Surplus Lines and Homeowners

- We are not aware of any other state that outright prohibits the placement of homeowners' in the surplus lines market as is occurring in Minesota.
- The reduction of the threshold from $1.2M to $500K appears to have resulted in more business being placed in the market, which is positive.
- Since these risks only come to the surplus lines market after appropriate diligent effort, these risks are already part of a compressed coverage area and rather than their only option being the fair plan, they should have the opportunity to consider what offers the best coverage for them – either the surplus lines market or the fair plan. In general, we would assume that a surplus lines policy could be more robust than the fair plan.
- Outlined below are some of the guardrails we emphasize with respect to regulation of the surplus lines market and how that has built-in consumer protections. Also outlined below are some highlights from the 2025 AM Best Report with some comments on the financial stability of the market and references to homeowners.

Surplus Lines Regulation

- Like other insurance products, surplus lines transactions are regulated by the states. It is the state's approach to regulating the surplus lines market, including the critical freedom from rate and form regulation, which allows surplus lines to work as an effective supplement to the standard market.
- Surplus lines insurers operate with freedom from rate and form regulation, which allows the market to be more innovative, creative and responsive in developing products that meet the needs of consumers with very unique and/or emerging risks while pricing the product in a financially responsible manner commensurate with the risk. However, freedom from rate and form certainly does not mean that there is any lack of or freedom from regulation and consumer protection.
- In a surplus lines transaction both the surplus lines insurer and the broker are regulated in a number of substantial ways.
- A surplus lines insurer is regulated by the insurance department in their domiciliary state, submitting to all the same rigorous rules and regulations, complying with all financial regulatory requirements and market conduct standards of its state or jurisdiction of domicile.
- Each U.S. based surplus lines insurance company is licensed in at least one of the 50 states or other U.S. jurisdictions and must maintain higher capital and surplus levels (the most common threshold being $15 million in more than 30 states, with some going as high as $47 million) than standard insurers (which generally average less than $1 million).
- Non-U.S. based surplus lines insurers are regulated by state regulators through the NAIC and listed on the Quarterly Listing of Alien Insurers maintained by the International Insurance Department (IID).
- Most surplus lines insurers are subsidiaries of some of the largest insurance groups in the world, most of which are predominately writing standard lines of business. The top 50 insurance groups write approximately 89% of the U.S. surplus lines market and the 89% is regulated by around 19 states and the NAIC.

- Consumers do not come directly to our market; their insurance agent comes to us through a broker who can access the surplus lines or nonadmitted market.
- In a typical surplus lines transaction, the surplus lines broker (often a wholesale broker with a high level of expertise in the underlying risks) works directly with the retail agent or broker representing the insurance consumer who needs the nonstandard insurance solution. Therefore, both the retail agent and surplus lines broker are licensed by the state.
- The surplus lines broker is directly regulated by both states in the transaction and has numerous statutory requirements for placing the coverage, resulting in full consumer protections like in the standard transaction.
- Perhaps most importantly, and distinct from the standard market, the licensed surplus lines broker is statutorily responsible for (1) placing the coverage with a financially stable, eligible surplus lines insurer and (2) assuring compliance with all the requirements of surplus lines regulations in the insured's home state, in addition to other requirements. This means they have a heightened level of responsibility for assessing the financial strength and soundness of the surplus lines insurer. State Insurance Commissioners have the authority to take administrative action and/or revoke the surplus lines broker's license for failure to comply with these statutory responsibilities.

2025 AM Best Report

- $129.8 billion in surplus lines direct premium written in 2024, a little over 12% increase over 2023.
- Surplus lines insurers, in aggregate, reported another year of improved underwriting and operating results in calendar year 2024, with most performance metrics far outpacing the broader P&C industry.
- **No financial impairments in the surplus lines segment, in contrast to 1 admitted property/casualty company impairment in 2024.**
- **Since 2003, AM Best has reported just one surplus lines company impairment, in contrast to the admitted property/casualty industry's 306 financial impairments.**
    - In 2018, for the first time in 15 years, a financial impairment of a surplus lines carrier occurred, in contrast to the admitted property/casualty industry's 239 financial impairments over that same time period. However, AM Best noted that ReliaMax Surety Company, which South Dakota placed in liquidation in June 2018, was a unique surplus lines insurance company created solely to issue monoline coverage for private and federal student loans originated by financial institutions that had been consolidated and/or refinanced. The surety bond coverage issued by the company covered 12-month periods for loans issued by the financial institutions during that time. However, the insurance policies covered the life of a loan, which in some cases was upwards of 20 years. ReliaMax was established as an excess and surplus lines carrier in 43 states and DC, and as admitted in six states, including South Dakota. At least part of the company's financial difficulties concerned uncollectible loan receivables from its parent company, totaling $22.2 million at the end of 2017. The liquidator expected to fully pay all valid Class 3 claims (i.e., predominantly claims for losses incurred) and further expected to make only a pro-rata

distribution on return of Class 4 unearned premium claims. There have been no other reported financial impairments of the surplus lines industry since ReliaMax.

- Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2025, **100% of surplus lines companies maintained secure AM Best ratings** compared to 96% for the total property/casualty industry. **98%** of surplus lines carrier ratings fall in the Exceptional, Superior and Excellent rating categories compared to 85% of the admitted industry.
- **The primary reason for an absence of impairments is due to the surplus lines industry's improved underwriting performance, driven by demonstrated underwriting discipline and adequate pricing overall. Additionally, states generally require surplus lines insurers to maintain a higher level of capital and surplus (compared to an admitted carrier) due to the lack of guaranty fund participation.**
- Page 2 of the report states:
    - The surplus lines market includes domestic US insurers, Lloyd's syndicates, and non-Lloyd's alien insurers. Several segments have been key in contributing to the growth in premiums generated by surplus lines—or nonadmitted—insurers in the three-year period, including lines that have been acutely impacted by post-COVID turbulence from macroeconomic pressures. **For example, although homeowners' insurance remains a relatively small part of the overall surplus lines market, increased writings in that segment have contributed to the premium growth for many surplus lines insurers in the last few years. The increased volatility of weather-related catastrophes causing homeowners insurance claims to increase across many states and regions, coupled with the higher cost of raw materials to repair or rebuild homes and supply chain slowdowns has driven more homeowners' business to the surplus lines market.**
    - While surplus lines insurers have not been immune to general insurance industry headwinds, nonadmitted carriers have outpaced the overall property/casualty (P/C) insurance market in terms of growth in DPW, and collectively, as surplus lines market participants they have posted more favorable underwriting results than the broader P/C industry. Insurers in this segment have been able to effectively offset these factors via core competencies of judicious risk selection and the inherent freedom to charge what they perceive are appropriate premiums to match the risk presented by mid-to-higher hazard risks. They have been able to meet market needs by coupling their risk selection and pricing strategies with the ability to craft coverage language to exclude or limit certain loss exposures as the insurers deem necessary, without the need for prior regulatory approval of their coverage forms. However, the heightened level of competitiveness for surplus lines business from new market entrants, many backed by private equity capital, could lead to profit margins tightening, potentially necessitating a change in growth strategy for some market participants.
- Page 12 references the 15 state stamping offices' report and has a comment on Homeowners':
    - Volatility in the commercial property market owing to climate-related risk has fueled surplus lines market growth not only for commercial property risks but for residential homeowners' accounts as well. Although this business represents 5.3% of total surplus lines premium in the first half of 2025, the year-over-year growth of 24.8% was significant. In general, property lines have been growing faster than other lines within the surplus lines market.

- Page 18 comments:
  - Few lines of coverage have exhibited the volatility that homeowners' insurers have needed to withstand. This includes surplus lines insurers who traditionally did not wade too far into the homeowners' insurance market, apart from for higher-valued homes, especially in areas susceptible to weather-related disasters. Over the last 10 years, the percentage of total homeowners' premium being written by surplus lines insurers increased from 0.8% of all P/C carriers writing homeowners insurance in 2014 to 1.9% in 2024 (**Exhibit 13**). Nonadmitted premiums written in the surplus lines market broke the $2 billion mark for the first time in 2023 and only needed another year to breach the $3 billion premium threshold. While 1.9% remains a small percentage, the actual growth in homeowner's premium has been more significant. In last year's report, AM Best stated the homeowners line would continue to grow for surplus lines insurers because of the seemingly increased frequency of different severe weather events affecting a wider swath of territories across the country. Additionally, inflationary factors have pushed up the cost of home repairs, which could be exacerbated by the administration's tariff policies, which AM Best will continue to monitor.
- 2025 Mid-Year Report of the 15 State Stamping Offices (includes Minesota)
- Report is here.
- Minesota LOB report is on page 5 of that report. The Task Force/MN Big I should have this and more detailed information from Nick Schroeder, the SLA of MN Executive Director, so you should let him speak on the details of this report. He would be able to provide more up-to-date and specific homeowners related details to them than what we have available to us.