

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



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Texas Surplus Lines Insurer Financial Update 2013

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

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 composite is a compilation of financial data available to the Stamping Office, either by filings made or by financial data provided by the U.S. Contacts for alien insurers. Special thanks go to the firms of Drinker Biddle & Reath LLP and Edwards Wildman Palmer LLP (U.S. contacts for over fifty percent of non-US insurers) who voluntarily submitted IID Standard Financial Reports on behalf of their clients. The Stamping Office annually publishes, on our website, a five-year summary of financial and other data for each eligible insurer. The Exhibit on page 2 compiles significant data elements from each insurer's five-year summary. This exhibit compares various annual aggregate financial data and ratios for eligible surplus lines insurers operating in Texas.



2012 and 2013 were years 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 83rd Texas Legislature passed SB 951 that amended Chapter 981 of the insurance code to comply with the NRRA. The NRRA preempted certain state laws, diminishing the ability of states and the Stamping Office to perform financial analysis of insurers' financial condition for determining eligibility. Currently the

Texas Department of Insurance is working on revisions to Chapter 15 of Title 28, Texas Administrative Code as it relates to Stamping Office and regulation of surplus lines insurance.

An area of concern is the effect of the NRRA insurer eligibility provisions on surplus lines agent liability. The laws and rules regulating Texas licensed surplus lines agents have not changed regarding their duty. 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'.

Going forward, the Stamping Office's financial analysis function will focus on providing agents the most current financial data available by publishing the five-year financial summaries on our website.

Composite Financial Information

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. This composite contains both Foreign (150) and Alien (60) insurers financial data. The year 2012 was a more profitable year than 2011, both for underwriting results and net income. Aggregate net income after tax was \$4.019 billion, 13%

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higher with 86% of insurers recording net income compared to 79% in 2011. The return on policyholder's surplus increased to 5.5% from 4.3%. Underwriting reflected an aggregate gain of \$145 million compared to an aggregate loss of \$310 million in 2011; 62% of the insurers recorded underwriting gains in 2012 compared to 53% in 2011. 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; redundant loss reserves releases continued, although nearly exhausted; economic conditions improved somewhat and business returning from the standard market were positives. Offsetting these positives was Superstorm Sandy, the effects of which were severe but not fully realized in 2012. The other significant driver of net income, net investment gain (before tax), improved

\$336 million in 2012. The combined ratio in 2012 for these surplus lines insurers improved to 95% from 98% in 2011.

Capital and surplus (C&S) in aggregate for 2012 was \$76.4 billion, increasing 9% from 2011. Average C&S improved to \$382 million in 2012 compared to \$349 million in the prior year.

After several years of decline, gross premium in 2012 increased 1.5% but net premium declined again, -5.1%. The MD&A's for insurers identify rate increases in certain lines for 2012 and project rates to continue to increase moderately going forward. Many commenters identify the market as "firming" but not yet the classical "hard market," confirmed by Stamping Office statistics at the end of 2012 that reflected a 24% increase in reported premium and a 25% increase in

average premium per policy, but a decline of 1.2% in items processed. Aggregate gross premium for these 209 insurers was \$76.445 billion and net premium was in aggregate \$30.860 billion. The gross premium to surplus ratio fell to 94% in 2012 and net premium to surplus ratio fell to 40%. These two ratios are indicators of leverage and signified that capital was less well utilized in 2012 compared to 2011.

There are three distinct risk-bearing entities in the Texas surplus lines market. As of October 1, 2013 foreign (U.S.) insurers make up 72% of eligible insurers [150], alien (non-U.S.) insurers are 28% of eligible insurers [59] plus Underwriters at Lloyd's, London [77 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 *(Continued, page 3)*

