

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



Employee
News
page 2

Ballinger
Receives
NAPSLO
Award
page 2

SLSOT
Seminar
Rewind
page 2

Bring on
the Heat!
page 3

EFS
Quick
Tips
page 3

Helpful Hints
page 3

Premium
Comparison
page 4

Texas Surplus Lines Insurer Financial Update

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

The surplus lines industry is a large, dynamic, sophisticated market commanding 18.5% of the commercial property and casualty (P&C) market in Texas in 2006 increasing from 11.8% in 1995. A comparison of U.S. surplus lines versus commercial lines premium in A.M. Best's *2007 Special Report, U.S. Surplus Lines - Market Review* shows surplus lines premium is 14.4% of the commercial market, increasing from 4.4% of that same market since 1985.

The exhibit on page 3 compares the composite financial data over the past five years (2006-2002) for surplus lines insurers operating in Texas. The Surplus Lines Stamping Office of Texas (SLSOT) evaluates each surplus lines insurer annually and recommends to the Texas Department of Insurance (TDI) whether an insurer should remain on the Surplus Lines Insurers List (Eligible List). The TDI makes the final decision on which insurers are listed after considering the recommendation of the SLSOT. A by-product of the evaluation process is the creation of a one-page financial summary of each eligible surplus lines insurer that is published on our web site (www.slsot.org). After accumulating the key financial information from these summaries we compile the data into a composite financial picture of the surplus lines insurers eligible to operate in Texas. The composite information is compared to prior year data and compared to the U.S. surplus lines market as a whole to measure the relative health of eligible insurers in Texas.

Currently there are 175 eligible surplus lines insurers: 130 Foreign (U.S. domiciled), 44 Alien (non-U.S. domiciled) and Underwriters at Lloyds, London. The market share for these three types of risk-bearing entities has been consistent over the past five years with foreign insurers writing 77% of Texas' 2006 surplus lines

premium (down 1%), Lloyds writing 16% (up 1%) and other aliens writing 7%. As of September 30, 2007 we have seen some shifting in the market share with foreign insurers' share declining 2% to 75% with Lloyd's share increasing to 19% and other alien insurers share down 1% to 6%. In 2006 the top ten insurance groups commanded 61% of the Texas surplus lines market and the top ten individual insurers wrote 54%. As of September 30, 2007 the top ten groups wrote 64% of the total and the top ten individual insurers wrote 57% of the nine-month total.

Reviewing the A.M. Best ratings for all eligible insurers, 99% fall into the secure range (B+ and higher) and 1% in the vulnerable range. This compares favorably with A.M. Best's 2007 distribution of U.S. surplus lines insurers, where 100% were secure. However, both far exceed the total P&C industry, where 89.5% were rated secure and 10.5% rated vulnerable. There are several non-U.S. insurers that are not formally followed by A.M. Best, but those that were rated all fell into the secure range.

In 2006, aggregate, average and median capital and surplus (C&S) all increased: 28%, 24% and 9% respectively, compared to 2005. Since 2002, C&S levels have more than doubled, experiencing a 129% increase. This indicates an increase in size and capacity of the insurers operating here. The increase in C&S since 2002 is significantly greater than the percent increase in aggregate gross and net premium. Aggregate gross and net premium increased 41% and 49% respectively since 2002. In contrast, Texas premium reported by surplus lines agents and processed by the SLSOT increased 45% in aggregate and 61% on average during the same time frame. This trend indicates these surplus lines insurers are writing a greater portion of their premium in Texas. (See **Financial**, cont. page 2)

SLSOT Employee News

The Stamping Office welcomes five new employees to our Data Services Department. Elaine Holcomb, Nora Maloy, Nina Powers, and Vicky Samarripa are employed as Data Entry Analysts. John Feudo is employed as a Records Prep Clerk. We welcome each of them in their new position. ★



Maloy, Samarripa, Feudo, Powers & Holcomb

Ballinger Receives NAPSLO Award

Phil Ballinger, Surplus Lines Stamping Office of Texas Executive Director, was presented the Dana Roehrig/Past President's Award by Lawrence "Mac" Wesson, Jr., U.S. Risk Insurance Group, during the NAPSLO business meeting in New Orleans in October. This award is presented to a committee person who has performed outstanding service to the industry and to NAPSLO. Ballinger was honored for his work on NAPSLO's Education Committee, including teaching at NAPLSO's schools. ★

Seminar Rewind

The SLSOT 2007 annual agents seminar was held via web cast on October 9. There were 324 attendees on-line for this event. Speakers from the Texas Department of Insurance, the Comptroller, and the Surplus Lines Stamping Office of Texas discussed several topics, including insurance regulation, tax filing, and surplus lines policy filing.

If you missed the "live" presentation, it was recorded through WebEx™ and is available for viewing through our website. The slides that were used during the presentation are also available for viewing and printing. For more information, visit the Stamping Office web site at www.slsot.org. ★

Financial, cont. from page 1

Lloyd's underwriting capacity for 2006 was £14.8 billion, an 8% increase over 2005's capacity. Lloyd's capacity for 2007 was £16.1 billion, an 8.8% increase. As of January 1, 2007 there were 66 active syndicates (up from 62 at the beginning of 2006) and there have been six new start-ups in 2007. For 2008 the top two Lloyd's managing agents have budgeted capacity reductions and cut their 2008 goals up to 25% based on soft-market conditions.

