GUY CARPENTER

PLOTTING A PATH IN A CHANGING MARKET

E&S MARKET UPDATE AND PROJECTIONS

FINANCIAL MANAGEMENT AND STRATEGY

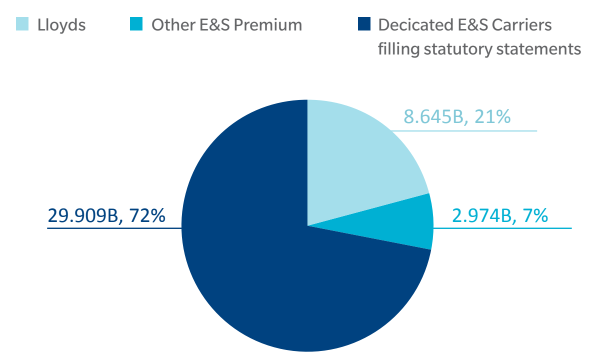
The excess and surplus (E&S) lines segment of the insurance industry continues to be the essential market for risks for which typically the standard insurance market does not offer coverage. From extremely hazardous conditions to highly unique business operations and unproven new products, these unconventional risks are often complex and challenging. The E&S market's challenge is to develop products to cover these exposures utilizing its expertise and freedom of rate and form. E&S business is largely produced through the wholesale distribution channel. These wholesale brokers and Managing General Agents are typically product line or business industry focused, therefore providing valuable expertise as part of the transaction. E&S business is highly concentrated by territory as over 50 percent of annual direct written premium is in the states of California, Florida, Texas, New York and Illinois.

Guy Carpenter's Insurance Risk Benchmarks Research Report uses 2016 as its baseline year. Year 2017 was a transitional year and the evolution will continue in 2018 as the market changes from extremely soft to generally harder.

2016

The 2016 E&S market comprised approximately 7 percent (approximately USD41.6 billion) of the US property and casualty market's direct written premium (DWP). The segment grew by 3 percent driven by Lloyd's E&S growth of 11 percent.

US E&S Market 2016 DWP



Source: Guy Carpenter

In 2016, the overall E&S market remained soft with continued deterioration of prior years' underwriting results. Primary property rates declined an estimated 5 percent to 7 percent while excess (shared and layered) property rates were down 7 percent to 10 percent. Both primary and excess casualty rates were flat to modest increases. Professional lines remained competitive as rates decreased in the 3 percent to 5 percent range. The E&S segment continued to outperform the overall property and casualty industry by producing a 2016 accident year combined ratio of 96 percent compared to a 101 percent combined ratio for the total industry. This market remains highly concentrated in number of carriers with Lloyd's and Lexington (an AIG Company) writing almost a third of the segment's written premium while 25 groups make up over 75 percent of the segment's written premium. Due to intercompany pooling and intercompany reinsurance, policyholders' surplus to direct written premium ratios are approximately 1:1 for the top 25 companies group. However, on a group level, the US property and casualty industry continues to operate on a policyholder surplus (PHS) to DWP ratio of greater than 1:1.

2017

The first half of 2017 continued to be highly competitive, particularly in property lines. Specific areas, such as New York construction and transportation, saw double digit rate increases.

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The E&S market remained consistent and disciplined with its pricing and risk selection, with the first half of 2017 being very similar to 2016. In August and September of 2017, Hurricanes Harvey, Irma and Maria all caused devastating damage resulting in insured loss estimates ranging from USD70 billion to USD100 billion. It is estimated that the E&S market will have absorbed approximately 15 percent to 20 percent of the insured loss total of these three storms. Additionally, wildfires in the West and California have added an estimated USD10 billion of insured loss in the second half of 2017. The aggregation of these losses may have a hardening impact on the US insurance market, mainly on the property side. There has been much discussion that these losses will also have an impact on the casualty market. The casualty market is indirectly impacted both positively and negatively by property results. There has been direct impact via commercial auto and general lines increasing severity. Public venue losses and wildfire liability have also caused concern and market response.

2018

Most E&S property catastrophe reinsurance treaties renew in the second quarter, which will give reinsurers time to assess their 2017 losses and determine the levels of rate increase that may be necessary. Currently, the general consensus is that companies with significant cat losses will see rate increases in 2018 estimated as high as 20 percent - 30 percent while companies with little to no 2017 catastrophe loss will remain relatively flat, depending on attachment.

Click here to request your copy of the Risk Benchmarks Report

E&S Premium by Statutory Line of Business

Line of Business	2016 Direct Written Premium(M)
Total All Lines	29,909
Other Liability	15,429
Property Lines Total	9,493
Oth Liab (Occurrence)	9,763
Oth Liab (Claims)	5,667
Fire	2,682
Allied Lines (Sub)	2,525
Comm'l Multi Prl (Non-Liab)	1,584
Med Prof Liab	1,449
Product Liability	1,229
Inland Marine	910
Oth Comm'l Auto Liab	866
Homeowners MP	816
Comm'l Multi Prl (Liab)	740
Earthquake	538
Comm'l Auto Phys	242
Workers' Comp	174
Credit	170
Oth P&C (State)	125
Boiler & Machinery	114
Ocean Marine	80
Aircraft	68
Private Flood	44
Oth A&H (State)	31
Burglary & Theft	23
Fidelity	22
Excess Workers Comp	19
Surety	10
Pvt Pass Auto Phys Damage	6
Group A&H	6
Comm'l Auto No-Fault	4
Oth Pvt Pass Auto Liab	3
Farmowners MP	1

Source: Guy Carpenter