# Excess and surplus segment outlook

The excess and surplus (E&S) lines segment of the insurance industry is an essential market for risks for which typically the standard insurance market does not offer coverage. From extremely hazardous conditions to unique business operations and unproven new products, these unconventional risks are often complex and challenging. The E&S market meets the challenge of covering such exposures by utilizing its expertise and freedom of rate and form to develop sector- and risk-specific products.

E&S business is predominately produced through the U.S. wholesale distribution channel. These wholesale brokers and managing general agents (MGAs) are typically focused on a particular product, business or industry, contributing valuable expertise to the transaction. E&S business is highly concentrated by territory with over 50 percent of annual direct written premium in the states of California, Florida, Illinois, New York and Texas.

This market remains highly concentrated – Lloyd's of London and Lexington Insurance Company, an AIG Company, currently write almost a third of the E&S's written premium, while 25 carriers make up over 75 percent of the segment's written premium. Due to intercompany pooling and intercompany reinsurance, the ratio of policyholders' surplus (PHS) to direct written premium (DWP) is approximately 1:1 for the top 25 companies. However, on a group level, the U.S. property and casualty industry continues to operate on a PHS to DWP ratio of greater than 1:1.

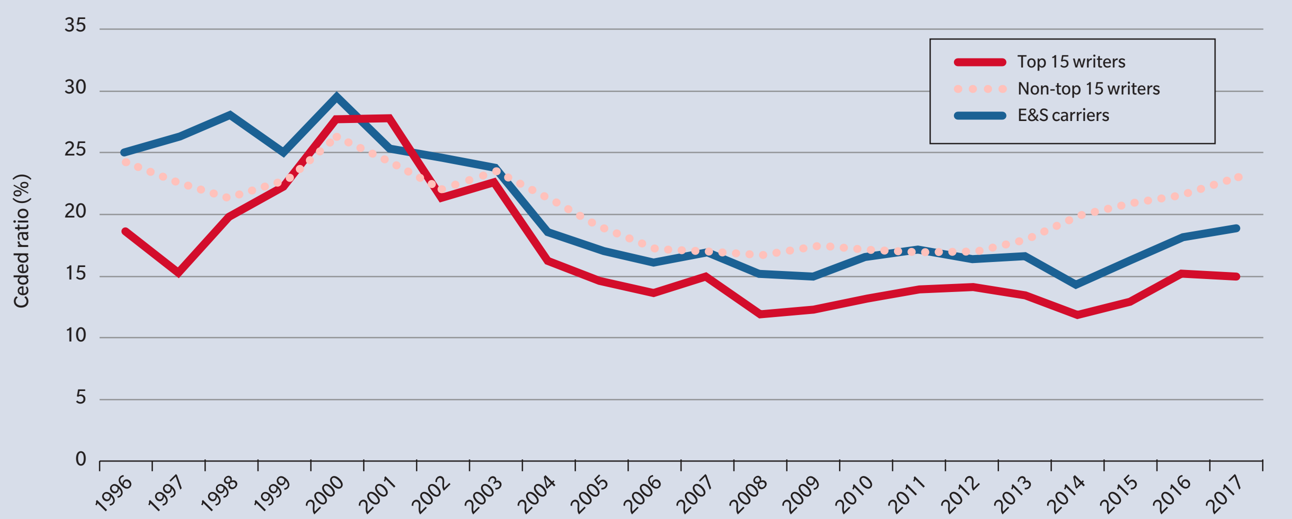
Guy Carpenter's Analytics and Global Strategic Advisory units are dedicated to providing clients the tools and solutions that help guide them in their strategic decision-making. The latest edition of Guy Carpenter's Insurance Risk Benchmarks Research report, released in November 2018, presents compelling research and analysis on risk and performance on the E&S market as well as the entire property and casualty insurance spectrum. Click here to request your copy of the 2018 Risk Benchmark Report.

## 2017

The E&S market as a whole remained somewhat consistent and disciplined with its pricing and risk selection, with the first half of 2017 being very similar to 2016. Both primary and excess casualty rates were flat to up 5 to 10 percent depending on the line of business (LOB) and class. Specific areas, such as New York Construction and Transportation experienced double digit rate increases. Professional lines rates were overall flat.

