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INSIGHT

Surplus Lines Insurance: An Introduction

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High losses in homeowners insurance have resulted in many state-licensed (or *admitted*) insurers pulling back from high-risk areas. Some homeowners have responded by seeking insurance from *surplus lines* (or *nonadmitted*) insurers, which may offer fewer consumer protections or less coverage. This dynamic has resulted in significant increases in surplus lines insurance covering, for example, personal property, which grew 20.2% in the first half of 2026. This growth has caused concerns over the relatively less regulated nature of surplus lines insurance.

Insurance in general is a highly regulated financial product, primarily at the individual state level. Unlike for banking and securities, there is no federal regulator for insurance. States generally require licenses for insurers to operate, and states regulate insurance products as well as insurer solvency and market conduct. While regulation is usually seen as important for consumer protection, it also creates barriers to entry that may reduce the available supply of insurance. Rather than requiring consumers unable to find insurance from a state-licensed insurer to simply go without insurance, states have allowed consumers to purchase insurance from surplus lines insurers as a form of safety valve for the market. Although such insurers may sell any sort of insurance, most such transactions tend to be for rarer and more exceptional risks, such as art and antiques, cyber insurance, and environmental or pollution risks.

Regulation of Surplus Lines Insurance

Surplus lines insurance regulation differs from other insurance regulation both in substance and in focus. In regulating standard insurance transactions, much of the state's focus is on the insurer itself. States have licensure requirements relating to financial solvency and capital. In cases of insolvency, states have established guaranty funds to pay an insolvent insurer's policyholders. The states often regulate both the content and price of an insurance policy, with many states requiring specific state approval for changes. Surplus lines insurers are allowed to operate without being licensed in the state where they are selling insurance and thus do not follow the state regulations tied to licensure, particularly regulations on insurance policy content and rates. While surplus lines insurers report financial information, only the home states fully regulate for solvency. Surplus lines insurers also do not participate in guaranty funds.

Most surplus lines transactions are handled by insurance brokers. These brokers, in contrast to surplus lines insurers, must be licensed by the states where they operate. Thus, state requirements regarding surplus lines transactions focus on the broker. Surplus lines brokers are required to take various steps that are not required in transactions with admitted insurers. The first step is generally a *diligent search* of the

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marketplace establishing that no licensed insurer is available. Typically, this is satisfied by having some number, usually three to five, of licensed insurers decline to offer coverage.

Once establishing eligibility to use surplus lines insurance, the broker approaches various insurers seeking the coverage needed. At this point, while the consumer is outside of the admitted insurance market, the states do establish some standards to protect consumers against insurers who might be unable to pay claims. Some states establish a list of eligible surplus lines insurers, and state-licensed brokers are allowed to transact business only with insurers on that list. For non-U.S. insurers, the National Association of Insurance Commissioners (NAIC) publishes a quarterly listing of eligible insurers based on financial information filed by these insurers. States also generally require that brokers provide specific disclosures detailing that surplus lines insurance is not subject to the same oversight as insurance bought from state-licensed insurers. Laws that are not tied to insurer licensure, such as those against fraud, continue to apply to surplus lines insurers.

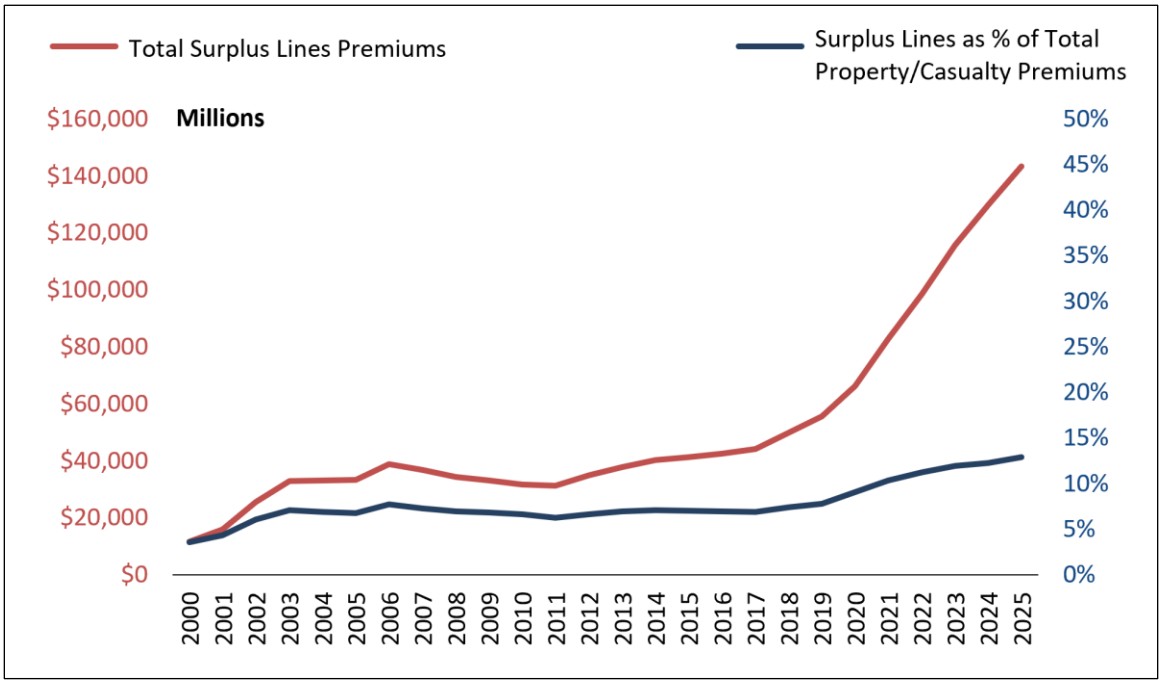
States levy specific premium taxes on insurance to be remitted by state-licensed insurers. In surplus lines transactions, the brokers are required to collect such taxes. The situation becomes somewhat unclear, however, when the consumer, the broker, or the insured property are in different states. Such a multistate situation requires apportioning premium taxes among the different states. In the past, state laws differed significantly on the amount of such taxes and how they should be apportioned.

