

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

Texas Surplus Lines Insurer Financial Update

by Brian Wilds, CPA, ASLI, Director of Financial Analysis & Accounting

Texas Surplus Lines
Insurer Composite
Financial Information
Page 2

SLSOT
Employee
News
page 3

EFS Quick Tips
Page 3

12th Annual
Salsa & Queso
Contest Winners
page 3

Helpful Hints
page 3

Premium
Comparison
page 4

Annually the Surplus Lines Stamping Office of Texas (Stamping Office) prepares a Composite Financial Summary of insurers operating on a surplus lines basis in Texas. The purpose of this composite is to display a snapshot of the relative size and strength of the insurers comprising the surplus lines company market in Texas over the most recent five-year span. The year 2012 is a year of significant change for the Stamping Office Financial Analysis function because of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) bill that included the Non-Admitted and Reinsurance Reform Act (NRRA). The NRRA created new federal requirements for insurer eligibility and set in place preemptions of state insurer eligibility laws. The federal requirements are far less extensive than the existing state laws and regulations. NRRA eligibility criteria for U. S. domiciled insurers are only twofold: licensure and minimum capital and surplus of \$15.0 million unless a state has a higher minimum. For non-U.S. insurers the sole criterion is to be on the NAIC International Insurers Department "Quarterly Listing of Alien Insurers" (the IID List). Even though State law is preempted the Stamping Office Plan of Operation has not been amended and our requirement to evaluate surplus lines insurers remains. We continue to evaluate U.S. insurers in a historically similar manner, though fewer pieces of evidence are

received. Non-US insurer financial information is problematic since only IID listing is required for eligibility. Fortunately the firms of Drinker Biddle & Reath LLP and Edwards Wildman Palmer LLP (who are the U.S. contacts for over fifty percent of non- US insurers) have voluntarily submitted IID Standard Financial Reports on behalf of their clients. Most other non-US insurers have also voluntarily submitted the IID reports. This data, supplemented by A. M. Best reports, has allowed us to complete the Composite Financial Summary on page 2 and publish on our website (www.slsot.org) a five-year financial summary for each insurer.

A comment for Surplus Lines Agents: The laws and rules regulating Texas licensed surplus lines agents have not changed. Surplus lines agents have a statutory 'duty of reasonable effort ... to ascertain the financial condition ... of surplus lines insurers', 'to make a reasonable inquiry into the financial condition of the insurer' and a 'continuous duty to stay informed of the insurer's solvency and financial strength'.

These insurer financial summaries we publish are important for interested parties needing this information and can help agents meet their obligations. Each Friday during the evaluation season, the Stamping Office publishes the five-year summaries for those insurers that have been evaluated during

(Continued on page 2, Financial)

(Financial, continued from page 1)

that week; these summaries contain the most current financial data available. The exhibit below is the result of compiling significant data elements from each insurer's evaluation. This exhibit compares various annual aggregate financial data and ratios for eligible surplus lines insurers operating in Texas.

The year 2011, in most respects, continued the deterioration of aggregate results similar to 2010. Aggregate net income after tax was \$3.542 billion, 26% lower than 2010; 79% of the insurers recorded net income compared to 89% in 2010. The return on policyholder's surplus fell to 4.3% compared to 7.9% in 2010. Underwriting reflected an aggregate loss of \$310 million, falling from an aggregate underwriting gain of \$608 million in 2010, with 53% of the insurers recording underwriting gains in 2011 compared to 61% in 2010. Evidence received and insurers' comments in their Management's Discussion and Analysis of Operations (MD&A) suggest that underwriting discipline continues to be a priority, but more catastrophic events and the near exhaustion of redundant loss reserves releases

were not enough to offset the soft market pricing, excess capacity and poor economic conditions. The other significant driver of net income, net investment gain (before tax), improved \$250 million in 2011. The combined ratio in 2011 for these surplus lines insurers deteriorated to 98%. (A.M. Best estimates the entire P&C market will have a 107% combined ratio.)

Capital and surplus (C&S) in aggregate for 2011 declined \$24 billion, or 26%. The aggregate value would have increased \$3.3 billion except for the departure of one surplus lines insurer with C&S of \$27 billion. Average C&S declined 28% to \$349 million compared to \$483 million in 2010.

