

# Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

## Texas Surplus Lines Insurer Financial Update

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Volumes have been written on the financial market meltdown, catastrophic events and associated insurance losses, a continuing soft market, an overall weakened economy and the bailout of AIG (Chartis). The financial data compiled from our evaluations of all eligible surplus lines insurers operating in Texas reflect the impact of these events. As has been the case over many years, the financial results of surplus lines insurers operating in Texas are superior to the property and casualty insurance market as a whole.



For the past ten years we have created a composite financial picture of all insurers that are eligible in Texas. The data for the composite is gleaned from data elements we use to evaluate each insurer every year. Our evaluation of insurers for eligibility purposes results in a 'recommendation' by the Stamping Office to the Texas Department of Insurance whether an insurer should be added, removed or remain on the Surplus Lines Insurers List. The exhibit on page two compares various annual aggregate financial data and ratios for a five-year period. (Note that a one page summary of selected financial data for each eligible insurer is available at [www.slsot.org](http://www.slsot.org) under "Company Information".)

There are three distinct risk-bearing entities in the Texas surplus lines market. As of October 1, 2009 foreign (U.S.) insurers make up 75% of eligible insurers [143], Alien (Non-U.S.) insurers are 25% of eligible insurers [47] plus Underwriters

at Lloyd's, London [76 Syndicates]. Premium produced by licensed surplus lines agents and processed by the Surplus Lines Stamping Office of Texas (SLSOT) for these entities in 2008 was as follows: Foreign insurers \$2.471 billion, 76%; Alien insurers \$197.1 million, 6% and Lloyd's \$437.0 million, 18%. As of September 30, 2009 the total processed premium of \$2.630 billion was up year-to-date 8.1% compared to the same period in 2008. The three types of entities are maintaining the same market share in 2009 as in 2008. The top ten individual insurers (including Lloyd's) reported

56% of the total premium processed by the SLSOT in 2008 with this percent increasing to 57% as of September 30, 2009. When compiling premium for insurers within an insurance group the top ten insurance groups wrote 64% of the premium processed by the SLSOT in 2008 declining to 62% as of September 30, 2009.

Premium processed by the Stamping Office in 2008 was \$3.283 billion compared to \$3.726 billion in 2007 representing a decline of 11.9%. Comments in many insurers' Management's Discussion and Analysis point to the continuing soft market conditions, heated competition, admitted insurers taking business, lower insured values and their willingness to forego unprofitable business. Part of our evaluation process identifies the top producing surplus lines agent doing business with a surplus lines insurer. Prior to 2008 there were few changes but in

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2008 the top producing Texas surplus lines agent was replaced in over 30% of the insurers. Average premium per policy processed in 2008 was \$7,596 compared to \$8,397, a 9.5% decline and the policy count in 2008 was down 4.4%. Somewhat on the bright side, the average premium per policy at September 30, 2009 was 6.1% greater than at the end of 2008 but policy count was ahead only 0.7% over the count at September 30, 2008.

The aggregate gross and average gross premium written by the eligible insurers on a companywide basis exceeded 2007's levels by 21% and 14% respectively. The aggregate net and average net premium written by the eligible insurers on a companywide basis slightly declined 2% and 7% respectively compared to 2007's levels. Even though premium processed by the Stamping Office in 2008 declined, 37% of surplus lines insurers increased Texas production.

The composite combined ratio in 2008 was 96% compared to 92% in the prior year. This compared favorably to the 105% combined ratio for the total P/C

Industry as reported by A.M. Best. Return on policyholder's surplus fell to 4.1% in 2008 compared to 13% in 2007. Investment results took a beating in 2008. In 2008, 27% of the eligible insurers had investment losses compared to 16% in 2007. In aggregate these insurers had \$2.8 billion in unrealized capital losses of which \$608 million was due to 'other than temporary declines' in the value of certain investments. In 2008, 60% of these insurers had underwriting gains compared to 72% in 2007 and only 71% had net income compared to 88% in 2007. One of the most striking changes was the decline in the aggregate underwriting results from a gain of \$4.0 billion in 2007 to a gain of only \$254 million in 2008.

The value of mortgage backed securities (MBS) held by Texas eligible U.S. insurers is provided in the chart on page three. Surprisingly the aggregate MBS value rose by 1.4% along with the percent of invested assets and percent of capital and surplus held in MBS. On closer look, the insurers added to the insurers list in 2008 had a higher level of MBS investments than insurers that left the list. Many of the insurers with net investment losses

### Texas Surplus Lines Insurer Composite Financial Information Calendar Year 2008-2004 Comprised on Currently Eligible Insurers

