To Each Their Own: The Role of Excess & Surplus Lines Coverage in New York State's Homeowners Insurance Market

A Market Segmentation Analysis

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NovaStance Analytics

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This study of New York's $3.7 billion dollar homeowners insurance market was underwritten by the Excess Line Association of New York. It was initiated to determine if the excess line market competes with the admitted market for homeowners insurance business in New York State. All analysis, findings and conclusions are solely those of NovaStance Analytics.

The study was by conducted by NovaStance Analytics of Hartford, CT. Primarily responsible for the design, execution and writing of the study was Frederick O. Yohn, Jr. Dr. Yohn has 30 years of experience researching the property-casualty insurance industry, including positions at Aetna Life & Casualty, Conning & Co., Insurance Services Office (ISO)/Verisk Analytics and MarketStance LLC.

Dr. Yohn holds B.S. degrees in Engineering and Economics from the Massachusetts Institute of Technology, and MA and Ph.D. degrees in Economics from Princeton University. Prior to his career in the insurance industry, Dr. Yohn served as a Senior Economist at the Board of Governors of the Federal Reserve in Washington, D.C.

Executive Summary

Excess and Surplus lines ("E&S") placements in New York's homeowners insurance market represent a very small – less than 1% – share of New York's entire homeowners insurance market.[1] Nevertheless, these E&S policies fill two crucial niches in this important market, providing coverage for: homes with high coastal proximity, and/or homes with very high insured values. The clear differentiation between these niche markets and New York State's core homeowners insurance market confirms the importance of separately evaluating each market.

In each of the two niche segments, the E&S market's share is material, reflecting admitted market carriers' traditional reluctance to accommodate unusually high value or higher risk coverage, specifically proximity to coastline for the latter. Conversely, admitted market carriers' dominant share of the much larger core homeowners market – which is estimated to account for 2.6 million policies – attests to the virtual absence of direct competition from E&S carriers in this core market. **A close examination of the admitted and E&S markets clearly demonstrates that they do not compete for homeowners insurance business and instead serve distinctly different insureds**.

Overview – E&S Policies in New York's Homeowners Insurance Market

About 20 thousand homeowners policies were placed in New York's E&S market in 2017[2]. These placements represent less than 1% of that year's 2.86 million NY homeowners policies, and account for $66 million in direct written premium, less than 2% of the $3.7 billion in written homeowners premium.[3]

While the average premium on homeowners policies placed in the E&S market – at $3,264 – was greater than the average for all New York state homeowners policies, the bulk of this difference is due to significantly higher average insured value of homes covered in the E&S market as well as to higher risk factors associated with coastal properties. This difference in average risk factors likely accounts for much of the observed difference in effective pricing on coverage – as measured by the dollars of premium per hundred dollars of insured value. Reasons for both of these observations will be examined in ensuing sections of this analysis.

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[1] This analysis focuses on the market for homeowners insurance which includes coverage for condominium and co-op owners but excludes coverage for renters and other habitational coverages such as public housing complexes handled through commercial lines.

[2] The analysis utilizes 2017 data since this is the most recent year available in common across the study's three key data sources: Excess Lines Association of New York, the National Association of Insurance Commissioners and the Census Bureau's American Community Survey.

[3] In terms of specific coverage forms, the homeowners market is defined as dwelling, HO-1, -2, -3, -5, -6 and -8 coverages. Excluded from personal lines totals are HO-4 policies (renters) as well as coverage on public housing complexes.