Texas Surplus Lines Insurer Composite Financial Information

Calendar Year 2012-2008 - Comprised of eligible insurers at each year-end

	2012	2011	2010	2009	2008
Capital & Surplus	\$ 76,445,292,339	\$ 69,830,804,591	\$ 93,768,544,643	\$ 115,689,479,798	\$ 97,879,840,420
Average	\$ 382,226,462	\$ 349,154,023	\$ 483,343,014	\$ 593,279,384	\$ 496,699,698
Median	\$ 100,116,339	\$ 101,406,863	\$ 100,031,960	\$ 94,401,947	\$ 83,750,500
Underwriting Gain (Loss)	\$ 145,422,086	\$ (310,227,745)	\$ 607,753,468	\$ 2,525,510,498	\$ 253,624,543
Average	\$ 799,022	\$ (1,607,398)	\$ 3,181,955	\$ 13,222,568	\$ 1,424,857
Median	\$ -	\$ -	\$ 172,771	\$ 960,152	\$ 1,034,000
Net Income After Tax	\$ 4,019,111,095	\$ 3,541,968,223	\$ 5,754,866,769	\$ 8,351,650,025	\$ 4,067,005,775
Average	\$ 21,962,356	\$ 18,352,167	\$ 30,288,772	\$ 43,049,742	\$ 20,750,029
Median	\$ 3,195,955	\$ 3,065,723	\$ 4,387,745	\$ 4,863,624	\$ 2,358,436
Return on Policyholder Surplus	5.5%	4.3%	7.9%	7.2%	4.1%
Gross Premium	\$ 71,935,800,164	\$ 70,869,757,970	\$ 73,155,036,957	\$ 85,514,361,135	\$ 87,958,091,414
Average	\$ 388,842,163	\$ 367,200,818	\$ 381,015,817	\$ 443,079,591	\$ 451,067,135
Net Premium	\$ 30,859,977,929	\$ 32,512,889,879	\$ 35,138,452,035	\$ 47,004,141,691	\$ 50,067,687,310
Average	\$ 166,810,692	\$ 167,592,216	\$ 183,012,771	\$ 242,289,390	\$ 259,418,069
Gross Premium to Surplus Ratio	94%	101%	78%	74%	90%
Net Premium to Surplus Ratio	40%	47%	37%	41%	51%
SLSOT Premium Processed	\$ 4,015,885,951	\$ 3,248,590,309	\$ 3,310,188,843	\$ 3,274,335,562	\$ 3,222,601,195
Average	\$ 20,807,699	\$ 18,457,899	\$ 16,930,927	\$ 18,499,071	\$ 1,810,451
Combined Ratio	95%	98%	94%	91%	96%
Number of Insurers					
Insurers Included	209	204	194	195	190
Foreign (US)	150	145	146	146	143
Alien (non-US)	59	59	48	49	47
Underwriters at Lloyd's (Syndicates)	77	76	75	74	76
New Submissions for Eligibility	9	15	4	5	14
Priority Rating Upgrades	22 / 11%	28 / 14%	28 / 14%	20 / 10%	23 / 12%
Priority Rating Downgrades	2 / 1%	10 / 5%	6 / 3%	19 / 10%	22 / 11%
Increased capital & surplus	103 / 50%	134 / 69%	149 / 77%	150 / 77%	100 / 51%
Underwriting gains	125 / 62%	105 / 53%	119 / 61%	132 / 68%	107 / 60%
Net income	175 / 86%	158 / 79%	175 / 89%	162 / 83%	139 / 71%

Office for these entities in 2012 was as follows: foreign insurers \$2.867 billion, 71%; alien insurers \$324 million, 8% and Lloyd's \$825 million, 21%. As of September 30, 2013 the total processed premium of \$3.649 billion was up 22% compared to the same period in 2012. There was a slight shift in the market share. Foreign insurers' share was 69%, down 2%, Lloyds share remained 21% and alien insurers' share increased 2% to 10%. The ease of entry into the market due to the NRRRA has allowed alien insurers that are IID-listed to begin writing in Texas. Fifteen of the twenty-four newly eligible insurers over the last two years have been IID-listed aliens. Even though 81% of currently eligible surplus lines insurers have C&S above \$45 million, five newly eligible foreign insurers had only \$15.1 million to \$17.0 million capital and surplus.

Data in the lower section of the Exhibit reflect the number of insurers included in the composite, the breakdown of insurer types, new submissions for

eligibility and movement in priority rankings. This section also reports the number and percent of surplus lines insurers that had increases in C&S, underwriting gains and net income. C&S increased for 50% of insurers, underwriting gains were recorded by 62% of insurers and net income was earned by 86% of insurers.

The surplus lines company market in Texas is well positioned for continued success. Capital and surplus is more than adequate with a gross leverage ratio of 94% and net leverage ratio of 40%. Premium writings for these insurers are increasing along with Texas surplus lines premium. Texas is an important state for foreign surplus lines insurers where 11% of their direct premium is written here. The concerns I see are three-fold: first, the ease of entry to the market by alien insurers by simply being IID listed; second, a trend of minimally capitalized foreign insurers becoming eligible and third, the limited ability of the various states to timely and effectively evaluate insurer eligibility.

