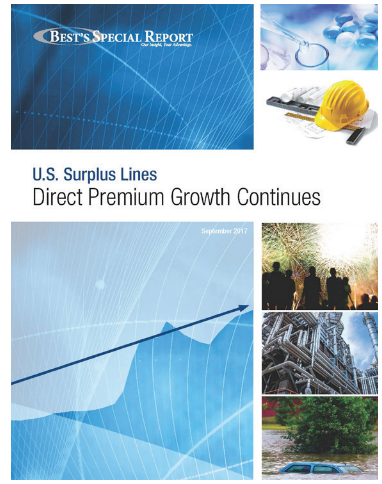
WSIA Financial Stability

A.M. Best Special Report

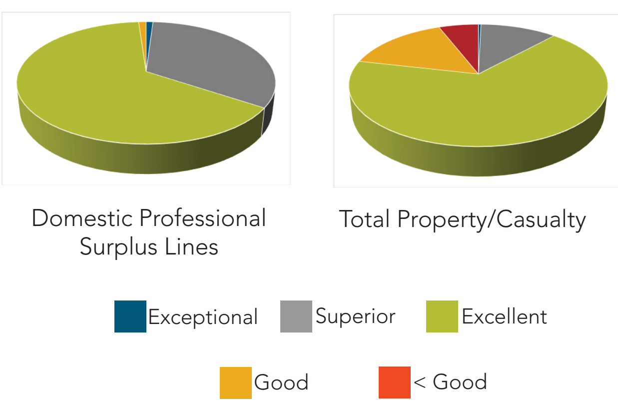
Produced with a grant from the Derek Hughes/NAPSLO Educational Foundation, the *A.M. Best Special Report, U.S. Surplus Lines - Segment Review* provides A.M. Best's perspective on the state of the market and the relative positions of carriers in the market, and it examines the surplus lines sector's financial condition and ratings distribution, market trends, regulatory and legislative developments, distribution issues, and impairment trends.

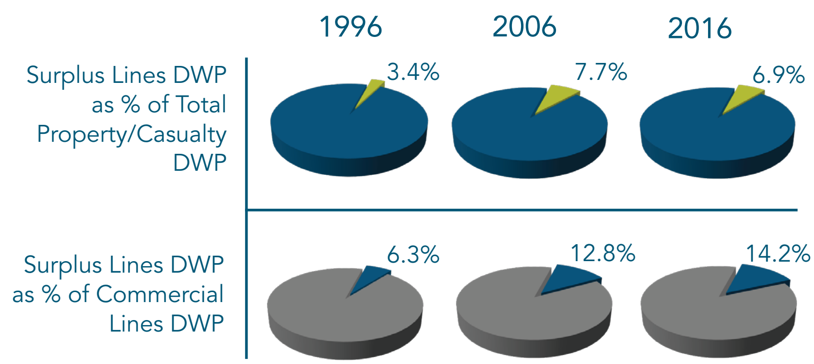


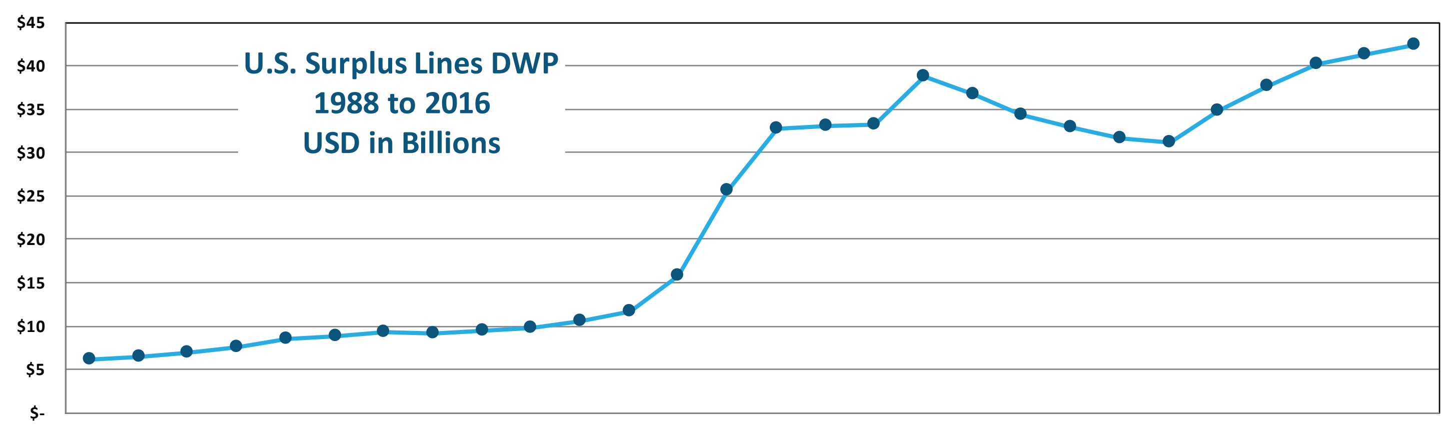
2016 Report

- $42.4 billion market
- 2.8% increase in 2016 surplus lines direct written premium
- 36% increase since 2011
- No financial impairments in 13 years
- Despite challenges, A.M. Best noted over the 24 years of the study, the surplus lines market more than doubled from 3.4% of total property/casualty direct premiums written in 1995, to approximately 7.0% by the end of 2016.