	2008	2007	2006	2005	2004
<b>Capital &amp; Surplus</b>	97,849,840,420	102,692,104,822	96,255,165,279	75,403,523,298	65,448,080,153
Average	496,699,698	546,234,600	556,388,239	448,830,496	391,904,672
Median	83,750,500	92,426,439	86,819,000	79,990,451	64,323,256
<b>Underwriting Gain (Loss)</b>	253,624,543	4,006,155,437	3,571,040,220	1,196,354,228	(590,055,784)
Average	1,424,857	21,538,470	20,883,276	7,121,156	(3,907,654)
Median	1,034,000	1,969,636	1,835,687	450,642	751,623
<b>Net Income After Tax</b>	4,067,005,775	10,146,951,413	6,294,992,030	7,952,450,619	5,622,573,701
Average	20,750,029	54,261,772	36,812,819	47,336,016	33,668,106
Median	2,358,436	5,697,642	5,877,948	4,299,424	3,825,700
<b>Return on Policyholder Surplus</b>	4.1%	13.0%	10.5%	9.3%	9.3%
<b>Gross Premium</b>	87,958,091,414	72,764,196,877	81,066,459,165	69,551,987,565	69,867,100,778
Average	451,067,135	395,457,592	479,683,190	413,999,926	418,365,873
<b>Net Premium</b>	50,067,687,310	51,322,190,259	41,542,047,622	35,325,177,586	35,467,692,764
Average	259,418,069	278,924,947	245,810,933	210,268,914	212,381,394
<b>Gross Premium to Surplus Ratio</b>	90%	71%	84%	92%	107%
<b>Net Premium to Surplus Ratio</b>	51%	50%	55%	47%	54%
<b>SLSOT Premium Processed**</b>	3,222,601,195	3,724,220,192	2,998,384,870	2,879,629,825	2,800,896,916
Average	18,104,501	21,527,284	20,536,883	19,070,396	16,975,133
<b>Combined Ratio</b>	96%	92%	88%	94%	97%
<b>Number of Insurers</b>					
<b>Insurers Included</b>	190	187	173	169	167
Foreign (U.S.)	143	139	130	124	124
Alien (Non-U.S.)	47	47	44	44	42
<b>Underwriters at Lloyd's (Syndicates)</b>	76	70	63	60	57
<b>New Submissions for Eligibility</b>	14	12	8	8	4
<b>Priority Rating Changes Upgrades</b>	23 / 12%	17 / 9%	27 / 16%	39 / 23%	32 / 19%
<b>Priority Rating Changes Downgrades</b>	22 / 11%	14 / 7%	7 / 4%	14 / 8%	9 / 5%
<b>Increased capital &amp; surplus</b>	100 / 51%	143 / 76%	157 / 91%	135 / 80%	142 / 85%
<b>Underwriting gains</b>	107 / 60%	136 / 72%	124 / 72%	108 / 64%	79 / 47%
<b>Net income</b>	139 / 71%	164 / 88%	151 / 87%	150 / 89%	144 / 86%
<b>Positive Op. Cash (U.S. insurers)</b>	111 / 73%	112 / 79%	110 / 86%	91 / 72%	101 / 81%

\*Exclusive of Underwriters @Lloyd's \*\* will not equal total premium process by the SLSOT

were attributed to the sale of MBS but clearly there was an increase in this type of investment.

U.S. Insurers Currently Eligible in Texas-Mortgage Backed Securities

	2008	2007
Total Investment	\$5,682,662,661	\$5,604,140,942
Number of insurers	113	107
% of their invested assets	24.8%	19.2%
% of Capital and Surplus	35.1%	28.5%

Aggregate capital and surplus for Texas eligible insurers was \$94.5 billion at the end of 2008 dropping 5% from \$102.7 billion in 2007. Average capital and surplus was \$497 million at the end of 2008 compared to \$546 million in 2007, a 9% decline. The most significant reasons for the decline were net losses suffered by 29% of the insurers, dividends paid to upstream parents and unrealized capital losses. Only 51% of the insurers increased capital and surplus compared to 76% in 2007. Return on policyholder's surplus was 4.1% in 2008 compared to 13.0% in 2007. The gross leverage ratio was 90%, 19 points up from 71% and net leverage was only 1% better at 51% compared to 2007.

With all the negatives swirling around the industry, the U. S. economy and world economy, the surplus lines insurers operating in Texas fared better than the P/C industry as a whole. There are positive signs amongst all the negative results. As noted above, the average premium per policy and policies processed in 2009 increased. Fourteen insurers sought eligibility in Texas in 2008 and another nine have applied in 2009. These new applications more than offset removals from the Surplus Lines Insurers List and are generally better capitalized than the insurers they replace. Even though the financial results for 2008 are lower than in 2007 they continue to reflect a strong market that has and can withstand current events. ★

## 9th Annual Salsa/Queso Contest

As temperatures cooled in Austin the Stamping Office turned up the heat for its 9th Annual SLSOT Salsa & Queso Contest. This year's contestants served up spicy concoctions that could easily rival recipes coming from the kitchen of your favorite Mexican food restaurant.