Among the eligible insurers in Texas, ten insurers are domiciled in Bermuda and one in Barbados. Five of these insurers became eligible during the past six years. At the end of 2006 these eleven insurers' C&S was \$5.6 billion (6% of the aggregate), gross premium \$3.2 billion (4.1% of the aggregate), net premium \$2.3 billion (5.2% of the aggregate) and Texas premium processed \$81.7 million (2.7% of the aggregate). Even though these insurers' percent of the Texas market is relatively small, there is significant potential for growth. Premium processed for these insurers grew \$19.1 million or 29% over last year. On the other hand, Bermuda insurers' volume is down for the first six months of 2007.

Composite results of operations for 2006 improved in most areas. The aggregate underwriting gain was \$3.6 billion (average underwriting gain \$20.9 million) compared to 2005's aggregate underwriting gain of \$1.2 billion (average gain of \$7.1 million).

Composite net income declined in 2006 by 21% over the prior year. This decline is primarily due to one insurer that reported \$245 million net income but had \$1.979 billion net income in the prior year. Excluding

this anomaly, net income would have been approximately equal to the previous year.

Return on policyholder surplus improved to 10.5% compared to 9.3% in 2005.

Gross premium to surplus was 84%, down 8% points from 2005. Net premium to surplus was 55%, up 8% points. The increase in the net leverage ratio may be due to insurers electing to retain more risk than in previous years.

The composite combined ratio improved to 88% from 94% with a five year average of 94.8%. This compares favorably to the 2006 combined ratio of 91.8% for the P&C industry overall.

Other indicators of a healthy surplus lines insurance industry in Texas are:

- Eight new submissions for eligibility
- 27 insurers (16%) received improved priority ratings
- 157 (91%) of the 173 insurers increased capital and surplus
- 110 (86%) of the 130 foreign insurers had positive cash from operations
- 124 (72%) of 173 insurers had underwriting gains
- 151 (87%) of 173 insurers had net income
- Average premium per policy processed by the SLSOT in 2006 increased 13.7%. The average at September 30, 2007 increased 9.3% compared to year-end 2006, but is now trending downward. The premium statistics of the Stamping Office are a lagging indicator of market trends and the effects of the softening market are just now being seen. A year-to-date comparison of September 2007 to September 2006 shows a 6% decline in policy count overall.

Financial, cont. on page 3

TEXAS SURPLUS LINES INSURER COMPOSITE FINANCIAL INFORMATION

Calendar Year 2006 - 2002

Comprised of currently eligible insurers*

	2006	2005	2004	2003	2002
Capital & Surplus	\$96,255,165,279	\$75,403,523,298	\$65,448,080,153	\$55,849,152,951	\$42,062,637,753
Average	\$556,388,239	\$448,830,496	\$391,904,672	\$334,426,066	\$258,052,992
Median	\$86,819,000	\$79,990,451	\$64,323,256	\$57,339,000	\$45,941,353
Underwriting Gain (Loss)	\$3,571,040,220	\$1,196,354,228	(\$590,055,784)	\$923,880,897	(\$763,346,938)
Average	\$20,883,276	\$7,121,156	(\$3,907,654)	\$5,532,221	(\$4,712,018)
Median	\$1,835,687	\$450,642	\$751,623	\$0	\$0
Net Income After Tax	\$6,294,992,030	\$7,952,450,619	\$5,622,573,701	\$5,072,091,271	\$814,008,648
Average	\$36,812,819	\$47,336,016	\$33,668,106	\$30,371,804	\$5,055,954
Median	\$5,877,948	\$4,299,424	\$3,825,700	\$2,853,996	\$1,520,000
Return on Policyholder Surplus	10.5%	9.3%	9.3%	10.4%	4.4%
Gross Premium	\$81,066,459,165	\$69,551,987,565	\$69,867,100,778	\$69,968,959,001	\$57,423,352,196
Average	\$479,683,190	\$413,999,926	\$418,365,873	\$418,975,802	\$354,465,137
Net Premium	\$41,542,047,622	\$35,325,177,586	\$35,467,692,764	\$34,276,556,365	\$27,939,361,255
Average	\$245,810,933	\$210,268,914	\$212,381,394	\$205,248,841	\$172,465,193
Gross Premium to Surplus Ratio	84%	92%	107%	125%	137%
Net Premium to Surplus Ratio	55%	47%	54%	61%	66%
SLSOT Premium Processed**	\$2,998,384,870	\$2,879,629,825	\$2,800,896,916	\$2,645,125,725	\$2,074,174,528
Average	\$20,536,883	\$19,070,396	\$16,975,133	\$16,128,815	\$12,724,997
Combined Ratio	88%	94%	97%	91%	104%
Number of Insurers					
Insurers Included	173	169	167	166	166
New Submissions for Eligibility	8	8	4	6	12
SLSOT Priority Upgraded	27 / 16%	39 / 23%	32 / 19%	24 / 14%	30 / 18%
SLSOT Priority Downgraded	7 / 4%	14 / 8%	9 / 5%	14 / 8%	25 / 15%
Increased capital & surplus	157 / 91%	135 / 80%	142 / 85%	148 / 89%	123 / 74%
Underwriting gains	124 / 72%	108 / 64%	79 / 47%	94 / 57%	85 / 51%
Net income	151 / 87%	150 / 89%	144 / 86%	146 / 88%	121 / 73%
Positive Op. Cash (U.S. insurers)	110 / 86%	91 / 72%	101 / 81%	107 / 87%	106 / 86%