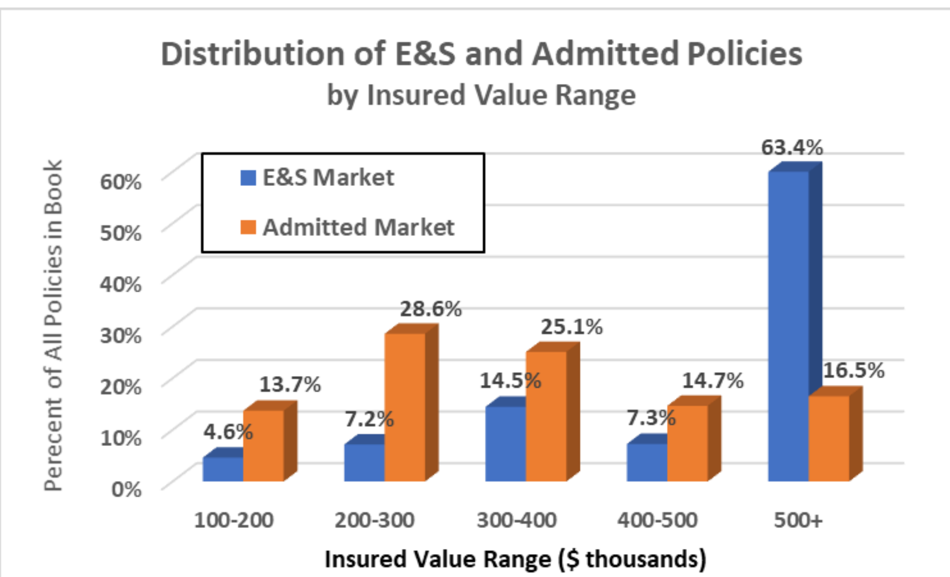
Exhibit 1: Aggregate perspective on New York's E&S and entire homeowners insurance market.

New York State - 2017 Market for Homeowners Insurance						
	Total			Average per Policy		
		Written	Insured		Insured	Premium per
	Policies	Premium	Value	Premium	Value	Insured Value
	number	($ - millions)		($)		($ / $100)
E&S Market	20,149	66	17,227	3,264	854,995	0.382
Entire NY Market	2,861,366	3,747	1,149,250	1,309	401,644	0.326
E&S Share of Entire Market	0.7%	1.8%	1.5%			
Sources:	Tabulations of 2017 ELANY data and published NAIC data					
	NovaStance estimates of insured value implicit in NAIC tabulations					

Size of Account Dimension – The E&S Market for Homeowners Coverage

As illustrated in Exhibit 2 below, some 63.4% of the homeowners policies filed with ELANY in 2017 had high property policy limits of $500 thousand or more. Premiums associated with these policies are even more concentrated in this upper end of the homeowners market with almost 80% of E&S homeowners' premiums generated from these high-limit policies. This skewed distribution is atypical of the state's homeowners market as a whole. Indeed, NAIC data – for the admitted and E&S markets combined – show that only about 16.5% of policies and 33% of written premium arise from homeowners policies with policy limits of at least $500 thousand.

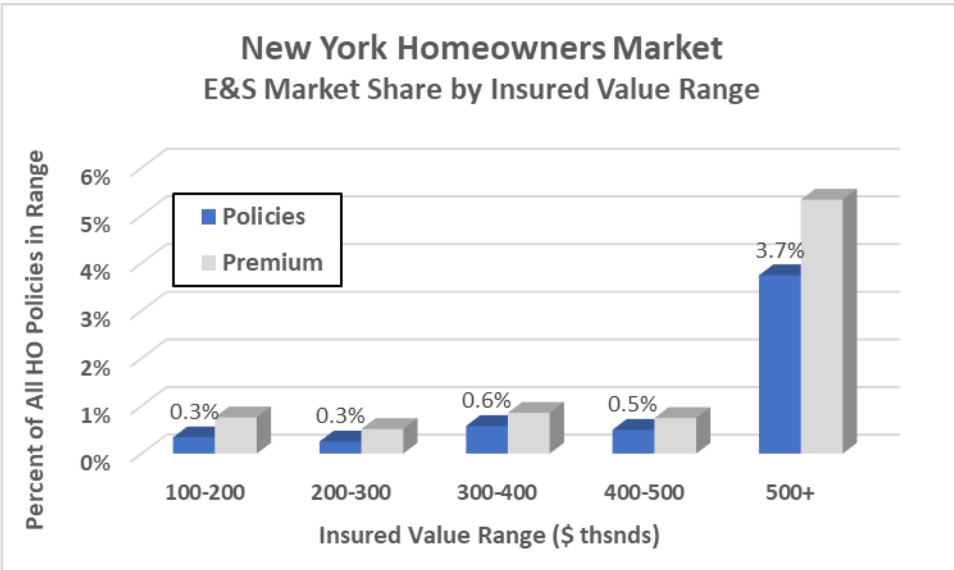
Exhibit 2: Size of Homeowners policies in the E&S market.



Source: NovaStance tabulations by policy limits of ELANY 2017 data and NAIC data.

