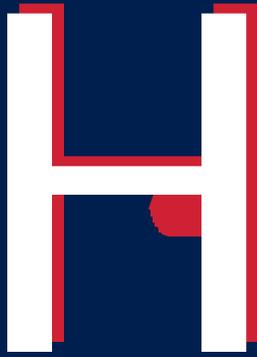


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# Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

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## Stamping Office Celebrates 15th Year!

This summer marks the 15th anniversary of the Surplus Lines Stamping Office. Since officially opening for business on July 1, 1988 SLSOT has seen many changes in the Texas surplus lines market. Premium volume has grown nearly five-fold and is projected this year to be approximately \$3 billion. The number of eligible insurers in 1988 was 226; today there are 158. In 1988 Texas issued a few non-resident surplus lines licenses, for the limited purpose of writing purchasing group business.

Following major licensing reform in 2001, Texas now issues non-resident surplus lines licenses permitting direct solicitation and writing in Texas by out-of-state agents. Jack Claitor was the first general manager of the Stamping Office, succeeded by Charles Tea in 1990 and Phil Ballinger in 2000. In the past 15 years there have been 6 insurance commissioners and 4 governors. The State Board of Insurance (SBI) became the Texas Department of Insurance (TDI). Two major insurance regulation reform bills were passed by the Texas Legislature, one in 1991 and the other in the recently-concluded 78th regular session. Surplus lines agents have gone from filing affidavits with SBI to filing complete paper copies of policies with SLSOT to reporting policy data with the Stamping Office electronically. Despite these and many other changes the years always

bring, one constant endures: surplus lines agents and insurers continue to provide essential insurance coverage for Texas citizens unable to procure coverage in the admitted market.

SLSOT's primary functions have evolved since 1988. We still offer free seminars, approved for continuing education, each fall, as we have for 15 years. Our newsletter, *Lone Star Lines*, became another source for information in 1995. The Stamping Office website was first introduced in

December of 1997, greatly expanding our ability to distribute information. This year we project hits to [www.slsot.org](http://www.slsot.org) will exceed one million for the first time. Procedures for evaluating insurers for eligibility have been honed over the years by Brian Wilds, SLSOT's Director of Financial Analysis & Accounting. Modernization projects involving the processing of reported surplus lines policies and architecture of the computer systems for maintaining this data have occurred under the supervision of Elaine White, Director of Data Services. Both Brian and Elaine have been at SLSOT since its creation. In fact, much of the success of the Stamping Office must be attributed to the experience and the customer service attitude of its staff. Of 23 current employees, 7 have more than ten years seniority at SLSOT. Ten have more than 5 years. H



## 78th Texas Legislature - Focus on Insurance

by Alex Gonzales, Winstead Sechrest & Minick  
representing the SLSOT as General Counsel

The 78th Texas Legislature certainly left its mark on Texas insurance laws. Major changes to personal lines insurance received the most publicity, but changes in other lines, specifically medical liability, also loomed large for Texas insurers. There were too many changes to Texas insurance laws to address them all in the space allotted for this article, so I will try

to touch on those that should be of the greatest interest to surplus lines professionals.

For the most part, the Texas Legislature did not amend Texas surplus lines laws. However, the prior Texas surplus lines statute, Article 1.14-2, was recodified, along with several (continued, page 2)

## 78th Texas Legislature...

other sections of the Insurance Code. The surplus lines statute is now codified as Chapter 981 of the Insurance Code.

H.B. 4, which covered many aspects of tort reform, included some changes to civil lawsuit procedures, but also made substantive changes for medical liability and medical liability insurance. The legislation affects procedures for class actions lawsuits, settlements, venue, apportionment of liability and products liability, among many other topics. However, the biggest change will occur later this fall if Texas voters approve a constitutional amendment limiting non-economic damages in medical liability cases to \$250,000 per defendant, up to \$500,000 per case.

The vigorous debate in the last elections concerning an insurance "crisis" and related "reform" meant that personal lines insurance would be the focus of the Legislature's insurance related legislation. Senate Bill 14 was the primary legislative vehicle for changes in personal lines insurance. The changes to rate and form regulation were the most far reaching since Texas went to the benchmark rating system in 1991.

The benchmark rating procedures for rate setting will remain in place for most insurers until December 1, 2004, after which all personal lines property and casualty insurers will be subject to the file and use procedures in Article 5.13-2 of Insurance Code. Commercial automobile insurance was made subject to Article 5.13-2 and to that statute's file and use procedures on the effective date of S.B. 14, June 11, 2003.