Matthew Ramirez, Data Entry Analyst, was a first-time winner taking top honors and bragging rights for Best Salsa. Brian Wilds, Director of Financial Analysis and Accounting, had his 5th overall win with Best Queso, introducing a new "secret" ingredient.

Employees had fun sampling all the entries and voting for their favorite in each category. The winners received \$25 cash prizes in addition to custody of the famous sombreros that are proudly displayed in their offices until next year's competition. ★



## TDI Announces Board Appointment

Texas Commissioner of Insurance Mike Geeslin has appointed Mr. Nikolas Kapatos to the Stamping Office Board of Directors as a public member. He is Senior Vice President and Enterprise Risk Manager for Sterling Bancshares, Inc. in Houston. Mr. Kapatos will serve the remaining term of Ms. Jennifer Jones, who resigned earlier this year, with his appointment expiring on December 31, 2011. SLSOT's Board of Directors consists of five industry and four public members. Each public representative must have at least three years commercial insurance purchasing experience. Directors are appointed to three-year terms. ★

## EFS Quick Tips

- When the primary EFS contact changes, please make certain that this information is updated on the EFS website. We use the EFS contact name as our primary contact for emails, calls, and mailings. If this person no longer works at your agency, then our correspondence may get lost or routed incorrectly. In some instances, failure to respond or take a specific action in regard to EFS filings or correspondence may result in the suspension of your agency's EFS access.
- Any time that your agency adds a new EFS user, we strongly suggest that you give them access to our EFS Test Environment first. This gives them an opportunity to learn how to maneuver throughout the site and to practice transaction entry. We also suggest that each new EFS user view all of our EFS web seminars prior to filing in the EFS Live Environment.
- If you are unable to remember your EFS password or have let it expire, please remember that an EFS user with Administrative Authority can reset your password. A written request, signed by agency principal, is required for the EFS Help Desk to reset your password.

- When entering any transaction that has premium for Texas as well as premium for "Other States" and/or "Exempt" premium, it is necessary to enter the Texas premium for the transaction as well as the Other States or Exempt premium separately within the transaction. To enter the premium breakdown information for other states premium and/or exempt premium, click the blue MS/Exempt button on the transaction page. ★

## Helpful Hints - Paper Filing of Policies

- Date extensions must include a list of all syndicates whenever the policy is written through Underwriters at Lloyd's.
- Be sure to include an agent of record letter when filing endorsements, etc. pertaining to business originally filed by another agent.
- If you are correcting something within the policy (at the time of the policy submission) put the correcting endorsement on top of the policy so it won't be overlooked. Be sure to provide the expiring policy number on renewal certificates. ★

# Comparison of SLSOT Premium Processed by Line of Business

Annual Statement by Line of Business	Premium through 10/31/09	Premium through 10/31/08	Percent Change
1 Fire (incl. allied lines)	\$786,291,516	\$565,701,223	38.99%
2 Allied lines	\$56,994,133	\$39,450,363	44.47%
3 Farmowners multiple peril	\$869,550	\$905,431	-3.96%
4 Homeowners multiple peril	\$67,989,684	\$63,214,532	7.55%
5 Commercial multiple peril	\$159,263,516	\$152,367,429	4.53%
8 Ocean marine	\$13,008,653	\$3,946,091	229.66%
9 Inland marine	\$62,518,161	\$64,647,965	-3.29%
11 Medical malpractice	\$44,324,066	\$45,260,849	-2.07%
12 Earthquake	\$205,006	\$1,357,760	-84.90%
13 Group accident & health	\$76,080,382	\$78,075,602	-2.56%
15 All other A&H	\$3,691,335	\$2,764,106	33.55%
17 Other liability	\$1,200,376,104	\$1,295,556,593	-7.35%
18 Products liability	\$21,869,591	\$22,526,863	-2.92%
19.2 Other priv pass auto lia	\$5,161	\$7,794	-33.78%
19.4 Other comm. auto liab	\$53,831,534	\$74,262,561	-27.51%
21.1 Priv pass auto physical	\$1,928,614	\$1,305,707	47.71%
21.2 Comm auto phys.damage	\$55,138,161	\$45,312,986	21.68%
22 Aircraft (all perils)	\$6,501,374	\$14,415,236	-54.90%
23 Fidelity	\$870,718	\$1,501,562	-42.01%
24 Surety	\$410,850	\$1,020,724	-59.75%
26 Burglary & theft	\$5,050,803	\$973,807	418.67%
27 Boiler & machinery	\$322,646	\$1,513,942	-78.69%
28 Credit	\$291,641,011	\$205,352,060	42.02%
31 Aggregate/other business	\$337,589	\$281,890	19.76%
TOTAL	\$2,909,520,158	\$2,681,723,076	8.49%

Note: Due to rounding figures may not total

Texas market data reports are updated monthly and available to view and print on our website at [www.slsot.org](http://www.slsot.org) under the link Texas Market Data.



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

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We invite readers to suggest topics for articles that may be of interest to others.

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