Surplus Lines Flood Insurance Market Data and Statistics

February 9, 2018

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

Primary residential premium was 21.5% of the $232.6 million in flood premium written on a surplus lines basis in the nine states reported by WSIA in 2017.

Breaking this down further, the total $49.9 million of primary residential flood premium represents just 1% of the 2016 U.S. flood insurance market and just 0.1% of the $42.4 billion of 2016 total U.S. surplus lines market.

Exhibit I further demonstrates this breakdown and **Exhibit II** further illustrates each category's proportionate share of the $232.6 million in premium.

Exhibit I: Surplus Lines Flood Statistics

California, Florida, Illinois, Mississippi, New York, Pennsylvania, Texas, Utah and Washington

Calendar Year 2017

State	Primary Residential	Policy Count	Excess Residential	Policy Count	Primary Commercial	Policy Count	Excess Commercial	Policy Count	Unknown	Policy Count	Totals	Policy Count
California	5,753,003	7,411	468,402	294	22,514,189	7,619	4,649,287	782			33,384,881	16,106
Florida [1]	19,495,956	24,453	21,739,800	8,668	35,990,888	5,296	11,852,523	1,413			89,079,167	39,830
Illinois	1,329,490	906			2,765,179	192			460,295	167	4,554,964	1,265
Mississippi	30,653	29	732,592	1,039	2,043,993	743					2,807,238	1,811
New York									31,135,664	4,963	31,135,664	4,963
Pennsylvania	4,804,689	5,177			4,423,851	989					9,228,540	6,166
Texas [2]	12,514,387	17,071	1,353,792	910	14,355,074	1,512	4,911,602	417			33,134,854	19,910
Utah [3]	4,400,000				17,700,000						22,100,000	-
Washington	1,563,389	2,084			5,581,518	3,104					7,144,907	5,188
Total	49,891,566	57,131	24,294,586	10,911	105,374,692	19,455	21,413,412	2,612	31,595,959	5,130	232,570,216	95,239

Residential	31.9%	Primary Residential	21.5%
Commercial	54.5%	Excess Residential	10.4%
Unknown	13.6%	Primary Commercial	45.3%
Total	100.0%	Excess Commercial	9.2%
		Unknown	13.6%
		Total	100.0%

(1) Illinois, Pennsylvania and Washington are now collecting and reporting surplus lines flood data which was included in Exhibit 1.

(2) New York standalone flood premium data is characterized by real property and personal property, so distinctions based upon residential versus commercial are not possible.

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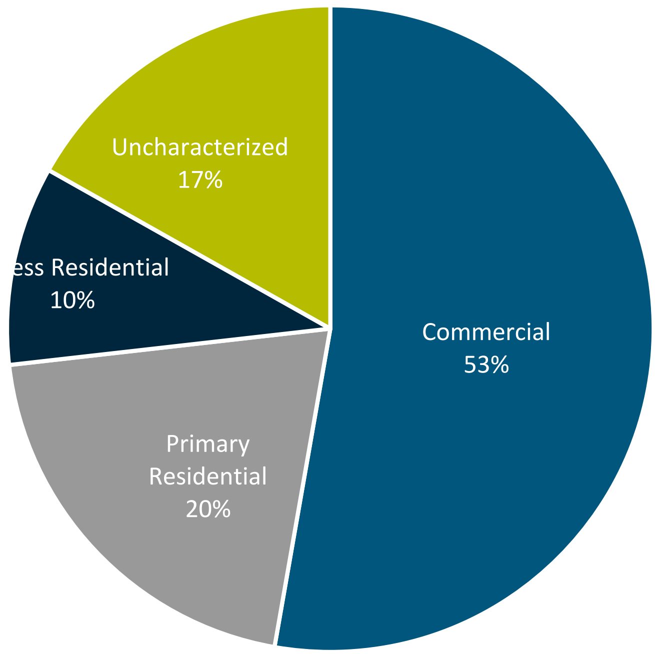
Exhibit II: 2017 Surplus Lines Flood Premium



Source: CA, FL, IL, MS, NY, 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
- Western World

In speaking with these firms, and their brokers, we have learned the following:

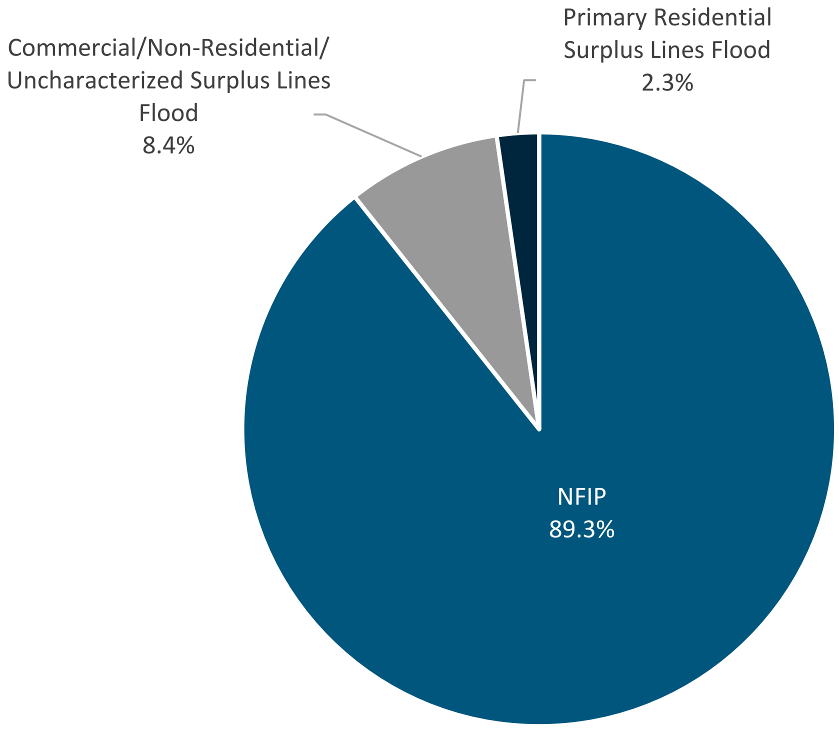
- Lloyd's believes that a large portion of the personal lines flood policies written in their market are used to satisfy the mandatory purchase requirement. However, there are also instances where property owners look to Lloyd's because they have higher value or unique homes that require their underwriting expertise of a specialist insurer.

- Western World's approach is to (1) provide additional coverage (e.g., additional living expense); (2) carefully underwrite the premium among all flood zones; and (3) eliminate the surcharge for secondary homes. Western World indicated that all of its $614,657 in premium is satisfying the mandatory purchase requirement of the federal law.

- Brokers for Lloyd's indicated that near 100% of the primary residential flood policies that they have written satisfies the mandatory purchase requirement.

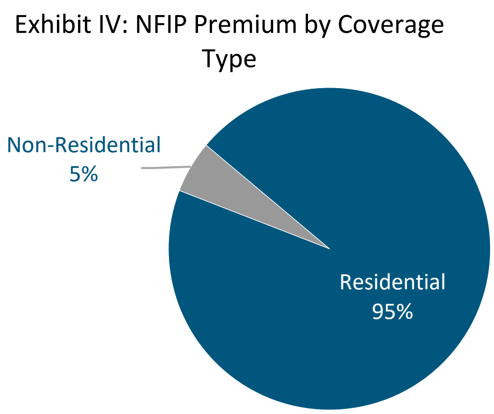
If we extrapolate the $232.6 million of flood premium written in CA, FL, IL, MS, NY, PA, TX UT and WA which comprised just .96% of total surplus lines premium in these states, we would estimate roughly $398 million in surplus lines flood insurance premium written nationwide. As illustrated in **Exhibit III**, the estimated $398 million of flood premium written on a surplus lines basis nationwide represents just 10.7% of total 2017 flood premium when combined with the $3.3 billion of premium written by the NFIP. Primary residential flood premium represents just 2.3%.

Exhibit III: 2017 Flood Insurance Market by Premium Volume

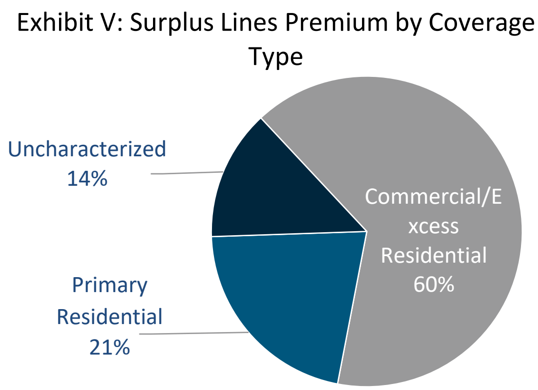


Sources: U.S. Stamping Offices, FEMA https://www.fema.gov/policies-force-occupancy-type

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 21% 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, 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 2017 premium per primary residential policy in the states of California, Florida, Illinois, Mississippi, Pennsylvania, Texas and Washington was $776, $797, $1467, $1,057, $928, $733 and $750, respectively. The aggregate average among these states was $873, down from $1,531 in 2016

Where is that coverage written?

The $49.9 million in primary residential flood premium written in the surplus lines market is written in the eight states (California, Florida, Illinois, Mississippi, 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.