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Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

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The Stamping
Office wishes you
a safe and happy
holiday season!

Underwriting Losses Accelerate for Texas Surplus Lines Insurers

by Brian Wilds, CPA, ASLI
Director of Financial Services

Composite year-end 1999 financial data for eligible surplus lines insurers in Texas confirm that continuing soft market conditions in the industry affected their results negatively. (See Table 1, page 3) The composite financial data comprises 178 entities (126 U. S. insurers and 52 non-U. S. insurers). Total capital and surplus was \$51.9 billion, compared to \$54.6 billion in 1998, a decline of 4.7%. (Note: This composite financial information excludes Underwriters at Lloyd's, which is not an insurance "company". Lloyd's capacity for 1998 was £15.36 billion and £16.4 billion for 1999. Lloyd's Texas premium writings for 1999 were \$183.4 million.) Underwriting losses increased 24% in aggregate and 23% on average, but due to good investment gains, net income increased 23% in aggregate and 22% on average. We see signs of firming in the market based on these numbers. (However, these results may have been skewed by the good results of several large insurers. The typical (median) results tell a different story. For 1999, median underwriting loss worsened by 19% and median net income was lower by 49%).

Gross premium increased for the first time in four years, while net premium remained flat. Leverage measures (gross premium to surplus and net

premium to surplus) also reversed declining trends which began in 1994. Gross premium to surplus increased to 66% from 60% in 1998, while net premium to surplus increased one percent to 39%. Soft market conditions resulted in a composite combined ratio of 107%. Of 178 insurers, 104 reported underwriting losses and 41 reported net losses; both totals were substantial increases over the prior

"...although there are signs of firming in the market, there are many insurers which may continue with poor financial results."

year.
Based on evaluation of first and second quarter reports, we expect financial results to continue to deteriorate for the year 2000.

The SLSOT insurer evaluation process utilizes a proprietary algorithm to prioritize insurers into three different risk classifications. Evaluations of 1999 year end financial information resulted in a large shift in the distribution of eligible insurers into these three risk classifications. For 1999, 16% of eligible surplus lines

See FINANCIAL, Page 3



In September, the Texas Department of Insurance publicly proposed a complete revision of surplus lines insurance regulations. Key provisions in the proposal alter the way surplus lines agents could report surplus lines policies to the Stamping Office in the future. The first change defines a "true and correct copy" of a policy as the declarations page, listing of all securities, premium-bearing pages, all coverage parts and schedules, extended coverage exclusions, and other parts as SLSOT may require to review and record the policy.

This would permit an agent issuing a 50-page policy to file only a few pages with the Stamping Office, saving the cost of copying and mailing. It will also clearly have a beneficial effect on the volume of our paper-handling in Austin, with no degregation to our level of service or data.

The second important change authorizes the filing of policy data electronically. This is, frankly, mostly symbolic at this point in time. The Stamping Office is in the midst of a major upgrade to its computer systems. The timeline for implementation of these systems is mid-2001. Following this project, we will devote resources to develop electronic policy filing capability.

Electronic transmission of data will be permissible at the point that SLSOT can technically deal with it. The only caveat is that TDI must pre-approve the electronic method of transmission. We envision this occurring through the Internet, as is currently done at the Florida Surplus Lines Service Office.

We believe these rules will be adopted the latter part of October, to be effective sometime in November. We'll let you know more as this process continues. Look for a Stamping Office bulletin on the new rules soon.★

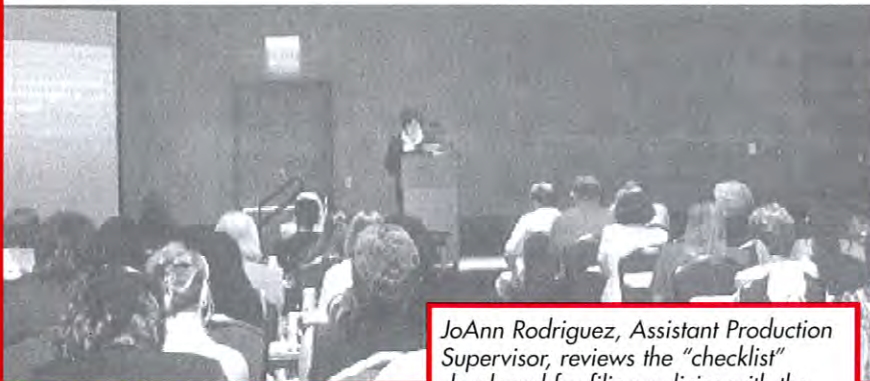
*Phil Ballinger, CPCU, ASLI
General Manager*

SLSOT Filing Fundamentals Workshops Target New Audience

Thank you to all participants that attended the Stamping Office filing workshops held in San Antonio, Arlington, and Houston throughout September. Our targeted audience was agency staff new to the surplus lines filing process. Workshop evaluations indicated that 50% or more of the attendees had never been to a Stamping Office workshop before. We hope that everyone in attendance

walked away with the knowledge and tools needed to properly file policies with our office.