The new procedure is the same as that adopted for commercial lines in 1991. It is essentially a deregulated procedure, as insurers will be able to use the filed rates until they are disapproved. Disapproval after the filing's effective date will first require a contested hearing, and the rates will remain in effect until a final decision has been rendered. The Commissioner may, however, after final disapproval require the insurer to refund premiums found to be excessive.

Until December 1, 2004, residential property insurance will be subject to new Article 5.142's file and approve procedure, with a 30 day deemer (extendable for an additional 30 days).

County mutual insurers will remain exempt from the benchmark rating system until December 1, 2004. Various small insurers (Articles 5.141 and 5.13-2C) and some county mutuals (Article 5.13-2) will be exempt from some rate filings after December 1, 2004.

As of December 1, 2004, smaller county mutuals will be categorized as "non-standard" insurers, and, if they use only rates at 30% above the "statewide standard index," will make limited filings as established by rule. The

Commissioner will publish the statewide standard index annually, with the initial index equal to the benchmark rate as of December 1, 2004.

Residential property insurers were required to file rates within 20 days of the effective date of S.B. 14. The exemption for Texas Lloyds and other exempt insurers from homeowners rate filings was eliminated. Depending on the size of the insurer (less than \$10 million or \$10 million and more), the Texas Department of Insurance will have either 90 or 60 days, respectively, to approve the rates. If the rates are found to be excessive, and subject to appeal, the Commissioner of Insurance may require a refund of premiums found to have been excessive.

Policy forms for personal lines will also now be subject to file and use, as S.B. 14 establishes new Article 5.145. Insurers will file policy forms, which may be used upon approval or upon a 60 day deemer period. S.B. 115 enacts new Article 5.45, which requires insurers to notify insureds of any change in policy forms.

S.B. 14 also amended Article 21.49, governing the operation of the Texas Windstorm Insurance Association. Most of the changes relate to inspection and repair of buildings, with additional changes to internal procedures for adjustment and evaluation of claims and a limit to premium increases.

Additionally, pursuant to S.B. 14, all licensed insurers must file underwriting guidelines. The underwriting filings will be subject to disclosure as open records unless they are trade secrets. The guidelines must be actuarially justified or otherwise commensurate with the contemplated risk(s).

Mold related claims and remediation costs had a great deal of influence, real or perceived, on the rise of homeowners insurance rates in the past few years. Accordingly, the Legislature enacted several statutes to address the problem. S.B. 127 mandates certain periods for the handling of water or mold claims, and also regulates public insurance adjusters. This bill also enacts new Articles 5.35-4 and 21.21-11, which restrict underwriting decisions based on water or mold related events. H.B. 329 regulates mold remediators.

While the Legislature made some fundamental changes in the state's substantive insurance laws, perhaps the most far-reaching and most enduring change enacted this session was the grant of extensive rulemaking authority to the Commissioner. S.B. 14 delegates to the Commissioner the responsibility for determining the requirements for rate and form filings, the categorization of insurers as non-standard insurers or small insurers, and whether refunds will be required, among many other responsibilities. Additionally, S.B. 14 amends Article 36.001 to eliminate the prior requirement that the Commissioner's rulemaking authority be specifically granted by statute. **H**

# EFS Help Desk Available Now



Janet Kantor & Cheyenne Norment,  
EFS Help Desk Specialists

The SLSOT Electronic Filing System (EFS) was implemented on July 1, 2003, as scheduled. While it has been a lengthy journey, it is one we feel was very worthwhile. Not only does the EFS provide the latest advances in technology in a secure environment, but it also features a variety of resources for assistance. One of these is the EFS Help Desk, which is staffed by Cheyenne Norment, with 5 years of service with the Stamping Office and Janet Kantor, with 13 years of service. They are available to provide application support and technical assistance to surplus lines agents during normal business hours. You can contact the Help Desk

by calling 1 (800) 681-5848 or by e-mailing [efshelp@slsot.org](mailto:efshelp@slsot.org) for additional information. We plan to demonstrate various features of the EFS at the annual agents seminars in September. **H**

## Helpful Hints

**n** Please remember, effective 7-1-03, the stamping fee rate is .1% (.001). The lower rate will apply to each new or renewal surplus lines policy with an effective date on or after 7-1-03. This new rate also applies to date extensions effective on or after 7-1-2003.

