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Lone Star Lines

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Ballinger to Retire from Stamping Office

The Surplus Lines Stamping Office of Texas announces the retirement of Philip R. Ballinger as Executive Director after 22 years of distinguished service. Ballinger will remain Executive Director until January 2, 2015.

Phil joined the Surplus Lines Stamping Office of Texas in 1992 as Director of Technical Services. In 2000, the Board of Directors appointed him Executive Director. Previously, he served as Director of Tax Administration at the Texas Department of Insurance and began his career working as a mineral and petroleum property appraiser throughout Texas.

Under Phil's exceptional direction, the Surplus Lines Stamping Office of Texas has become recognized nationally for its service to the State of Texas and to the surplus lines market. Ballinger presided over many major accomplishments during his tenure, most notable being the introduction of innovative technology and electronic regulatory filings for the Texas surplus lines market.

Phil has been extremely active in the surplus lines industry, serving as Vice President of the Board of Directors for the Derek Hughes/NAPSLO Educational Foundation, serving as a faculty member at NAPSLO's Advanced School, and serving on the National Advisory Committee for the Associate in Surplus Lines Insurance (ASLI) professional designation. In addition, he is a past-President of the Central Texas Chapter of CPCU.

Texas Surplus Lines Insurer Financial Update 2014

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

The Surplus Lines Stamping Office of Texas (Stamping Office) has been compiling a 'Composite Financial Summary 'of Texas eligible insurers on an annual basis since 1998. The composite is an aggregate of financial data from filings made by foreign (U.S.) insurers 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. As a service to the public and to surplus lines agents the Stamping Office publishes, on our website, a five-year summary of select 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 five years of various annual aggregate financial data and ratios for eligible surplus lines insurers operating in Texas.

2012, 2013 and 2014 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

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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 many state laws relating to eligibility, 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 the Stamping Office and regulation of surplus lines insurance. At this point in time the Stamping Office will continue to evaluate surplus lines insurers as we have in the past. Emphasis will be given to insurers we identify as needing more attention based on our 'prioritization score' from prior evaluations. Our focus is to publish, as soon as possible, each insurer's five-year summary. This focus is to make available financial data for use by surplus lines agents since 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.' The purpose of this composite is to display a snapshot of the relative size and strength of the surplus lines company market in Texas over the most recent five-year span. This composite contains both Foreign (153) and Alien (45) insurers financial data. (Note – alien insurers are not required to provide financial data and eleven have chosen not to voluntarily provide this data.)

The year 2013 was a much more profitable year than 2012, both for underwriting results and net income. Aggregate net income after tax was $5.758 billion, 43% higher, with 85% of insurers recording net income compared to 86% in 2012. The return on policyholder's surplus declined slightly to 4.3% from 5.5%. Underwriting reflected what some indicate was a benign catastrophe year with an aggregate gain of $2.162 billion compared to a gain of only $145 million in 2012 and compared to an aggregate loss of $310 million in 2011. 71% of eligible insurers recorded underwriting gains, up from 62% in 2012 and 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 and it appears they now mean what they have been saying for years. Redundant loss reserves releases are almost exhausted. Improved economic conditions and business returning from the standard market were positives. The other significant driver of net income, net investment gain (before tax), fell off 8% in 2013. The combined ratio in 2013 for these surplus lines insurers improved to 89% from 95% in 2012.

Capital and surplus (C&S) in aggregate for 2013 was $93.9 billion, increasing 23% from 2012. Average C&S also increased to $456 million in 2013 compared to $382 million in the prior year. 83% of currently eligible surplus lines insurers have C&S above $45 million.

After declining in 2009, 2010 and 2011, gross premium increased 1.5% in 2012 and increased 5% in 2013; however, net premium declined -5.6% in aggregate. The MD&A's for insurers identify rate increases in certain lines for 2013 and project future premium growth because of price increases, but temper these

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Texas Surplus Lines Insurer Composite Financial Information
Calendar Year 2013-2009 - Comprised of eligible insurers at each year-end