For all but upper-tier accounts, the market share perspective shown in Exhibit 3 confirms the E&S market's limited participation. Indeed, E&S market share is estimated to be below 1% in all small and mid-size policy categories where more than 80% of New York policies are written. Among policies with $500 thousand or more in policy limits, in contrast, E&S market share increases – with a market share of 3.7% of policies and 5.3% of premium – but is still small relative to the admitted market's 96% share.

Exhibit 3: E&S Market Share of New York Homeowners Insurance.



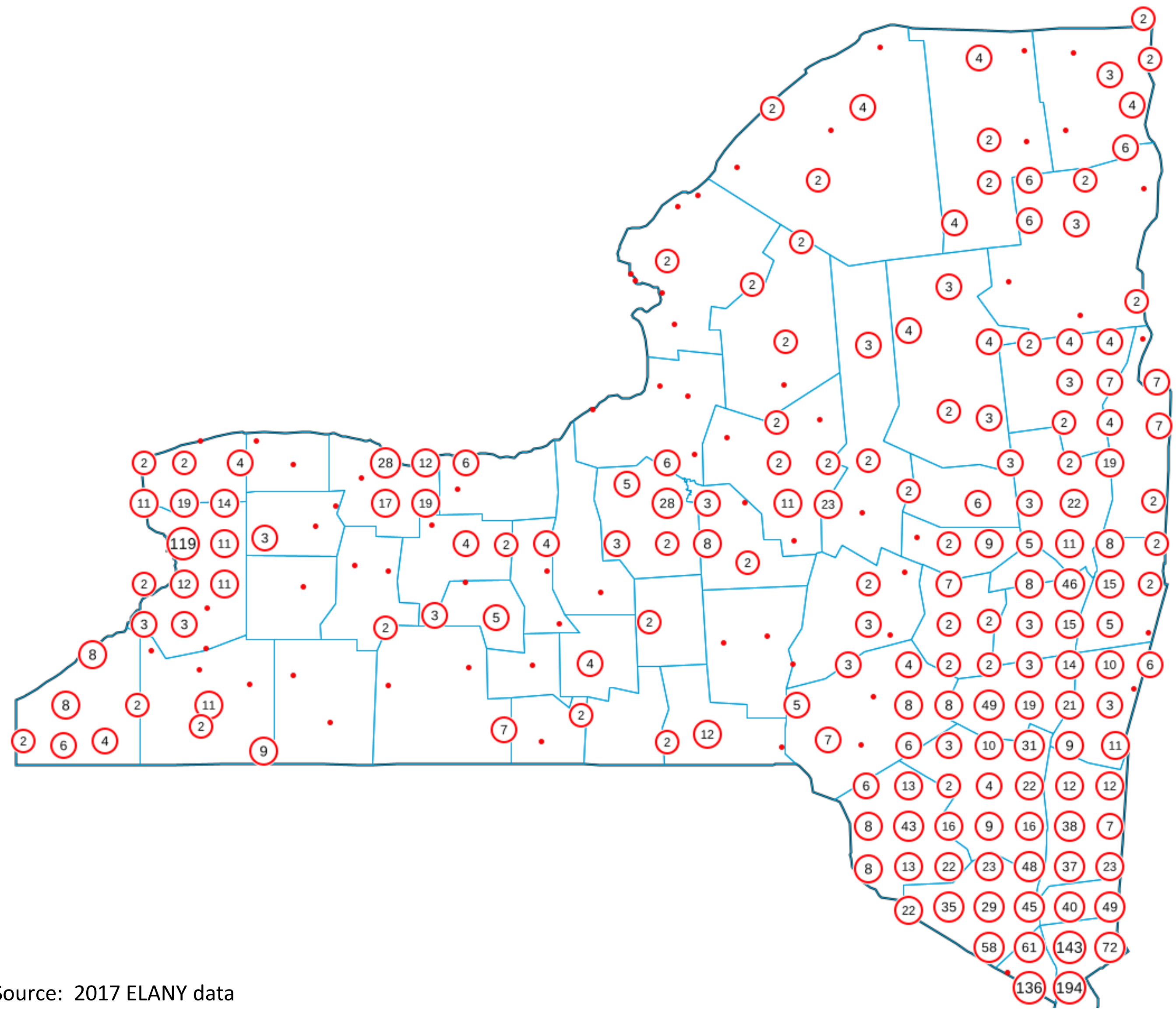
Source: NovaStance tabulations of 2017 data from ELANY and NAIC.