Varying state requirements for surplus lines insurance led to calls for greater harmonization between the states' laws and, ultimately, to federal intervention to promote uniformity through the Nonadmitted and Reinsurance Reform Act of 2010 (NRRA; Title V, Subtitle B, of P.L. 111-203). This law harmonizes surplus lines regulation and taxation. It vests the *home state* of the insured with the sole authority to tax a surplus lines transaction and provides for the possibility of an interstate compact to determine how taxes may be distributed; absent such a compact, the home state has the authority to determine distribution. The NRRA also preempts state laws on surplus lines eligibility that conflict with the NAIC model law and implements "streamlined" federal standards allowing a commercial purchaser to access surplus lines.

The Surplus Lines Marketplace

The surplus lines market has been significantly affected by general market disruptions when prices tend to increase and availability becomes more difficult. **Figure 1** shows the surplus lines market compared to the regular market and the increase in total surplus lines premiums over the last 25 years. Notable growth periods include 2002 (61.7% following the 9/11 terrorist attacks), 2006 (16.3% following losses from Hurricane Katrina and other storms), and 2018-2025 (double-digit annual percentage increases following Hurricane Harvey, increasing wildfire and smaller storm losses, and the COVID-19 pandemic).

Figure 1. Surplus Lines Market Size

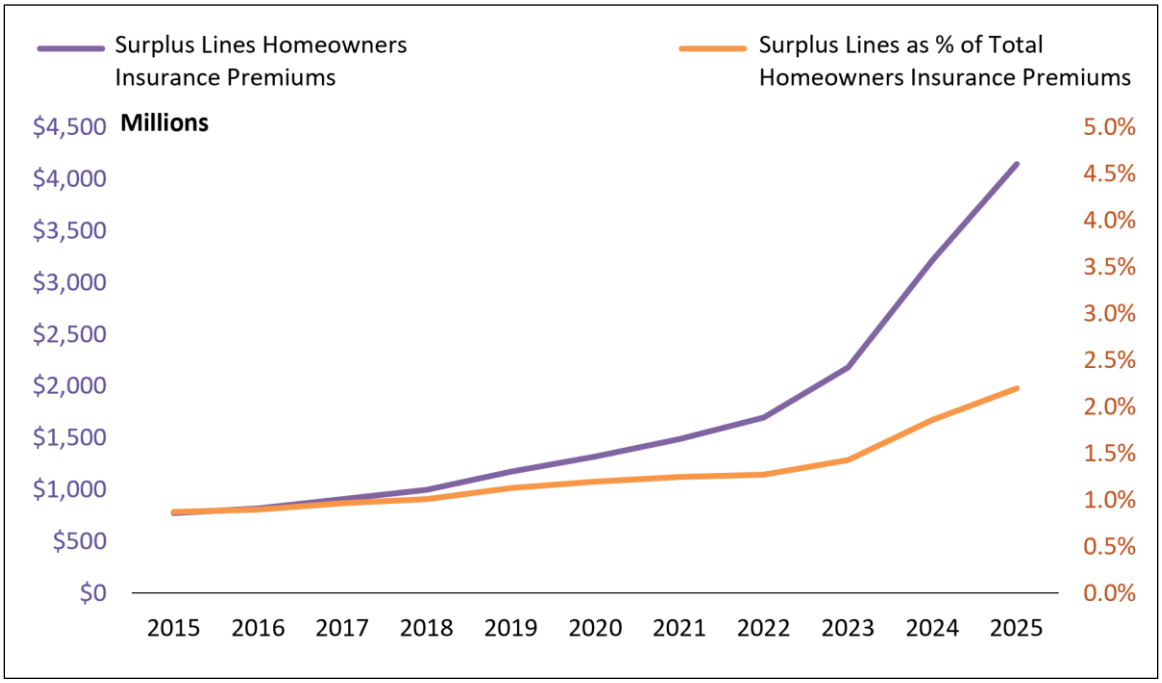


Source: A.M. Best, *US Surplus Lines Market*, September 14, 2026.

Notes: Premiums = direct premiums written.

As noted above, high losses in homeowners insurance have resulted in an increasing number of homeowners seeking insurance from surplus lines insurers, although this insurance may have fewer consumer protections or less coverage. Surplus lines are still a relatively small amount of the overall homeowners insurance market (2.2%), although this percentage has more than doubled since 2015. **Figure 2** shows the surplus lines share of the homeowners insurance market and the increase in surplus lines premiums for homeowners insurance.

Figure 2. Surplus Lines and Homeowners Insurance



Source: A.M. Best, *US Surplus Lines Market*, September 14, 2026.

Notes: Premiums = direct premiums written.

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