* Exclusive of Underwriters @ Lloyd's

**Will not equal total premium processed by the SLSOT

Premium processed by the SLSOT was \$3.57 billion in 2006 compared to \$3.046 billion in 2005, an increase of \$524 million or 17%. As of September 30, 2007 \$2.828 billion had been processed and we anticipate the full year processing total to be approximately \$3.5 billion, a small decline from 2006, indicating a softening in the market.

Surplus lines insurers operating in Texas are of the highest quality and most have an excellent financial picture with ample surplus. Despite recent years with multiple hurricanes and extraordinary losses they have weathered these storms and are in good position going forward. The softening market conditions generally will have an impact on underwriting gains and net income in the coming years, but with excellent management and underwriting, in partnership with professional surplus lines agents in Texas, surplus lines insurers will retain their vital role as the P&C industry safety valve. ★

BRING ON THE HEAT!!

The 7th Annual Employee Salsa & Queso Contest was held on Halloween this year. The competition is always tough as the competitors serve up their best recipes. Sandy Barnhart, Analyst I, Financial Analysis & Accounting, won top honors and bragging rights for Best Salsa. This is her 3rd win overall. John Feudo, Records Prep Clerk, Document Processing, took his first win with Best Queso. Employees are encouraged to sample all the entries and

vote for their favorite in each category. The winners received \$25 cash prizes in addition to custody of the famous sombreros to display proudly until the next year's competition. ★



EFS Quick Tips

- For helpful hints and filing assistance, watch our 2006 web seminar available through our website at www.slsot.org.
- There is an agent guide available to users & a help button on every screen.
- To reset your password, simply click the Change Password button from the left navigation panel.

Helpful Hints - Paper Filing of Policies

- If your Transmittal & Verification Slip is handwritten, make sure it is legible.
- Don't forget to submit security corrections on the GREEN Security Correction Transmittal for expedited processing.

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 10/31/2007	Premium through 10/31/2006	Percent Change
1 Fire (incl. allied lines)	\$683,046,118	\$684,235,611	0.17%
2 Allied lines	\$32,678,957	\$27,193,827	20.17%
3 Farmowners multiple peril	\$1,041,909	\$1,218,448	-14.49%
4 Homeowners multiple peril	\$73,049,648	\$79,382,663	-7.98%
5 Commercial multiple peril	\$161,937,894	\$96,813,694	67.27%
8 Ocean marine	\$8,116,663	\$6,148,748	32.01%
9 Inland marine	\$66,543,870	\$68,337,680	-2.62%
11 Medical malpractice	\$51,278,880	\$52,538,764	-2.40%
12 Earthquake	\$324,651	\$157,516	106.11%
13 Group accident & health	\$69,545,510	\$77,198,302	-9.91%
15 All other A&H	\$1,935,751	\$2,157,862	-10.29%
17 Other liability	\$1,453,260,416	\$1,435,663,531	1.23%
18 Products liability	\$29,823,081	\$33,701,052	-11.51%
19.2 Other priv pass auto lia	\$2,599	\$3,390	-23.33%
19.4 Other comm. auto liab	\$106,149,750	\$115,343,744	-7.97%
21.1 Priv pass auto physical	\$1,402,080	\$1,430,788	-2.01%
21.2 Comm auto phys.damage	\$55,471,455	\$58,269,327	-4.80%
22 Aircraft (all perils)	\$7,529,050	\$15,219,610	-50.53%
23 Fidelity	\$946,732	\$934,447	1.31%
24 Surety	\$135,852	\$3,600	3673.66%
26 Burglary & theft	\$1,056,402	\$3,258,228	-67.58%
27 Boiler & machinery	\$699,895	(\$62,326)	1222.96%
28 Credit	\$239,485,046	\$152,032,559	57.52%
31 Aggregate/other business	\$148,578	\$681,589	-78.20%
TOTAL	\$3,045,610,787	\$2,911,862,654	4.59%

Note: Due to rounding figures may not total



Lone Star Lines

Surplus Lines Stamping Office of Texas
P.O. Box 160170
Austin, Texas 78716-0170

phone (800) 449-6394
fax (512) 346-3422
www.slsot.org
e-mail: 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; Elaine White, ASLI; and Brian Wilds, CPA, ASLI.

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

Copyright © 2007 Surplus Lines Stamping Office of Texas
All rights reserved