E&S policies with limits of $500 thousand or greater account for almost 60% of all homeowners policies placed in the E&S market. For these policies, the average cost of homeowners insurance – as measured by premium per hundred dollars of policy limits –was about $0.356 per hundred in 2017. In comparison, for the admitted and E&S markets as a whole, NAIC data indicate that the corresponding cost per thousand for policies with limits of $500 thousand or more was $0.317 –about $0.04 lower than in the E&S market alone.

Location of Risk-- The E&S Market for Homeowners Coverage

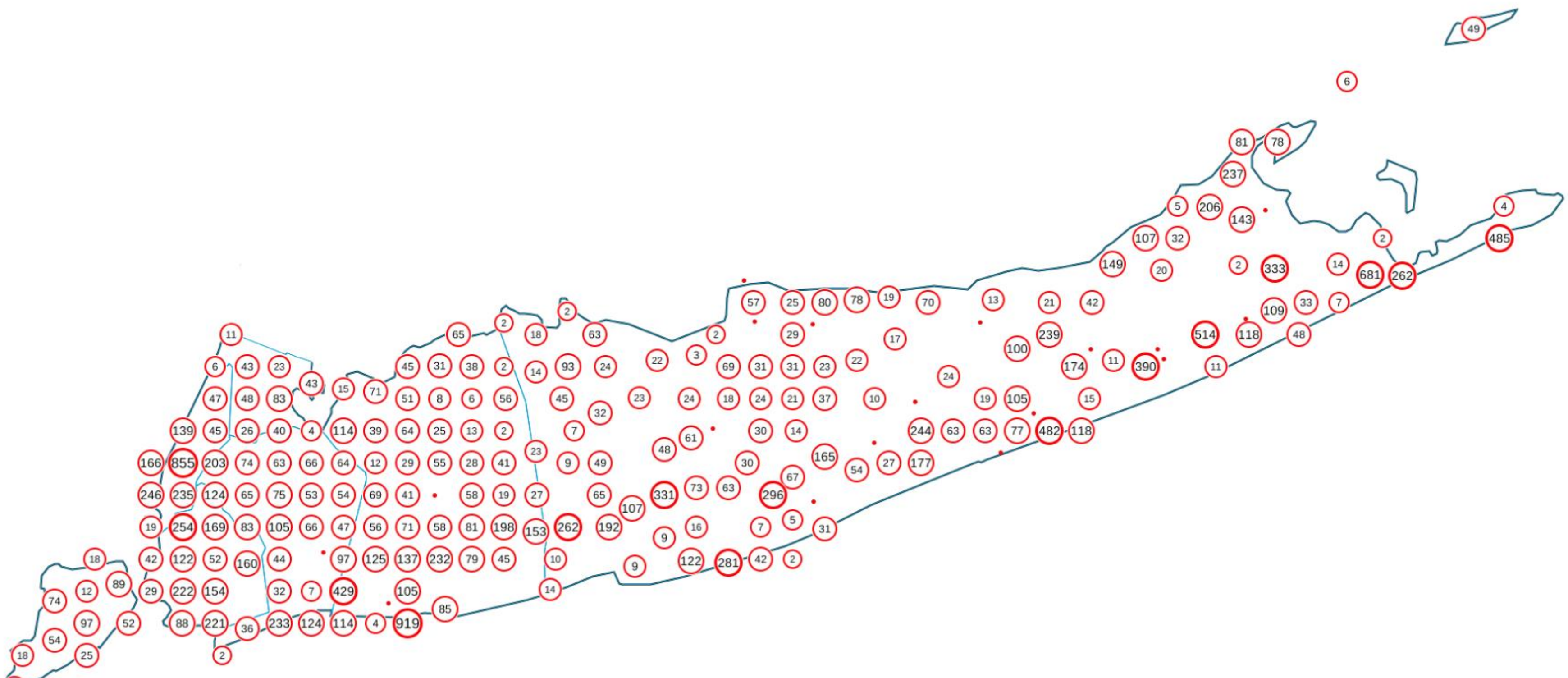
In New York State's homeowners market, utilization of the E&S market is heavily concentrated in two downstate areas – New York City and Long Island. Indeed, more than 60% of the state's E&S homeowners policies are concentrated in Long Island's Nassau and Suffolk counties (Exhibit 5). These two counties contain most of New York State's coastal ocean front property. The windstorm risk associated with these exposed properties is exacerbated by Long Island's positioning with respect to the Atlantic Ocean. This pronounced concentration of E&S policies suggests that the increased windstorm risk associated with these coastal properties is a significant barrier to obtaining coverage in the admitted market.

