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www.slsot.org

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

INSIDE:

Amended Regulations Clarify Surplus Lines Licensing Requirements

In 2001, the Texas Legislature passed the Agent Licensing Reform Act, the most significant update to state licensing laws in decades. One provision of this act required that a corporation, LLC, or partnership could obtain a surplus lines license, provided it conducted surplus lines "insurance activities" only through persons holding individual SL licenses. Previously, many SL agency staff solicited and procured business under the agency SL umbrella but did not themselves hold individual SL licenses.

Recently, in cooperation with the Texas Surplus Lines Association and the Independent Insurance Agents of Texas, the Texas Department of Insurance (TDI) has amended its licensing regulations to clarify which staff in a SL agency must be licensed. These amendments became effective October 21, 2002. Under new 28 TAC §§15.3 and 15.4, persons performing any of the following surplus lines insurance activities are required to have a SL license:

- Supervising unlicensed staff engaged in clerical or administrative services;
- Negotiating, soliciting, effecting, procuring, or binding surplus lines insurance contracts for clients or offering advice, counsel, opinions, or explanations of surplus lines insurance products to agents or clients beyond the scope of underwriting policies (except for a general lines P&C agent making a referral of SL business to a SL agent or agency); or
- Receiving any direct commission or variance in compensation based on the volume of SL premium taken and received (again excepting a general lines P&C agent referring business to a SL agency).

Individuals required to be licensed may either obtain a separate SL surety bond in the amount of $50,000 to demonstrate proof of financial solvency, or they may elect to rely on the bond of the employing agency. *(Note: TDI informs us that the bond is waived for nonresident agents.)*

The following activities in a surplus lines agency do not require a SL license if the employee does not receive any direct commission or if the employee's compensation does not vary based upon the agency's premium volume written:

- Full-time clerical and administrative services, including the incidental taking of information from clients, receipt of premiums in the office, or transmitting to clients, as directed by a licensed SL agent, prepared marketing materials, including invoices and evidences of coverage;
- Contacting clients to obtain or confirm information necessary to process an application;
- Underwriting and pricing a policy; or
- Contacting clients, insureds, agents, other persons, or insurers to gather and transmit information regarding claims and losses to the extent the

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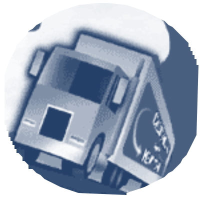
We're Moving!

The Surplus Lines Stamping Office of Texas will be moving to a new location at Las Cimas Office Park in southwest Austin.



Although all details are not available at the time of printing, we anticipate the move to take place mid-December, 2002. Please continue to send any correspondence or policy information to our present location at 5914 W. Courtyard Drive, Suite 150, Austin, Tx. 78730 or P. O. Box 9906, Austin, Tx. 78766. Agents and companies will be officially notified by SLSOT Bulletin of the new physical & post office box addresses. Our phone number will remain the same at (512) 346-3274. H

Helpful Hints

▷ When exposures in Texas and other states are included on the same policy, you are required to report all of the premium, not just the Texas portion. You must complete the Other States/Exempt Premium Form.

▷ The total of all premiums shown on the Other States/ Exempt Premium Form should match the total amount of premium on the policy.

Note: A copy of the Other States/ Exempt Premium form can be found in the How to File Section of the SLSOT Procedures Manual or on our website at www.slsot.org. H

Licensing

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contact does not require a licensed adjuster under Article 21.07-4, TIC.
These provisions do not prohibit the distributing of agency profits to unlicensed persons, such as partners and employees.

The new regulations also require that within 30 days after the effective date of the rule (i.e., October 21) and thereafter within 30 days of employment, each licensed surplus lines agency (whether resident or nonresident) must notify TDI of the name and SL agent license number of each individual agent employed by the agency.

Also, within 30 days after an individual SL agent ceases to be employed by a SL agency, the agency must notify TDI that the individual is no longer employed by that agency. If the individual elected to rely on the agency's SL bond, that individual must then obtain a separate bond to retain the SL license.

The full text of the amended regulations can be found at the TDI website at http://www.tdi.state.tx.us under "Proposed and Adopted Rules". H

Fink Appointed to SLSOT Board of Directors

Commissioner Montemayor appointed William A. (Bill) Fink, Delta General Agency Corp., to the Surplus Lines Stamping Office of Texas Board of Directors. Mr. Fink will serve the unexpired term of Nathan Holt, until December 31, 2003. We welcome Mr. Fink to our Board and look forward to working with him. H

Employee News

Welcome to new employee Cynthia Lozano. Cynthia recently joined the Document Processing Department as a Record Prep Clerk. H

Electronic Filing System Update

Development of the electronic filing system is progressing well. Separate presentations of the functionality of the system were made to the Surplus Lines Stamping Office Board of Directors and Texas Department of Insurance staff members recently. This same presentation will be made to TSLA members at their annual meeting in November. We have visited with several agencies to view their policy issuance and agency management systems. This gave us the opportunity to observe their workflow and data entry procedures and gain insight into where and how data is stored. H