**n** The Stamping Office has a new toll-free number for your convenience. (Our extensions have remained the same.)

**1 (800) 449-6394**

## Employee News

Angelica Perez was promoted to the position of Data Entry Examiner. Angelica has been employed with SLSOT since 1991.

# SLSOT Seminars

## Texas Surplus Lines Insurance Regulation 2003

**S**peakers from the Texas Department of Insurance, the Comptroller, and the Surplus Lines Stamping Office of Texas will discuss the following topics during the seminars scheduled for September. Please plan to attend to hear the latest surplus lines news and information available.

### No Registration Fees!

The SLSOT presents these seminars at no charge to attendees.

### Continuing Education Credit

Attendees will receive a certificate for 3 CE credit hours from TDI and from TSBPA for CPA credit if needed.

## Topics Covered

- Insurance legislation from the 78th Texas Legislature
- Regulatory issues (agent licensing, commercial property coverages, purchasing groups)
- Agent violations resulting in disciplinary actions
- Tax audits of surplus lines agents
- Filing of premium taxes
- Electronic Filing System for SLSOT
- Stamping fee reduction

## Registration Info

**Online registration is available through our website at [www.slsot.org](http://www.slsot.org) through August 28, 2003.**

## Seminar Locations

### Houston

September 5, 2003  
Registration: 7:30 a.m.  
Seminar: 8:30 a.m. -11:30 a.m.  
Omni Hotel  
Four River Way  
Houston, Texas 77056

### Dallas

September 16, 2003  
Registration: 7:30 a.m.  
Seminar: 8:30 a.m. -11:30 a.m.  
Wyndham Anatole Hotel  
2201 Stemmons Frwy  
Dallas, Texas 75207

### San Antonio

September 25, 2003  
Registration: 12:30 p.m.  
Seminar: 1:30 p.m. - 4:30 p.m.  
San Antonio Convention Center  
200 E. Market Street  
San Antonio, Texas 78205



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### Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 6/03	Premium through 6/02	Percent Change
1 Fire (incl. allied lines)	\$389,150,471	\$320,931,403	21.3%
2 Allied lines	\$21,010,121	\$19,380,499	8.4%
3 Farmowners multiple peril	\$627,675	\$517,504	21.3%
4 Homeowners multiple peril	\$75,191,610	\$33,067,792	127.4%
5 Commercial multiple peril	\$29,903,843	\$13,438,582	122.5%
8 Ocean marine	\$5,442,851	\$4,474,670	21.6%
9 Inland marine	\$22,487,469	\$24,585,123	-8.5%
11 Medical malpractice	\$32,966,025	\$28,409,250	16.0%
12 Earthquake	\$68,115	\$403,986	-83.1%
13 Group accident & health	\$52,111,715	\$61,449,817	-15.2%
14 Credit A&H (group & individuals)	\$3,850	\$0	0.0%
15 All other A&H	\$11,869	\$23,672	-49.9%
17 Other liability	\$589,322,625	\$487,648,491	20.9%
18 Products liability	\$21,500,000	\$18,284,144	17.6%
19.2 Other priv pass auto lia	\$7,212	\$7,151	0.9%
19.4 Other comm. auto liab	\$45,857,291	\$37,021,770	23.9%
21.1 Priv pass auto physical	\$689,682	\$463,469	48.8%
21.2 Comm auto phys.damage	\$31,416,539	\$34,128,767	-8.0%
22 Aircraft (all perils)	\$2,682,081	\$1,644,542	63.1%
23 Fidelity	\$802,223	\$183,503	337.2%
24 Surety	\$0	\$302,822	-100.0%
26 Burglary & theft	\$351,921	\$1,230,823	-71.4%
27 Boiler & machinery	\$8,624	\$252,067	-96.6%
28 Credit	\$30,428,524	\$25,083,005	21.3%
31 Aggregate/other business	\$112,123	\$1,283,121	-91.3%
<b>TOTAL</b>	<b>\$1,352,154,459</b>	<b>\$1,114,215,973</b>	<b>21.4%</b>

Note: Due to rounding figures may not total

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 July - September

The "Lone Star Lines" is published quarterly by the Surplus Lines Stamping Office of Texas for surplus lines agents, companies, and others involved in surplus lines business.

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We invite readers to suggest topics for articles that may be of interest to others. Any submissions or inquiries should be sent to the following address:

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<http://www.slsot.org>  
 Internet E-Mail address:  
[info@slsot.org](mailto:info@slsot.org)

You can locate a text copy of this and previous issues of this newsletter on our web site at:  
<http://www.slsot.org/slsotpub.htm>

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