Exhibit 4: Map of 2017 E&S Homeowners Policies in Upstate New York showing number of E&S policies in each Census tract.



Source: 2017 ELANY data

Exhibit 5: Map of 2017 E&S Homeowners Policies in Downstate New York showing number of E&S policies in each Census tract.

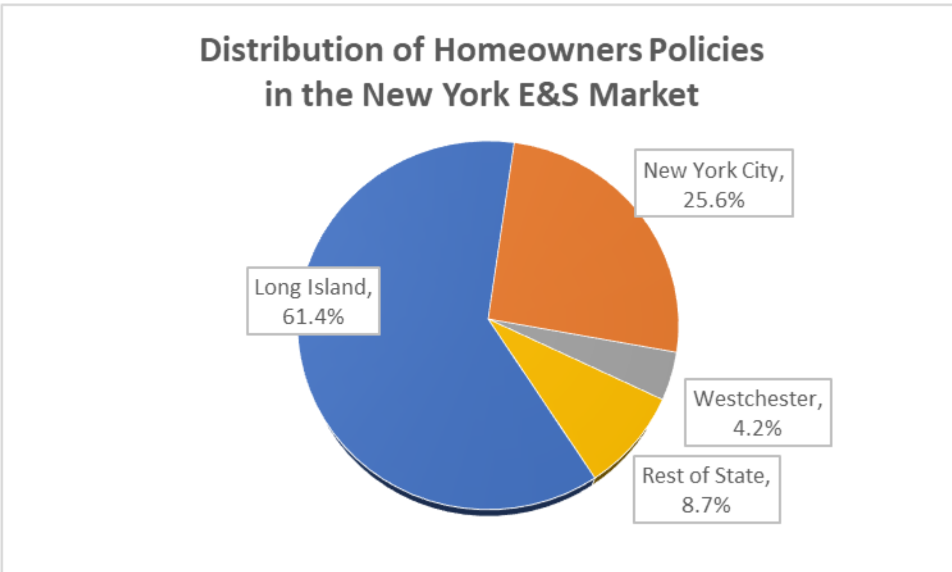


Source: 2017 ELANY data

Another 25% of the E&S market's homeowners policies provide coverage in New York City's five boroughs, where high home values can combine with ocean proximity to make these properties unattractive to admitted market insurers.

As shown in Exhibit 6, a more modest concentration of E&S insured properties is in Westchester County, an area with very high home values. All told, somewhat less than 9% of the state's E&S homeowners business is attributable to the remainder of the state – that is, the area outside of Long Island, New York City and Westchester county.

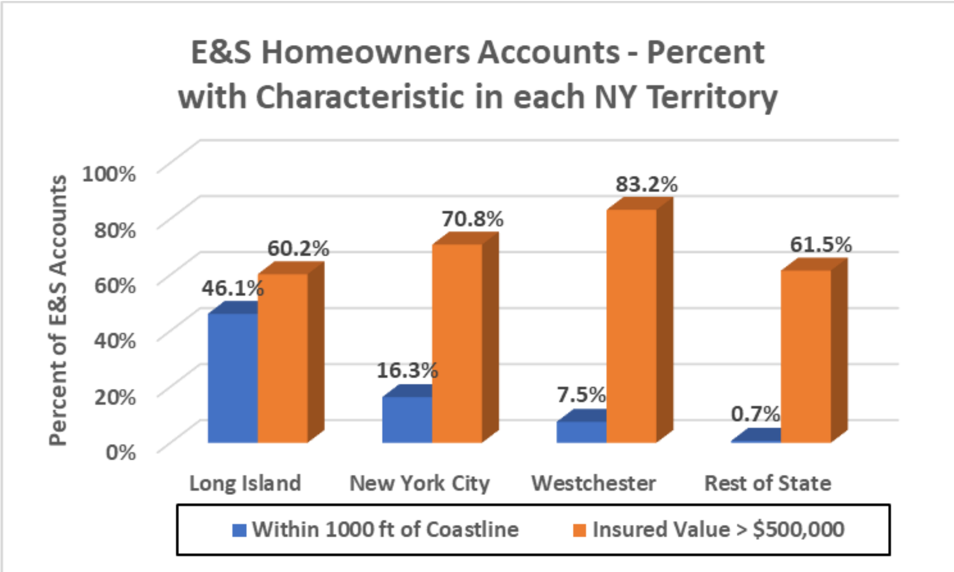
Exhibit 6: Distribution of New York's E&S homeowners accounts by marketing area.