EFS Quick Tips

Electronic Policy Filing
EFS Help Desk (800) 681-5848

- 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 spreadsheet, because you will be renewing a policy. An invoice, quote, spreadsheet, or email is not a legally binding part of the policy.
- Please contact the EFS Help Desk when EFS users are no longer with the agency so that we may assist the new user(s) with their transition. As a reminder, all new users are required to complete testing before they are allowed to file in the EFS Live Environment. This helps users have a better understanding of EFS functionality and it provides a "safe" place to learn without compromising your agency's live filings.
- Please notify the Stamping Office if your agency has been acquired by or is acquiring another agency.

Helpful Hints

Paper Policy Filing

- When submitting policies/binders via paper filing, please make sure that you include the schedules/coverage parts as well as the risk location(s). The information included within these pages is necessary for Stamping Office processing purposes.
- When submitting transactions to the Stamping Office via paper filing, please use the "Checklist for Submitting Items for the Texas Stamping Office". This checklist will assist you in preparing the appropriate documentation for submission. This checklist can be found at <http://www.slsot.org/SLSOT/AgentInformation/checklist.html>.
- Be sure to notify TDI when you have a change of address. It's not enough to call or email the Stamping Office with this information.



Zip Code Required

Policies, binders, cover notes, and date extensions filed on or after January 1, 2014 must include the risk location zip code if the effective date of the policy is post NRRRA (on or after 07/21/11). This requirement applies to all lines of business, not just property. In the event you have multiple locations, you should enter the single zip code that reflects the highest limit or risk.

Ballinger Elected VP of NAPSLO Foundation Board

At a meeting in San Diego October 1, SLSOT Executive Director Phil Ballinger was elected Vice President of the Derek Hughes/NAPSLO Educational Foundation Board of Directors.

SLSOT'S 2013 Salsa & Queso Contest Winners

Fall has arrived in the Lone Star State and we are finally enjoying some cooler temperatures

after a long, dry, hot summer. To kick off the season the Stamping Office held its 13th annual Salsa & Queso

Contest on Halloween, where employees sample entries in both categories then vote for their favorite. This year Veronica Bohannon, Data Quality Assurance Supervisor, won for Best Salsa. Toby Pick, Data Quality Assurance Analyst, enjoyed his third consecutive win with Best Queso. The winners received \$25 cash prizes in addition to bragging rights and custody of the famous sombreros.



Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 10/31/2013	Premium through 10/31/2012	Percent Change
1 Fire (including allied lines)	\$1,260,052,113	\$1,125,665,036	11.94%
2 Allied lines	\$77,779,332	\$65,859,929	18.10%
3 Farmowners multiple peril	\$1,153,833	\$862,796	33.73%
4 Homeowners multiple peril	\$120,774,019	\$98,887,638	22.13%
5 Commercial multiple peril	\$249,846,666	\$197,217,276	26.69%
8 Ocean marine	\$17,221,328	\$17,849,220	-3.52%
9 Inland marine	\$72,747,183	\$67,097,920	8.42%
11 Medical malpractice	\$46,304,153	\$43,901,662	5.47%
12 Earthquake	\$239,931	\$614,560	-60.96%
13 Group accident & health	\$65,567,627	\$59,312,242	10.55%
15 All other A&H	\$5,417,323	\$5,358,338	1.10%
17 Other liability	\$1,649,266,668	\$1,324,753,943	24.50%
18 Products liability	\$25,559,402	\$21,549,785	18.61%
19.2 Other private passenger auto liability	\$1,367	\$2,842	-51.90%
19.4 Other commercial auto liability	\$68,215,678	\$68,058,946	0.23%
21.1 Private passenger auto physical	\$2,463,626	\$2,373,205	3.81%
21.2 Commercial auto physical damage	\$61,079,319	\$43,803,139	39.44%
22 Aircraft (all perils)	\$12,345,924	\$1,880,424	556.55%
23 Fidelity	\$3,684,896	\$2,605,608	41.42%
24 Surety	\$7,991,292	\$2,225,486	259.08%
26 Burglary & theft	\$1,428,427	\$1,425,929	0.18%
27 Boiler & machinery	\$1,099,953	(\$578,976)	289.98%
28 Credit	\$225,190,294	\$183,447,693	22.75%
31 Aggregate/other business	\$601,451	\$1,592,276	-62.23%
TOTAL	\$3,976,031,805	\$3,335,766,917	19.19%

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.



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

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