Our staff is available during business hours to help you with any questions you may have. Please call or e-mail us. A list of staff e-mail addresses and phone extensions can be found on the Stamping Office web site at www.slsot.org/contacts.htm. ★



JoAnn Rodriguez, Assistant Production Supervisor, reviews the "checklist" developed for filing policies with the Stamping Office.



Batchman's Helpful Hints

When responding to a tagged item, submit corrections on a new Transmittal and Verification Slip. Be sure to return the tag memo as well.

Each tag response does not require a separate Transmittal and Verification Slip. As many as 20 tagged items can be submitted on a single transmittal.

Correspondence to a particular data entry examiner should be clearly identified to assure it is actually delivered to the correct person.★

Who's New?

James Ortiz recently joined the Stamping Office as Mail Administrator, Administration Department. Welcome aboard, James! ★



TEXAS SURPLUS LINES COMPOSITE FINANCIAL INFORMATION

Calendar Year 1999 - 1996
Comprising Currently Eligible Insurers

Financial

continued from page 1...

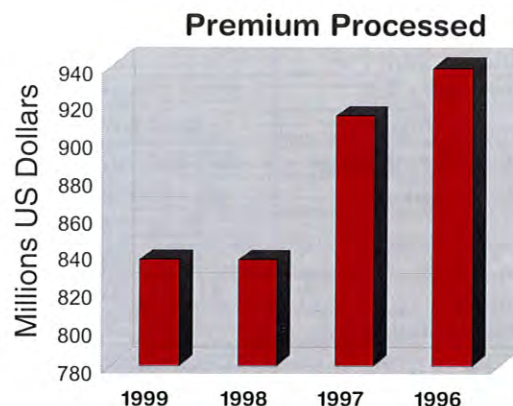
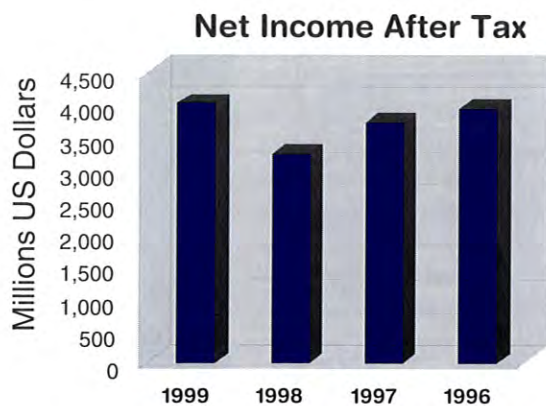
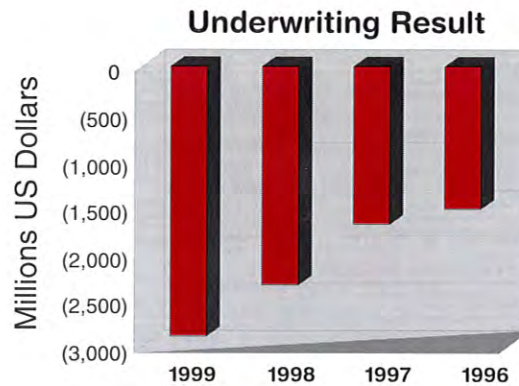
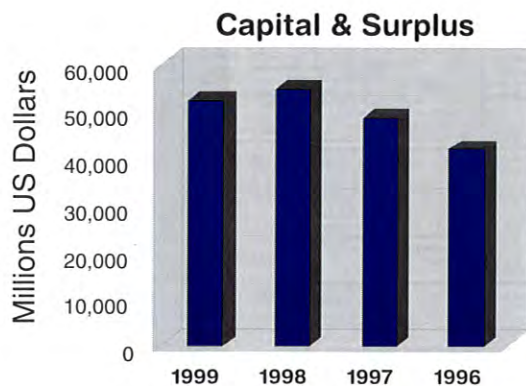
insurers fell into the most severe classification, versus 7% for 1998. Similarly, the middle classification was 24% for 1999, compared to 19% for 1998, leaving 60% in the least severe classification for 1999 compared to 74% for 1998.