Source: NovaStance tabulations of 2017 ELANY data

For each of these areas, the interplay of proximity to coastline and insured home value is shown in Exhibit 7 for homes insured through the E&S market. Of the three major regions with substantial E&S placements, proximity to the coastline appears to be the dominant factor for E&S coverage on Long Island where some 46% of E&S accounts are within 1000 ft of the coastline. For both New York City and Westchester, in contrast, the need for coverage with higher-tiered insured value appears to be the dominant factor driving homeowners insurance coverage to the E&S market. Indeed, 83% of E&S accounts in Westchester County have insured values of $500 thousand or more.

Exhibit 7: Importance of Coastal proximity and high insured value in New York's E&S market.



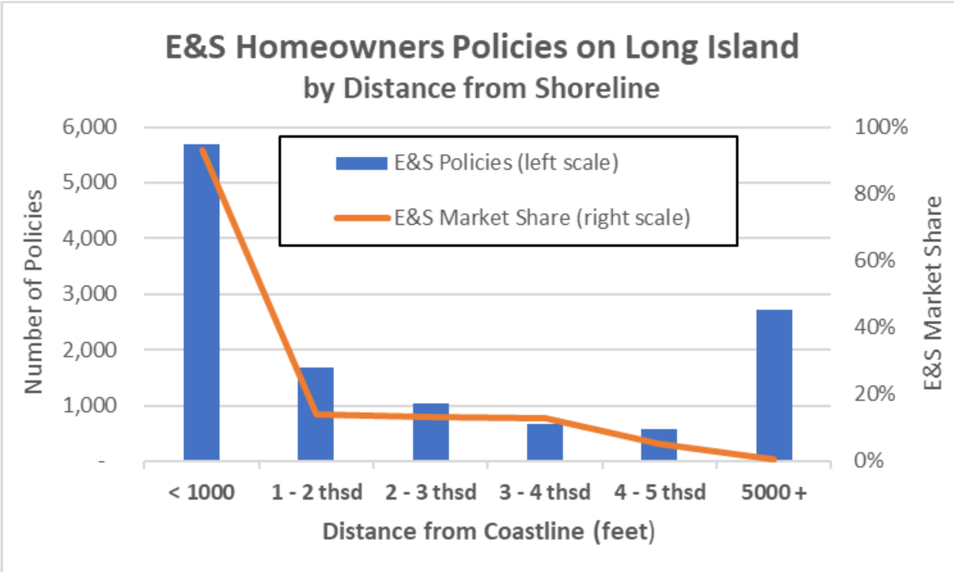
Source: NovaStance tabulations of 2017 ELANY data

Long Island – Homeowners Insurance Specifics

The E&S market's unique role as a market for high risk exposures that admitted insurers decline to write can be seen in the distribution of homeowners insurance coverage on Long Island (Exhibit 8). About 93% of the 5,600 owner-occupied homes in the immediate coastal area – that is within 1000 feet of the coastline – are covered through the E&S market. Beyond this zone of most extreme windstorm risk, the E&S market share declines to the 10-15% range for homes within a mile of the coastline. Beyond one mile, the E&S market accounts for less than ½ of 1% of the remaining 700,000-plus Long Island policies as windstorm risk declines to a range acceptable to most admitted market writers.

For Long Island as a whole, the E&S market provides coverage for only about 1.6% of the two counties' 751,000 owner-occupied homes. This modest market share reflects the fact that almost 95% of Long Island's owner-occupied single-family homes are located one mile or more from the coastline and hence are outside the area of highest windstorm risk which admitted market carriers typically are loath to write.

