A**, consumers need alternatives to the NFIP when: (1) they need higher limits than the $250,000 residential, $100,000 personal contents and $500,000 commercial limits offered by the NFIP; (2) they need enhanced coverage from that offered by the NFIP such as replacement cost of the damaged property rather than the actual cash value of the property, additional sublimits, additional structures, or the ability to schedule multiple properties on one policy; or (3) they need additional coverage beyond that offered by the NFIP such as additional living expense, basements, or business interruption for commercial entities. Without the existing surplus lines alternative, consumers who need it will be left with no option.

What do those premiums and policies look like?

Attached is an example of a surplus lines flood policy. This policy was voluntarily shared with the Pennsylvania Department of Insurance as an example of the types of policies written in the surplus lines market so that the Commissioner could help facilitate increased access to the private market.

Based on the data provided in **Exhibit I** above, the average 2018 premium per primary residential policy in the states of California, Florida, Illinois, Mississippi, North Carolina, Pennsylvania, Texas and Washington was $748, $958, $775, $7,725, $1,887 $1,086, $811 and $775, respectively. The aggregate average among these states was $928, up from $873 in 2017.

Note: Average Mississippi premium per primary residential policy increased significantly from $1,057 to $7,725 due to one new policy accounting for 74% of Mississippi primary residential flood premium.

Where is the coverage written?

The $66.1 million in primary residential flood premium written in the surplus lines market is written in the nine states (California, Florida, Illinois, Mississippi, North Carolina, Pennsylvania, Texas, Utah and Washington) as outlined in **Exhibit I**. These premiums are filed with these states, and their applicable surplus lines premium taxes are remitted to these states, because they represent the home state of the insured, which in the case of residential coverage generally means the state in which the property is located.