The financial results for surplus lines insurers eligible in Texas indicate that although there are signs of firming in the market, there are many insurers which may continue with poor financial results. The SLSOT will continue to be diligent in evaluating surplus lines insurers and keeping the Texas Department of Insurance apprised of the results. ★

Table 1

	1999	1998	1997	1996
Capital & Surplus	51,992,747,814	54,554,716,336	48,422,747,486	41,697,982,057
Average	292,094,089	308,218,736	263,167,106	231,655,456
Median	42,000,394	41,074,589	39,671,414	38,712,694
Underwriting Gain (Loss)	(2,897,125,228)	(2,335,269,250)	(1,700,343,740)	(1,522,273,150)
Average	(16,275,984)	(13,193,612)	(9,342,548)	(8,457,073)
Median	(404,467)	(339,303)	0	(92,543)
Net Income After Tax	3,976,313,210	3,223,500,420	3,715,799,864	3,918,555,313
Average	22,338,838	18,315,344	20,194,564	21,769,752
Median	1,450,509	2,831,538	3,885,750	3,461,701
Return on Policyholder Surplus	10.4%	9.6%	10%	12.5%
Gross Premium	34,187,032,364	32,460,602,443	36,870,900,032	40,654,247,818
Net Premium	20,437,308,999	20,467,192,364	22,991,029,437	27,203,895,210
Gross Premium to Surplus Ratio	66%	60%	76%	97%
Net Premium to Surplus Ratio	39%	38%	47%	65%
SLSOT Premium Processed *	835,028,171	835,948,649	912,727,903	938,815,467
Combined Ratio	107%	108%	103%	104%

* Totals for companies eligible at year-end exclusive of Lloyd's; will not equal total annual premium by SLSOT.



Note: Current individual financial summaries for all eligible surplus lines insurers in Texas are published weekly on the Stamping Office web site at www.slsot.org



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**Comparison of SLSOT Premium Processed
 by Line of Business**

Annual Statement Line of Business	Premium through 9/00	Premium through 9/99	Percent Change
1 Fire (inc. allied lines)	\$179,411,050	\$170,991,951	4.9%
2 Allied lines	\$6,929,033	\$5,884,044	17.8%
3 Farmowners multiple peril	\$1,418,818	\$1,689,493	-16.0%
4 Homeowners multiple peril	\$31,898,019	\$31,836,459	0.2%
5 Mortgage multiple peril	\$21,962,821	\$21,197,784	3.6%
6 Mortgage guaranty	\$0	\$0	
8 Ocean marine	\$8,995,554	\$6,787,627	32.5%
9 Inland marine	\$20,110,776	\$14,579,551	37.9%
10 Financial guaranty	\$0	\$0	
11 Medical malpractice	\$16,232,635	\$15,129,965	7.3%
12 Earthquake	\$49,952	\$176,977	-71.8%
13 Group accident & health	\$44,372,154	\$48,330,199	-8.2%
14 Credit A&H (group & indiv)	\$0	\$0	
15 All other A&H	\$43,443	\$27,147	60.0%
16 Worker's compensation	\$0	\$0	
17 Other liability	\$387,278,589	,806	8.4%
18 Products liability	\$13,774,439	,788	-7.0%
19.1 Priv pass auto no fault	\$0	\$0	
19.2 Other priv pass auto lia	\$45,551	\$41,721	9.2%
19.3 Comm. auto no fault PIP	\$0	\$0	
19.4 Other comm. auto liab	\$25,537,505	\$22,748,782	12.3%
21.1 Priv pass auto physical	\$692,619	\$712,362	-2.8%
21.2 Comm auto phys. damage	\$33,930,297	\$25,684,765	32.1%
22 Aircraft (all perils)	\$2,160,258	\$3,977,462	-45.7%
23 Fidelity	\$539,575	\$657,181	-17.9%
24 Surety	\$340,027	\$576,350	-41.0%
26 Burglary & theft	\$1,650,757	1,144,520	44.2%
27 Boiler & machinery	\$195,276	\$258,673	-24.5%
28 Credit	\$27,616,540	\$25,436,808	8.6%
31 Aggregate/other business	\$270,069	\$942,100	-71.3%
Total	\$825,455,757	\$770,964,515	7.1%

Note: Due to rounding figures may not total

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

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