Gross premium and net premium declined again in 2011, -3.1% and -7.5% respectively. Nearly every company's MD&A or Director's report identified soft rates (although some rates have increased), lower insured exposures due to the world-wide economic downturn (some slight improvement is seen), competition, and excess insurer capital as causes

(Financial, continued on page 3)

Texas Surplus Lines Insurer Composite Financial Information Calendar Year 2011-2007 and Comprised of Currently Eligible Insurers

	2011	2010	2009	2008	2007
Capital & Surplus	69,830,804,591	93,768,544,643	115,689,479,798	97,879,840,420	102,692,104,822
Average	349,154,023	483,343,014	593,279,384	496,699,698	546,234,600
Median	101,406,863	100,031,960	94,401,947	83,750,500	92,426,439
Underwriting Gain (Loss)	(310,227,745)	607,753,468	2,525,510,498	253,624,543	4,006,155,437
Average	(1,607,398)	3,181,955	13,222,568	1,424,857	21,538,470
Median	0	172,771	960,152	1,034,000	1,969,636
Net Income After Tax	3,541,968,223	5,754,866,769	8,351,650,025	4,067,005,775	10,146,951,413
Average	18,352,167	30,288,772	43,049,742	20,750,029	54,261,772
Median	3,065,723	4,387,745	4,863,624	2,358,436	5,697,642
Return on Policyholder Surplus	4.3%	7.9%	7.2%	4.1%	13.0%
Gross Premium	70,869,757,970	73,155,036,957	85,514,361,135	87,958,091,414	72,764,196,877
Average	367,200,818	381,015,817	443,079,591	451,067,135	395,457,592
Net Premium	32,512,889,879	35,138,452,035	47,004,141,691	50,067,687,310	51,322,190,259
Average	167,592,216	183,012,771	242,289,390	259,418,069	278,924,947
Gross Premium to Surplus Ratio	101%	78%	74%	90%	71%
Net Premium to Surplus Ratio	47%	37%	41%	51%	50%
SLSOT Premium Processed	3,248,590,309	3,310,188,843	3,420,619,324	3,282,635,577	3,726,162,655
Average	18,457,899	16,930,927	18,499,071	18,104,510	21,527,284
Combined Ratio	98%	94%	91%	96%	92%
Number of Insurers					
Insurers Included	204	194	195	190	187
Foreign (U.S.)	145	146	146	143	139
Alien (Non-U.S.)	59	48	49	47	47
Underwriters at Lloyd's (Syndicates)	76	75	74	76	70
New Eligible Insurers (net)	10	4	5	14	12
Priority Rating Upgrades	28 / 14%	28 / 14%	20 / 10%	23 / 12%	17 / 9%
Priority Rating Downgrades	10 / 5%	6 / 3%	19 / 10%	22 / 11%	14 / 7%
Increased capital & surplus	134 / 69%	149 / 77%	150 / 77%	100 / 51%	143 / 76%
Underwriting gains	105 / 53%	119 / 61%	132 / 68%	107 / 60%	136 / 72%
Net income	158 / 79%	175 / 89%	162 / 83%	139 / 71%	164 / 88%
Positive Op. Cash (U.S. insurers)	100 / 68%	112 / 75%	107 / 73%	111 / 77%	112 / 79%

(Financial, continued from page 2)

for the decline in premium, but the expectation was that the soft market would moderate in 2012. Aggregate gross premium for these 200 insurers was \$70.869 billion and net premium was in aggregate, \$32.513 billion. The gross premium to surplus ratio increased to 101% in 2011 and net premium to surplus ratio rose to 47%. These two ratios are indicators of leverage and signified that capital was better utilized in 2011 compared to 2010.

There are three distinct risk-bearing entities in the Texas surplus lines market. As of October 1, 2012 foreign (U.S.) insurers make up 71% of eligible insurers [145], alien (non-U.S.) insurers are 29% of eligible insurers [59] plus Underwriters at Lloyd's, London [76 Syndicates]. Of the 59 non-U.S. insurers, 57 are IID listed. Premium produced by licensed surplus lines agents and processed by the Stamping Office for these entities in 2011 was as follows: foreign insurers \$2.386 billion, 73%; alien insurers \$220 million, 7% and Lloyd's \$642 million, 20%. As of September 30, 2012 the total processed premium of \$2.992 billion was up year-to-date 24.4% compared to the same period in 2011. The three types of entities maintained similar market shares as in 2010. The top ten individual insurers (including Lloyd's) reported 57% of the total premium processed by the Stamping Office in 2011, an increase of 6%, with

this percent increasing to 58% as of September 30, 2012. All of the individual top ten premium writing insurers are members of insurance groups.

Data in the lower section of the Exhibit reflect the number and percent of surplus lines insurers that had increases in C&S, underwriting gains, net income and positive operating cash flow. C&S increased for 134 insurers (69%), underwriting gains were recorded by 105 insurers (53%), net income was earned by 158 insurers (79%) and operating cash flow was positive for 68% of the U.S. Insurers.

2011 was the third consecutive year gross premium declined for eligible Texas surplus lines insurers and the fourth year net premium declined. Along with lower gross and net premium, for the first time in five years underwriting produced an aggregate loss. The underwriting loss was partially offset by a slight improvement in investment income, but the return on policyholder surplus was only 4.3%. For the eighth consecutive year there have been no financially impaired surplus lines insurers. Insurers operating on a surplus lines basis in Texas are financially sound with healthy balance sheets although less so than in 2010. Texas eligible surplus lines insurers continue to outperform the P&C market and commercial insurance markets as a whole.

EFS Quick Tips

Electronic Policy Filing

■ Please do not use unreadable or whimsical fonts or colors when emailing our office as they are difficult to comprehend.

