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Market Segment Outlook: US Excess and Surplus Lines Insurance

The outlook for the US excess and surplus lines segment is moving to Positive from Stable

AM Best is revising the outlook for the excess and surplus (E&S) lines insurance segment to Positive from Stable owing to the following key drivers:

- The efficient use of E&S lines capacity operating as a safety valve for the declining capacity in commercial lines and some of the personal lines markets
- Strong underwriting results driving favorable operating profitability and strengthened capital positions
- Market conditions supporting the entrance of new participants, along with incumbent carriers' pursuit of E&S lines participants
- The integration of new, complex technologies across various industries, making it likely that specifically tailored surplus lines coverage solutions will remain in high demand

Admitted carriers continue to constrict their underwriting criteria, leading accounts to seek coverage in the E&S market. These accounts are written on their merits with customized policy conditions and rates commensurate with the risk—the core competencies of surplus lines carriers. This places E&S market participants in position to take advantage of current market opportunities, given the steady volume of submissions of recent years. Among the lines being cast off by admitted carriers and finding their way to E&S carriers are commercial auto and directors & officers' liability. Cyber liability and coverage for the expanding legal cannabis industry also continue to leverage the capabilities of E&S carriers.

Surplus lines carriers' financial results reflect the advanced underwriting acumen required to effectively underwrite accounts with moderate to high hazard risks—and to do so while generating underwriting profitability. As AM Best noted in *Market Segment Report: Surplus Lines Insurers Focus on Evolving Risks to Sustain Premium Growth* (September 13, 2023), E&S participants are posting more favorable underwriting results and greater top-line growth than those in the broader property/casualty industry. Investment income for the E&S segment's carriers serves to enhance underwriting results, leading to improved capital positions. Surplus lines carriers are not immune from general insurance industry headwinds such as social inflation and reinsurance capacity. The impact of these factors is moderated through surplus lines carriers' core competencies of risk selection, price, and policy terms.

New entrants to the E&S market—both de novo start-ups and new affiliates to established commercial carriers—have entered the market to serve targeted niche, distressed, and new risks. To date, the approach of the new entrants has been measured and judicious. Given the current market conditions, as well as the historical viability of E&S providers, especially in light of their financial impairment rates (which are much lower than those of admitted insurers), opportunities for new participants abound.

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There are additional factors supporting the Positive outlook. The use of the E&S lines structure has expanded, particularly with fronting carriers applying the freedom of rate and form to meet the need of risks. At the same time, the desire of managing general agents (delegated underwriting authority enterprises) to work with carriers to develop customized coverage solutions is also providing a boost for E&S structured carriers. Conditions in the global reinsurance market (including the London market) are leading participants to E&S carriers with stability and predictability in their casualty books, amid the search for exposures subject to minimal natural catastrophe risks.

AM Best believes that, given the overall dynamics of the insurance industry, the tailwind conditions for US E&S lines carriers will remain in place beyond the short term.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

***Updates to the Report**

This report was updated on January 19, 2024, to correct the first bullet point.

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