Exhibit 8: Concentration of E&S Coverage in Long Island's Homeowners Market



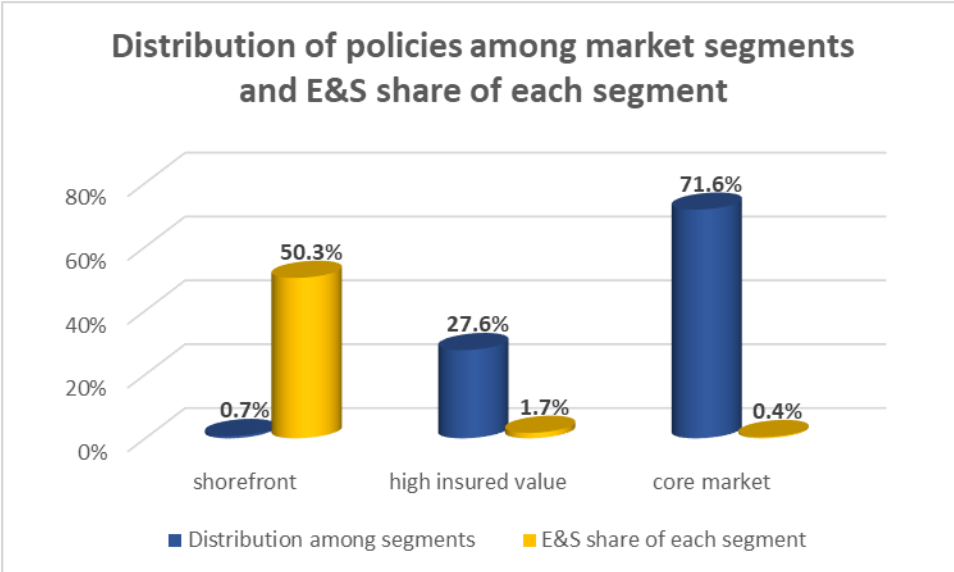
Source: NovaStance tabulations of ELANY data and Bureau of the Census data

Primary Findings – New York Homeowners Insurance Market

Available evidence indicates that New York's homeowners insurance market should not be analyzed as a single homogeneous market. Rather, it is comprised of three distinct markets for homeowners coverage. These three markets are: 1) the core market (with about 82% of all owner occupied homes) – almost exclusively the province of admitted carriers, 2) the market for very high value homes not on the oceanfront, and 3) oceanfront properties irrespective of value – defined here as those within 1000 feet of the coastline. These markets are differentiated by 1) extent of coastal windstorm risk and 2) level of insured value.

Exhibit 9 graphically illustrates the E&S market's concentration in the latter two markets. Conversely, it shows just how small the E&S market's share of the core market is. This core homeowners market is defined here as homes with insured value of less than $500 thousand that are at least 1000 feet from the coastline – shown in Exhibit 9 as the dark blue columns.

Exhibit 9: E&S Market Share in the New York Homeowners Market



Source: NovaStance tabulations of ELANY data and Bureau of the Census data

In New York State, both niche markets come to the fore on Long Island where more than 60% of E&S market placements occur. Indeed, E&S carriers are estimated to have more than a 90% share of high windstorm risk homes_– that is, those owner-occupied homes within 1000 feet of the coast. <u>This observation is consistent with the premise that the E&S market is almost exclusively used to place business that admitted carriers are unwilling to write</u>. This observation is further supported by the fact that admitted carriers' market share increases to more than 99% among homes more than 1 mile from the coast. All told, it is estimated that some 85% of Long Island's 750,000 owner-occupied housing units fall within the core homeowners insurance market which is almost exclusively served by New York's admitted carriers.

For New York as a whole, the estimated composition of the homeowners insurance market as of 2017 is shown in Exhibit 10. <u>The Core Market – that is, the non-coastal, non-high value market -- accounts for an almost 82% share of total policies and is almost exclusively the province of admitted market participants</u>. In contrast, the Coastal market is estimated to account for less than 1% of the total market and the High Insured Value market accounts for only about 18% of total homeowners policies in the state.

Statewide, about 46% of coastal policies are placed through the E&S market – a market share well below that estimated for the Long Island homeowners market. This apparent inconsistency is because, outside Long Island, many of New York state's coastal homeowners exposures are on or near inland lakes and waterways. And as such, these risks have much more limited windstorm exposure and hence are more readily placed through admitted markets.