■ We recommend that all EFS users have Administrative Authority. This authority simply allows users to reset other user's passwords and/or create new user IDs. It does not grant any additional responsibility or authority. We also recommend that every agency have more than one EFS user that is active and that has received adequate training. That way, in case of emergency, illness, or vacation, you will be able to ensure that filings will be made in a correct and timely manner.

■ EFS entries must be made from information shown on the policy, binder, endorsement, etc. They should never be made from information shown on an invoice, quote, email, or because you will be renewing a policy. An invoice, quote, or email is not a legally binding part of the policy.

■ We recommend that you do not wait until the last day of the month to post all of your EFS batches at one time. If there are any errors or tags, you may not be able to complete the appropriate research and make the necessary corrections before the month closes or before you leave for the day. If you wait until after hours or over the weekend, you will not have access to the EFS Help Desk staff for assistance. While it is not necessary that you correct all errors generated in the month within that same month, many agencies utilize our monthly reports for monthly reconciliation purposes.

■ As a reminder, all EFS users have access to End-of-Month (EOM) reports via the EFS website. These EOM Reports are located in the Reporting section under EOM/EOY Reports.

EFS Help Desk
(800) 681-5848 efs-help@slsot.org

EMPLOYEE NEWS

Congratulations to Shantell Jackson on her recent promotion in our Data Services Department to EFS Help Desk Specialist I. Ms. Jackson has been employed with SLSOT since 2006. We wish Shantell continued success in her new position.

12th Annual Salsa & Queso Contest

Fall temperatures have arrived in the Lone Star State and the Stamping Office kicked off the fall season with its 12th annual Salsa & Queso Contest on Halloween. Angelica Perez, EFS Help Desk Specialist II, was once again the winner for Best Salsa. This is her 4th win overall in this category. Toby Pick, Data Quality Assurance Analyst, also was a repeat with Best Queso. This is Toby's 2nd win. The winners received \$25 cash prizes in addition to bragging rights and custody of the famous sombreros.



Helpful Hints

Filing Tips
When submitting endorsements please be sure the policy number on the endorsement is exactly the same as the number shown on the original policy.

If correcting something within the policy at the time of the policy submission please put the correcting endorsement on top of the policy so it will not be overlooked.

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 10/31/2012	Premium through 10/31/2011	Percent Change
1 Fire (including allied lines)	\$1,125,664,060	\$749,871,397	50.11%
2 Allied lines	\$65,859,387	\$47,352,033	39.08%
3 Farmowners multiple peril	\$862,796	\$810,648	6.43%
4 Homeowners multiple peril	\$98,885,164	\$88,795,483	11.36%
5 Commercial multiple peril	\$197,219,932	\$186,322,005	5.85%
8 Ocean marine	\$17,849,220	\$15,131,504	17.96%
9 Inland marine	\$67,097,920	\$43,832,813	53.08%
11 Medical malpractice	\$43,896,662	\$47,329,545	-7.25%
12 Earthquake	\$614,560	\$73,972	730.80%
13 Group accident & health	\$59,312,242	\$54,902,953	8.03%
15 All other A&H	\$5,358,338	\$5,289,982	1.29%
17 Other liability	\$1,324,759,464	\$1,140,327,809	16.17%
18 Products liability	\$21,549,789	\$18,797,427	14.64%
19.2 Other private passenger auto liability	\$2,842	\$0	0.00%
19.4 Other commercial auto liability	\$68,059,606	\$65,835,848	3.38%
21.1 Private passenger auto physical	\$2,373,205	\$2,212,297	7.27%
21.2 Commercial auto physical damage	\$43,803,289	\$36,683,609	19.41%
22 Aircraft (all perils)	\$1,880,424	\$4,075,498	-53.86%
23 Fidelity	\$2,605,608	\$1,514,615	72.03%
24 Surety	\$2,225,486	\$656,744	238.87%
26 Burglary & theft	\$1,425,929	\$4,134,319	-65.51%
27 Boiler & machinery	(\$578,976)	\$115,031	-603.32%
28 Credit	\$183,447,693	\$155,053,611	18.31%
31 Aggregate/other business	\$1,592,276	\$212,150	650.54%
TOTAL	\$3,335,766,916	\$2,669,331,290	24.97%

Note: Totals subject to rounding

Texas market data reports are updated monthly and available to view and print on our website at www.slsot.org under the link Texas Market Data.



Lone Star Lines

Surplus Lines Stamping Office of Texas
805 Las Cimas Parkway Suite 150
Austin, Texas 78746



phone (800) 449-6394
fax (512) 346-3422

www.slsot.org
email: info@slsot.org

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.

The Lone Star Lines staff includes Phil Ballinger, CPCU, ASLI; Dalén Keith, CIW; Elaine White, ASLI; and Brian Wilds, CPA, ASLI.

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

Copyright © 2012 Surplus Lines Stamping Office of Texas
All rights reserved