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www.slsot.org

Lone Star Lines

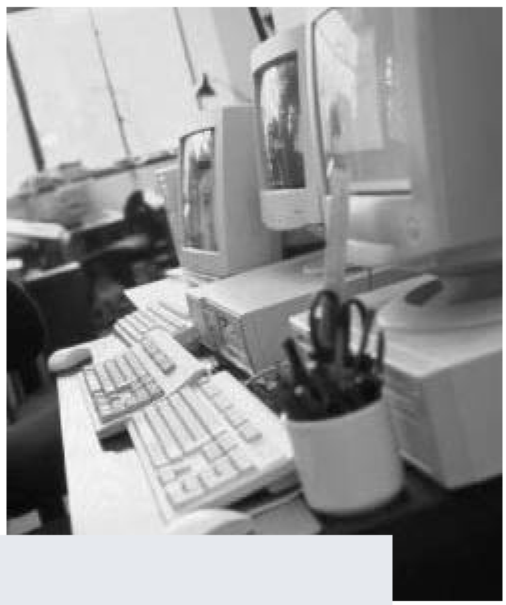
The Quarterly Publication of the Surplus Lines Stamping Office of Texas

INSIDE:

SLSOT Implements New Computer System

On October 1, after nearly 2-1/2 years of work, the Stamping Office successfully brought on-line a significant redesign of its computer systems. In a time when cost overruns are the norm, this project was completed both on time and within budget projections.

Much of the software run on SLSOT's mini-computer (formerly an IBM System 36, now an AS/400) was created years ago specifically for the office's unique duties. It was clearly time to replace it with a system that could better adapt to changing requirements and could respond more flexibly to requests for information. By taking advantage of modern methodologies, we hoped to simplify maintenance as well and improve both data integrity and system efficiency.



"It was clearly time to replace it with a system that could better adapt to changing requirements..."

In partnership with Renaissance Systems, Inc., an Austin technology services firm, and coordinated by Elaine White, Director of Data Services, the Stamping Office embarked on a project to modernize its computer infrastructure and programming environment, with minimal disruption to business operations. The project covered virtually all facets of computer operations, including redesigning of all databases; updating of hardware; modernizing of programming languages; reworking programming logic to comply with modern programming constructs and facilitate future revisions; modifying all data entry, batch processing, and accounts receivable programs to enhance their functionality; and improving the system's reporting features. As a result of many hours of intense testing, we achieved success in all these areas.

After taking time to get the kinks out of the new system, we will begin work on a project of immense interest to many of you - electronic filing. All work on the just-concluded system redesign proceeded with the goal of facilitating the processing of policy data electronically. We hope to release a Request for Proposal (RFP) for an electronic filing system by the end of the year. H

2001 SLSOT Board of Directors

The SLSOT Board of Directors assembled in Austin in September for the quarterly business meeting to discuss Stamping Office operations.

The board consists of nine directors who are appointed by the Texas Commissioner of Insurance and serve three-year terms as established by the SLSOT Plan of Operation.

(Left to right) Nathan E. Holt, Gainsco Companies; Dean Frigo, City of Amarillo; Cindy Kirk, City of Bryan; Chairman Donald E. Meyer, Texas General Agency, Inc.; Simon Bancroft, Swett & Crawford of Texas, Inc.; Jimmy E. Garcia, City Public Service, San Antonio; and Secretary W. Stephen Conner, Crump Insurance Services of Texas, Inc. (not pictured Vice-Chair Susan Bulla, City of Ft. Worth and George Z. Adkins, John L. Wortham & Son, L.L.P.)

What the gm has to say

September 11th will forever be regarded as a national inflection point. Beyond the profound human tragedy of the terrorist attacks and their effect on our way of life, the impact on our industry continues to evolve. A comprehensive understanding of the magnitude of covered claims is many months, if not years, away. Some credible estimates are placing gross losses in excess of $70 billion. In addition to the obvious property and liability losses, business interruption claims from insureds well removed from the World Trade Center could reach staggering proportions. Some analysts are already predicting major reinsurance recoverables collection problems, probably leading to the subsequent insolvency of some insurers, reinsurers, and Lloyd's syndicates. Those interests already lobbying for federal regulation of insurance will use any resulting insurer failures as further proof of the inadequacy of state regulation. A prolongation of the recently-hardening market now seems a certainty. Ultimately, the industry will review critically how it evaluates the exposures it insures. So will risk managers.