Exhibit 10: Niche Markets in New York's Homeowners Market

Composition of New York's Homeowners Insurance Market

	Entire Market			E&S Market		
	Number of Policies		Written Premium	Number of Policies		Written Premium
					Share of	
Market Segments	thsnd	% of total	$ mil	thsnd	Mkt. Seg.	$ mil
Coastal Risks	16	0.5%	$ 38	7.2	45.9%	$ 24.5
High Insured Value	562	17.7%	$ 1,538	9.3	1.7%	$ 33.9
Core Market	2,600	81.8%	$ 2,175	5.5	0.2%	$ 9.6
Entire Market	3,178		$ 3,751	22.0	0.7%	$ 68.0

Source: NovaStance estimates based upon data from ELANY, NAIC, and Amer. Comm. Survey
Note: All coastal high insured value homes included in coastal market.

Conclusions - Extent of Competition in New York Homeowners

The comprehensive data examined in this study reveal that, from an economics standpoint, New York's homeowners insurance market is far from homogeneous. A core market encompasses more than 80% of the state's policies. This dominant sub-market is virtually exclusively served by admitted carriers. Indeed, the absence of competition from E&S carriers is attested to by admitted carriers 99.8% share of this core market. E&S carriers' miniscule (0.2%) market share is almost certainly comprised of accounts with special coverage or underwriting factors not observable in the data available for this study.

Two factors are responsible for the existence of two niche markets within the state. One -- an underwriting factor -- concerns the much higher hazard level (primarily coastal windstorm) associated with ocean-fronting and other near-coastline properties. The second, a coverage need factor, is associated with high value properties that have much larger than typical insured value needs and/or needs for ancillary coverages beyond those accommodated in a standard homeowners policy form.

The underwriting factor, by its very nature, is heavily correlated with geography and in the case of New York State is especially important on Long Island, where about 65% of E&S carriers' homeowners policies are written. In Nassau and Suffolk counties, it is clear that admitted market carriers are unwilling to cover these high windstorm risks since the E&S market has close to a 95% share of homes within 1000 feet of the coast. The absence of direct competition is further attested to by the fact that on Long Island, the E&S market share drops to less than 2% among homes more than 1 mile from the coast. Indeed, the precipitous 93 percentage point decline in surplus lines market share between these two areas provides the clearest possible proof of the absence of direct competition between the admitted and surplus lines markets.

The second factor is the need for coverage amounts and/or ancillary coverages beyond those typically available from admitted market writers. The need for such coverages has created a distinct niche accounting for about 18% of New York's homeowners policies. The E&S market has only about a 2% share of these accounts.

The reasons for the absence of direct competition with the admitted market in this niche are not directly observable from the data available to this study. However, it is apparent in this niche too that E&S carriers are responding to exceptional coverage needs beyond those available from admitted market writers and, therefore are not in direct competition with admitted writers.

In summation, a careful statistical analysis of New York State's homeowners insurance market clearly demonstrates that E&S insurers cover distinctly different risks than admitted carriers and do not compete with admitted insurers.

Appendix – Data Sources

This study of New York's homeowners insurance market has relied on three primary data sources:

1. ELANY policy data – Approximately 22 thousand Individual homeowners policy placements in New York's E&S market for 2017 were geocoded and tabulated. This geocoding permitted accurate calculation of each insured home's distance from the coast as well as classification of each policy within the Census Bureau's complex geographic structure.
2. New York homeowners insurance data – Data published by the National Association of Insurance Commissioners for New York's entire homeowners insurance market in 2017 were analyzed. Coverages written on DW, HO-1,2,3,5 and 8 policy forms were combined to provide a definition of the single-family homeowners market of which policies placed through ELANY are one segment. State-wide estimates of total house years, insured value and direct written premium were developed from the tables provided by NAIC.
3. American Community Survey data – For estimates at lower geographic levels, ACS data from the 2014-18 survey period were used to develop 2017 estimates of the number of single-family owner-occupied homes classified by market value. 75% of market value was used as an approximation of Coverage A insured value. Estimates were developed at the county, census block group and census block levels to enable accurate calculation of the single-family housing stocks distance from coast.

   For tabulations by insured value, 80% of the ACS reported market value was used.

Appendix – Reconciliation with ELANY published totals

This study tapped data directly from ELANY's transaction records for 2017. However, a number of adjustments caused the totals reported for accounts and premium to diverge somewhat from those published by ELANY. Among these adjustments were:

1. The switch to tabulations based upon effective date of policy as opposed to date submitted to ELANY
2. Some policies have multiple transactions associated with them. The analysis is based on the number of policies irrespective of the number of transactions associated with them
3. The exclusion of policies showing missing or non-positive premium amounts
4. The exclusion of policies with missing or non-positive insured value amounts