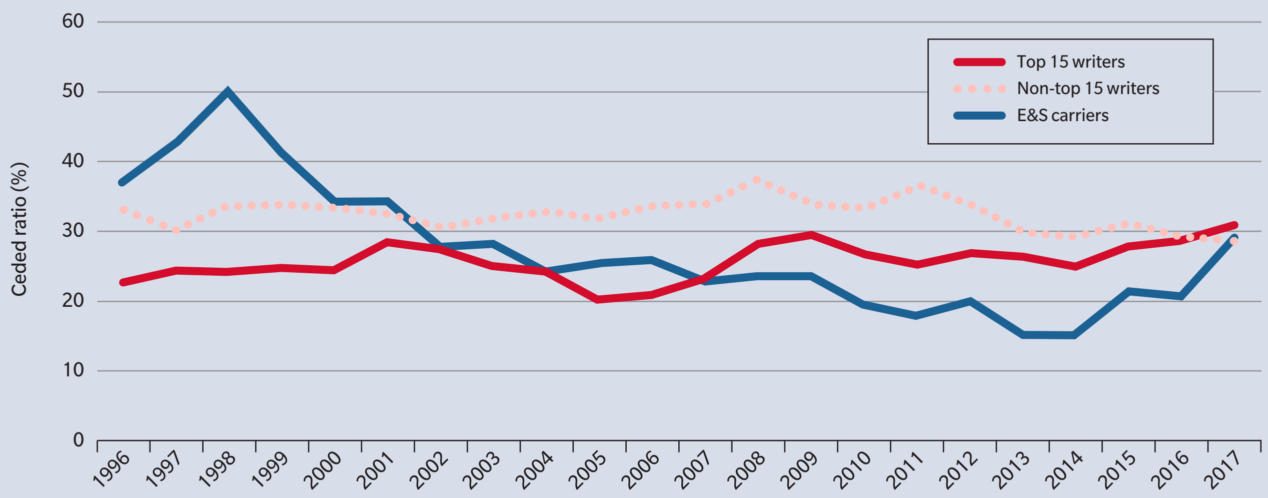
In August and September of 2017, Hurricanes Harvey, Irma and Maria (HIM) caused devastating damage resulting in insured loss estimates ranging from USD 70 billion to USD 100 billion. It is estimated that the E&S market accounts for 15 to 20 percent of the insured loss total of these three storms. Additionally, wildfires in the West added an estimated USD 10 billion of insured loss in the second half of 2017. The aggregation of these losses had

**Figure 1: Commercial liability ceded ratio**




Source: Guy Carpenter

## Figure 2: Commercial property ceded ratio




Source: Guy Carpenter

a hardening impact on the E&S market. As a result, E&S property rates reversed their downward trend beginning in late August following Harvey and rose into the fourth quarter in the aftermath of Irma and Maria. The habitational segment experienced extreme rate volatility as many carriers pulled out of the market entirely, which fueled dislocation for this historically challenging occupancy. Year-end 2017 property rates were slightly positive (low single digits) with fourth quarter increases surpassing the rate deterioration prior to HIM. Property E&S carriers have been increasing their utilization of reinsurance over the past several years, which indicates recognition of the challenging rate environment and taking advantage of favorable ceding commission terms.

## 2018

**Casualty**

Throughout the first half of 2018, the casualty insurance market continued to see the soft market improve and produce inconsistent but positive rate increases by LOB and class. Rates across most lines increased on average of 5 to 7.5 percent, with commercial auto experiencing on average double-digit increases for the second year in a row. Within the casualty reinsurance market, we are seeing ceding commissions on pro rata business flat to 5 percent down (equivalent to a 5 to 7.5 percent rate increase) and excess of loss rates flat to up 5 percent.

**Property**

Upward pressure on E&S property rate levels continued through the third quarter of 2018, with the market achieving overall rate increases ranging from 5 to 15 percent. The dramatic shift away from primary habitational business in 2017 helped drive up average reported rate increases with a severe shortage of capacity in this class. Following another active hurricane season with Florence and Michael resulting in an estimated USD10 billion to USD15 billion of insured loss (as estimated by RMS) and the ongoing devastation from the California Wildfires, we expect carriers to continue to push rates throughout the remainder of the year across their portfolios.

## 2019

**Casualty**

Without one specific casualty event to push the market into a hardened state, individual companies will be making moves based upon any perceived over-capitalization or aggregation of historical results. Companies facing capital constraints and/or a track record of inadequate rates may feel a need to shore up rates.

**Property**

Management may focus on returning to underwriting profitability through emphasis on risk and class selection as well as continued pressure on primary rate levels into 2019.

## About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with more than 2,300 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy, and people. With nearly 65,000 colleagues and annual revenue over $14 billion, through its market-leading companies including Marsh, Mercer and Oliver Wyman, Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment. For more information, visit www.guycarp.com. Follow Guy Carpenter on Twitter @ GuyCarpenter.