	2013	2012	2011	2010	2009
Capital & Surplus	93,928,941,059	76,445,292,339	69,830,804,591	93,768,544,643	115,689,479,798
Average	455,965,733	382,226,462	349,154,023	483,343,014	593,279,384
Median	102,118,424	100,116,339	101,406,863	100,031,960	94,401,947
Underwriting Gain (Loss)	2,161,897,493	145,422,086	(310,227,745)	607,753,468	2,525,510,498
Average	11,030,089	799,022	(1,607,398)	3,181,955	13,222,568
Median	76,894	0	0	172,771	960,152
Net Income After Tax	5,757,977,155	4,019,111,095	3,541,968,223	5,754,866,769	8,351,650,025
Average	29,377,434	21,962,356	18,352,167	30,288,772	43,049,742
Median	2,813,462	3,195,955	3,065,723	4,387,745	4,863,624
Return on Policyholder Surplus	4.3%	5.5%	4.3%	7.9%	7.2%
Gross Premium	75,528,698,221	71,935,800,164	70,869,757,970	73,155,036,957	85,514,361,135
Average	389,323,187	388,842,163	367,200,818	381,015,817	443,079,591
Net Premium	29,143,943,937	30,859,977,929	32,512,889,879	35,138,452,035	47,004,141,691
Average	150,226,515	166,810,692	167,592,216	183,012,771	242,289,390
Gross Premium to Surplus Ratio	116%	94%	101%	78%	74%
Net Premium to Surplus Ratio	45%	40%	47%	37%	41%
SLSOT Premium Processed**	4,693,452,805	4,015,885,951	3,248,590,309	3,310,188,843	3,274,335,562
Average	22,349,775	20,807,699	18,457,899	16,930,927	18,499,071
Combined Ratio	89%	95%	98%	94%	91%
	Number of Insurers				
Insurers Included	210	209	204	194	195
Foreign (US)	153	150	145	146	146
Alien (non-US)	57	59	59	48	49
Underwriters at Lloyd's (Syndicates)	**78**	**77**	**76**	**75**	**74**
New Submissions for Eligibility	3	9	15	4	5
Priority Rating Upgrades	38 / 18%	22 / 11%	28 / 14%	28 / 14%	20 / 10%
Priority Rating Downgrades	7 / 3%	2 / 1%	10 / 5%	6 / 3%	19 / 10%
Increased capital & surplus	151 / 72%	103 / 50%	134 / 69%	149 / 77%	150 / 77%
Underwriting gains	150 / 71%	125 / 62%	105 / 53%	119 / 61%	132 / 68%
Net income	178 / 85%	175 / 86%	158 / 79%	175 / 89%	162 / 83%

(Financials, continued from page 2)

expectations because of abundant reinsurance capital availability. Some commenters identify risks migrating back to surplus lines from standard insurers and having the opportunity for first-time renewal price increases. A.M. Best views the surplus lines market as stable but believes profit margins may shrink.

Many commenters identify the market as stable, firming for some lines and holding or slightly declining in other lines. Stamping Office statistics at the end of 2013 show a 17.2% increase in reported premium and a 9.3% increase in average premium per filing. Items processed increased 7.3% in 2013. Aggregate gross premium for the 210 eligible insurers was $75.5 billion, with net premium $29.1 billion. The gross premium to surplus ratio was 116% in 2013 compared to 94% in 2012 and net premium to surplus ratio was 45% compared to 40% in 2012. These two ratios are indicators of leverage and signified that capital was better utilized in 2013 compared to 2012.

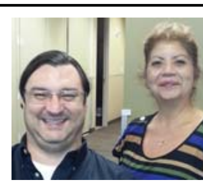
There are three distinct risk-bearing entities in the Texas surplus lines market. As of October 1, 2014 foreign (U.S.) insurers make up 73% of eligible insurers [153], alien (non-U.S.) insurers are 27% of eligible insurers [57] plus Underwriters at Lloyd's, London [78 Syndicates]. Of the 57 non-U.S. insurers, 55 are IID-listed. Premium produced by licensed surplus lines agents and processed by the Stamping Office for these entities in 2013 was as follows: foreign insurers $3.303 billion, 70%; alien insurers $452 million, 10% and Lloyd's $951 million, 20%. As of September 30, 2014 the total processed premium of $3.811 billion was up 4% compared to the same period in 2013. There was a slight shift in the market share. Foreign insurers' share was 67%, down 2%, Lloyds share increased 1% to 22% and alien insurers' share increased 1% to 11%. The ease of entry into the market due to the NRRA has allowed alien insurers that are IID-listed to begin writing in Texas. Sixteen of the twenty-seven newly eligible insurers over the last three years have been IID-listed aliens.