On a more personal note, one of our sister stamping offices, the Excess Line Association of New York, was located just a few blocks east of the World Trade Center. We are grateful that Dan Maher and his staff made it through the horrors of the eleventh with a lot of dust and some tears, but no serious injuries.

Phil Ballinger
CPCU, ASLI
General Manager

New State Regs Require Reporting of Allocated Premium

Recent regulations from both the Texas Department of Insurance and the Texas Comptroller make important changes in the reporting of surplus lines policies to the Stamping Office. For policies with non-Texas exposures, beginning November 1, 2001 you must report the total policy premium, rather than just the Texas portion. You will be required to show the premium allocation among **Texas** premium, premium for exposures in **Other States**, and premium that is tax **Exempt**. Stamping fee is only charged on the Texas premium. Please read carefully Stamping Office Bulletin #2001-10.1, which discusses these changes and methods of premium allocation, explains which policies do not need to be reported, and provides samples of revised reporting forms. If for some reason you did not receive a copy of this bulletin, you can read it on the SLSOT website at www.slsot.org/pman10.htm.

TEXAS SURPLUS LINES COMPOSITE FINANCIAL INFORMATION

Calendar Year 1997-2000

Comprised of Currently Eligible Insurers *

	2000	1999	1998	1997
Capital & Surplus	$39,872,702,705	$51,992,747,814	$54,554,716,336	$48,422,747,486
Average	$243,126,236	$292,094,089	$308,218,736	$263,167,106
Median	$39,287,777	$42,000,394	$41,074,589	$39,671,414
Underwriting Gain (Loss)	($1,937,712,890)	($2,897,125,228)	($2,335,269,250)	($1,700,343,740)
Average	($11,815,322)	($16,275,984)	($13,193,612)	($9,342,548)
Median	($1,127,506)	($404,467)	($339,303)	$0
Net Income After Tax	$773,726,058	$3,976,313,210	$3,223,500,420	$3,715,799,864
Average	$4,717,842	$22,338,838	$18,315,344	$20,194,564
Median	$1,837,028	$1,450,509	$2,831,538	$3,885,750
Return on Policyholder Surplus	5.1%	10.4%	9.6%	10%
Gross Premium	$30,880,805,231	$34,187,032,364	$32,460,602,443	$36,870,900,032
Average	$188,297,593	$193,147,076	$185,489,157	$200,385,326
Net Premium	$16,239,068,194	$20,437,308,999	$20,467,192,364	$22,991,029,437
Average	$99,018,709	$115,465,023	$116,955,385	$124,951,247
Gross Premium to Surplus Ratio	77%	66%	60%	76%
Net Premium to Surplus Ratio	41%	39%	38%	47%
SLSOT Premium Processed **	$851,167,070	$835,028,171	$835,948,649	$912,727,903
Average	$5,221,884	$4,854,815	$4,917,316	$4,987,584
Combined Ratio	106%	107%	108%	103%
Insurers Included	164	175	180	181

* Exclusive of Underwriters @Lloyds ** Will not equal total premium processed by the SLSOT

Composite year-end 2000 financial data for the 164 currently eligible surplus lines insurers (119 U. S. Insurers, 45 Non-U.S. Insurers) reflect declines in almost all areas. The number of insurers eligible to write surplus lines business in Texas has declined from 175 in 1999. Aggregate, average and median Capital and Surplus decreased. Underwriting results improved, with an aggregate loss of $1.94 billion (although the median underwriting loss increased to $1.13 million). Net income after tax was significantly lower. We feel that the effect of the firming rates in the market late in the year had a positive impact on underwriting results but was not enough to offset the decline in investment income. (Return on investment fell to 5.1% from 10.4% in 1999.) Gross and net premium on a composite basis declined 9.6% and 20.5% respectively. On a positive note, two leverage measures rose, with gross premium to surplus improving to 77% and net premium to surplus improving to 41%, continuing a trend begun last year.