BEST'S RATING DISTRIBUTION BY RATING CATEGORY







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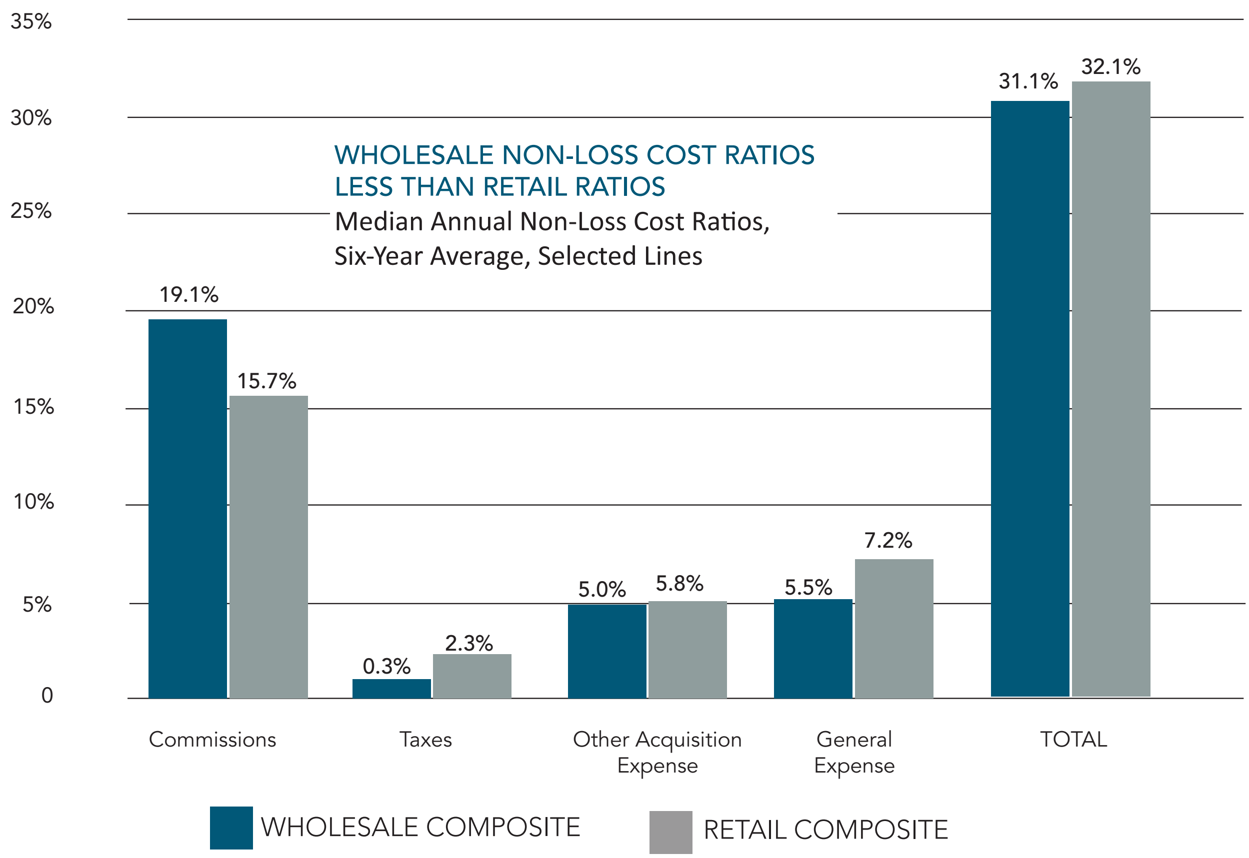
Cost-Effective Distribution

A 2016 analysis of the cost of distributing commercial insurance policies through wholesale and retail brokerage channels was conducted by Conning, Inc.'s Insurance Research Division. It concluded that wholesale distribution does not increase the cost of the transaction to the insured.

WSIA and Conning identified two composite groups of insurance companies as a proxy for each mode of insurance distribution for selected commercial lines. Insurers that use predominantly wholesale brokers for distribution were included in the "wholesale composite," and insurers that use predominantly retail brokers were included in the "retail composite."

- Wholesale composite included 83 individual companies with $19 billion in premium.
- Retail composite included 266 individual companies with $61 billion in premium.



Conning measured all non-loss costs relative to direct written premium from 2010 to 2015 for these companies and, upon comparing the composites, found:

- The total non-loss cost ratio for the wholesale composite was lower than the retail composite by 1.0%.
- Retail non-loss cost ratios were lower than wholesale in 2010 and 2011. However, wholesale ratios were lower for 2012 through 2015.
- The wholesale composite's commission ratio is consistently three to four points higher than the retail composite, but is offset by the wholesale composite's non-commission cost ratios which average nearly four points lower than the retail composite.

More information about the analysis is availble online.