

GAO Highlights

Highlights of [GAO-14-136](#), a report to congressional committees

Why GAO Did This Study

Surplus lines insurers are critical to ensuring that businesses and individuals with difficult-to-insure risks can manage those risks. These insurers provide coverage for risks that the traditional, or admitted, insurance market is unwilling or unable to cover. Historically, insurance brokers who sell such coverage have found it to be time consuming and often difficult to allocate state taxes brokers collect and remit on insurance premiums on behalf of policyholders when the risks covered reside in multiple states. To help address this issue, Congress passed NRRRA as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The act mandates GAO study changes in the surplus lines insurance market. This report (1) describes the size and condition of the surplus lines insurance market and (2) examines actions states have taken to implement NRRRA's provisions and the effects of the act, if any, on the price and availability of coverage. To address these questions, GAO analyzed end-of-year financial data for 2008 through 2012 for insurers who sold surplus lines insurance in 2012 and interviewed insurance regulators from states with a large number of surplus lines insurers, industry associations representing interests in the surplus lines market, and large insurers and brokers. GAO also reviewed related studies and analyses.

In commenting on a draft of the report, the National Association of Insurance Commissioners provided technical comments, which GAO incorporated as appropriate.

View [GAO-14-136](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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PROPERTY AND CASUALTY INSURANCE

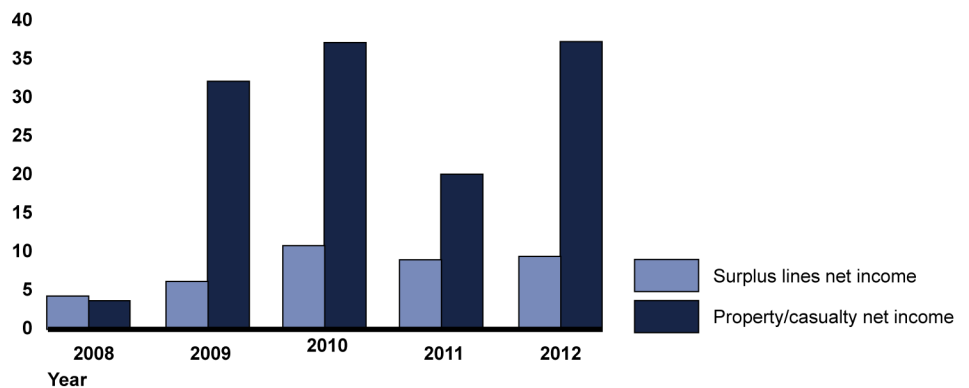
Effects of the Nonadmitted and Reinsurance Reform Act of 2010

What GAO Found

Surplus lines insurers' premiums written have increased modestly and the companies have generally remained profitable. From 2008 through 2012 premiums written by surplus lines insurers, who sell property/casualty insurance through brokers in states where they are not licensed, grew slightly from \$24.8 billion to \$25.2 billion and remained stable at around 5 percent of the property casualty market as a whole. Over this time, surplus lines insurers' premiums generally exceeded their claims and underwriting expenses and they remained profitable. Surplus lines insurers also saw capital gains over this period.

Net Income of Property/Casualty and Surplus Lines Insurers, 2008-2012

Dollars in billions



Source: GAO analysis of SNL Financial data.

Almost all states have modified their laws to implement at least portions of the Nonadmitted and Reinsurance Reform Act of 2010 (NRRRA). In 2010, Congress passed the act, which supporters argued would make it easier for surplus lines insurers and brokers conducting business across states. Under NRRRA, only the "home state" of the insured—the state where the insured maintains its principal business or residence or, if the risk is 100 percent outside that state, the state to which the greatest percentage of the insured's taxable premium is allocated—may tax or regulate surplus lines insurance transactions. According to market participants GAO interviewed, the changes in states' laws have simplified compliance for multistate risks. While most home states are collecting and retaining 100 percent of premium taxes, a few states are participating in a tax-sharing agreement, as permitted under NRRRA. According to industry associations, including those whom GAO interviewed, some states are making additional requests of surplus lines insurers beyond the requirements specified in NRRRA. The National Association of Insurance Commissioners formed a subgroup to address this issue and in August 2013 issued options for improving compliance. Market participants said that NRRRA has had little, if any, effect on the prices or availability of coverage, as this was not an intent of the act. The participants said that the insurance business cycles are primarily responsible for any changes in prices and availability. According to surplus lines insurers that GAO contacted, NRRRA has caused little noticeable shifting in coverage between the admitted and surplus lines markets.