"This trend suggests that these insurers are reaping the benefits of their financial strength and indicates a 'flight to quality' in this time of continuing consolidation through mergers and acquisitions."

Over the past four years and continuing into 2001 the ten leading surplus lines insurers in Texas have written an increasing percent of total premium. Including Lloyds (number 1 in premium writing), these ten insurers have written 45%, 46%, 50% and 51% of the surplus lines premium from 1997 to 2000 respectively. As of September 30, 2001 the market share of these ten insurers has increased to 53%. This trend suggests that these insurers are reaping the benefits of their financial strength and indicates a "flight to quality" in this time of continuing consolidation through mergers and acquisitions. When Texas premium is accumulated by 'insurer groups' the top ten groups account for 52%, 59%, 54% and 62% of Texas surplus lines premium respectively from 1997 through 2000.

Following the evaluation of all insurers, our priority rating process concluded with 26 insurers receiving lower ratings while 21 insurers improved their rating. For the 2001 evaluation period there were 25 insurers rated priority 1 (worst), 37 insurers rated priority 2 and 62 rated priority 3. H

n Helpful Hint

If submitting a batch under your new ID license number (issued by the Texas Department of Insurance), please do not include any additional characters such as the prefix letters "S" or "SL". H

Who's New?

We welcome Robert Cervantes to our staff.

Robert joins us as a Records Prep Clerk in the Document Processing Department. H

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Return Service Requested

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 9/01	Premium through 9/00	Percent Change
1 Fire (incl. allied lines)	$280,702,304	$179,255,451	56.6%
2 Allied lines	$14,880,327	$6,911,148	115.3%
3 Farmowners multiple peril	$1,252,866	$1,418,818	-11.7%
4 Homeowners multiple peril	$32,971,593	$31,907,024	3.3%
5 Commercial multiple peril	$15,186,118	$21,992,442	-31.0%
6 Mortgage guaranty	$0	$0	
8 Ocean marine	$5,681,368	$9,006,942	-36.9%
9 Inland marine	$27,896,037	$20,125,887	38.6%
10 Financial guaranty	$0	$0	
11 Medical malpractice	$19,953,081	$15,856,323	25.8%
12 Earthquake	$183,215	$49,952	266.8%
13 Group accident & health	$58,939,667	$44,345,120	32.9%
14 Credit A&H (group & indiv)	$0	$0	
15 All other A&H	$17,350	$43,443	-60.1%
16 Workers' compensation	$0	$0	
17 Other liability	$510,910,521	$387,797,690	31.8%
18 Products liability	$16,414,331	$13,814,679	18.8%
19.1 Priv pass auto no fault	$0	$0	
19.2 Other priv pass auto lia	$16,885	$43,538	-61.2%
19.3 Comm. auto no fault PIP	$0	$0	
19.4 Other comm. auto liab	$35,632,217	$25,544,041	39.5%
21.1 Priv pass auto physical	$835,761	$692,619	20.7%
21.2 Comm auto phys.damage	$42,139,571	$33,929,864	24.2%
22 Aircraft (all perils)	$1,604,127	$2,160,067	-25.7%
23 Fidelity	$888,197	$539,575	64.6%
24 Surety	$535,169	$340,027	57.4%
26 Burglary & theft	$1,669,705	$1,649,907	1.2%
27 Boiler & machinery	$28,005	$116,031	-75.9%
28 Credit	$47,921,884	$27,645,962	73.3%
31 Aggregate/other business	$1,283,105	$269,207	376.6%
TOTAL	$1,117,543,404	$825,455,757	35.4%

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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We invite readers to suggest topics for articles that may be of interest to others. Any submissions or inquiries should be sent to the following address:

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