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 72% (50% in 2012) of insurers, underwriting gains were recorded by 71% (62% in 2012) of insurers and net income was earned by 85% (86% in 2012) 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 116% and net leverage ratio of 45%. Premium writings for these insurers are increasing along with Texas surplus lines premium. Texas is an important state for foreign surplus lines insurers, with 10% of their direct premium written here. Two of the concerns I had last year remain valid: ease of entry to the market by alien insurers by simply being IID-listed and the limited ability of the various states to timely and effectively evaluate insurer eligibility. The concern that minimally capitalized foreign insurers would increasingly become eligible in Texas has not happened; in fact there has been an overall decline in new submissions for eligibility. My new concern: there is significant capital in the market and reinsurance capacity may negate attempts to strengthen pricing.

SLSOT'S 2014 Salsa & Queso Contest Winners

The Stamping Office held its 14th annual Salsa & Queso Contest on Halloween. The winners of $25 cash and bragging rights were Veronica Valdez, Data Quality Assurance Supervisor, Best Salsa, and Toby Pick, Data Quality Assurance Analyst, Best Queso.


Pick & Valdez

New Website Coming!

A new and improved SLSOT responsive website will be launched in December at www.slsot.org. Watch for an upcoming SLSOT bulletin for additional details!

EFS Quick Tips

Electronic Policy Filing

- Did you know that we now have a total of 3,295 users that maintain an EFS User ID? This is why it is so important that you provide your name and EFS User ID, the name of your agency/agent, and the surplus lines license number when calling and/or emailing the EFS Help Desk. This allows our office to correctly identify you (as the user) and locate your agency's transactions.
- If you are currently receiving a monthly CD from our office and no longer wish to receive it, please email our office and let us know. Please note that this information can be downloaded directly from our EFS website by selecting Reporting, Listings, and then EOM/EOY Files.
- Please send all questions/inquiries to efshelp@slsot.org. If you send your questions or inquiries directly to an individual's email address, you may experience a delay in response time.

Helpful Hints

- Please provide the validation number (00xx), your surplus lines license number, and the name on your surplus lines license when contacting us regarding a data validation. Because of the number of users, it will allow us to locate your validation and respond to your inquiry in a timely manner.

- If a policy was previously reversed and re-entered, and you are asked to correct the class code or the zip code, please be certain to select the appropriate transaction (the re-entered policy).

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 10/31/2014	Premium through 10/31/2013	Percent Change
1 Fire (including allied lines)	$1,287,270,560	$1,260,049,168	2.16%
2 Allied lines	$82,081,390	$77,779,782	5.53%
3 Farmowners multiple peril	$1,222,873	$1,153,832	5.98%
4 Homeowners multiple peril	$132,091,403	$120,774,019	9.37%
5 Commercial multiple peril	$277,930,208	$249,864,391	11.23%
8 Ocean marine	$18,638,006	$17,221,328	8.23%
9 Inland marine	$75,001,562	$72,730,708	3.12%
11 Medical malpractice	$41,730,741	$46,304,153	-9.88%
12 Earthquake	$584,478	$239,931	143.60%
13 Group accident & health	$66,650,723	$65,497,163	1.76%
15 All other A&H	$6,340,329	$5,417,323	17.04%
17 Other liability	$1,837,685,608	$1,649,269,338	11.42%
18 Products liability	$27,622,873	$25,558,152	8.08%
19.2 Other private passenger auto liability	$1,085	$1,367	-20.63%
19.4 Other commercial auto liability	$53,714,257	$68,286,267	-21.34%
21.1 Private passenger auto physical	$2,612,488	$2,463,626	6.04%
21.2 Commercial auto physical damage	$135,227,775	$61,079,019	121.40%
22 Aircraft (all perils)	$6,030,009	$12,345,924	-51.16%
23 Fidelity	$2,885,334	$3,684,896	-21.70%
24 Surety	$10,652,391	$7,991,292	33.30%
26 Burglary & theft	$2,027,830	$1,428,427	41.96%
27 Boiler & machinery	$932,113	$1,099,953	-15.26%
28 Credit	$192,842,519	$225,190,294	-14.36%
31 Aggregate/other business	$2,146,943	$601,451	256.96%
TOTAL	$4,263,923,498	$3,976,031,804	7.24%

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

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

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