Texas Surplus Lines Composite Financial Information

Calendar Year 2001 - 1998
Comprised of Currently Eligible Insurers*

	2001	2000	1999	1998
Capital & Surplus	38,368,679,185	39,872,702,705	51,992,747,814	54,554,716,336
Average	236,843,699	243,126,236	292,094,089	308,218,736
Median	38,649,500	39,287,777	42,000,394	41,074,589
Underwriting Gain (Loss)	(2,841,152,243)	(1,937,712,890)	(2,897,125,228)	(2,335,269,250)
Average	(17,537,977)	(11,815,322)	(16,275,984)	(13,193,612)
Median	(1,586,406)	(1,127,506)	(404,467)	(339,303)
Net Income After Tax	593,388,231	773,726,058	3,976,313,210	3,223,500,420
Average	3,662,890	4,717,842	22,338,838	18,315,344
Median	1,121,624	1,837,028	1,450,509	2,831,538
Return on Policyholder Surplus	3.1%	5.1%	10.4%	9.6%
Gross Premium	38,788,001,284	30,880,805,231	34,187,032,364	32,460,602,443
Average	239,432,107	188,297,593	193,147,076	185,489,157
Net Premium	20,923,554,440	16,239,068,194	20,437,308,999	20,467,192,364
Average	129,157,743	99,018,709	115,465,023	116,955,385
Gross Premium to Surplus Ratio	101%	77%	66%	60%
Net Premium to Surplus Ratio	55%	41%	39%	38%
SLSOT Premium Processed**	1,168,870,342	851,167,070	835,028,171	835,948,649
Average	7,492,759	5,221,884	4,854,815	4,917,316
Combined Ratio	111%	106%	107%	108%
Insurers Included	162	164	175	180

* Exclusive of Underwriters @ Lloyd's ** Will not equal total premium processed by the SLSOT

The following exhibit is a composite of selected financial data for currently eligible surplus lines insurers' as of December 31, 2001, exclusive of Underwriters at Lloyd's, London (Lloyd's). This composite data identifies trends and highlights the overall financial condition and other characteristics of the surplus lines insurers currently operating in Texas, compared to prior periods. Today there are 162 insurers, including Lloyd's, operating as eligible insurers in Texas, compared to 164 last year. In 1998 there were 180 surplus lines insurers, so there has been a decline of 18 insurers over the past five years. Of the current 162 insurers, 122 are foreign (U. S. domiciled), 39 alien (non-U. S. domiciled), and Lloyds. Market share data reflects 77% of premium written by foreign insurers, 16% by Lloyd's, and 7% by alien insurers. The trend is for increased writings by foreign insurers, slightly less by Lloyd's and significantly less by alien insurers.

Aggregate, average and mean Capital and Surplus declined in 2001, continuing the recent trend. Underwriting results worsened significantly, with a loss 40% greater than the prior year. Net income after tax declined in aggregate by 22%. Return on shareholder's funds declined 2% from 5.1% to 3.1%. The composite combined ratio was 111%, 5% higher than in 2000. It appears that poor underwriting results combined with low investment income was the cause for the decline in shareholder's value. Unassigned surplus (similar to retained earnings) as a component of total capital and surplus declined from 38% to 34% in 2001. The number of insurers reporting an underwriting loss was 106 both in 2000 and 2001. However, there were only 109 insurers reporting net income in 2001, compared to 127 in 2000, highlighting the importance of investment income. Some of the poor underwriting result was due to the events of September 11, 2001, as well as reserve strengthening and adverse development in several lines. Evaluation of insurer financial statements makes it clear that some companies are preparing for better times ahead by infusing capital, increasing rates and strengthening reserves in order to take advantage of a hardening market. Lloyd's current underwriting capacity is $19.16 billion, up from $18.7 billion, at the beginning of 2002. Other insurers are retrenching and trying to survive. Some are going into run-off, some are being phased out as part of group restructuring and some are treading water. Two leverage measures continue to improve - Gross and Net premium to surplus was 101% and 55% respectively compared to 77% and 41% in 2000 and 66% and 39% in 1999, showing a better recent utilization of capital and surplus. Total written premium increased in 2001 and continues to increase in 2002. As of September 30, 2002, Texas surplus lines premium was $1,799,590,695, compared to $1,117,543,403 at September 30, 2001, an increase of $681,953,724 or 61%.

For 2001 there were NO new submissions for eligibility. To date for 2002, twelve new submissions for eligibility have been received. Our previous observation of a "flight to quality" for surplus lines premium in Texas is no longer the case but market share has stabilized. In 2001 and to date at September 30, 2002, the top ten insurers plus Lloyd's produced 53% of the surplus lines premium in Texas. When looking at the top ten insurance Groups, their share of surplus lines premium is 66% in 2001 and 65% year to date at September 30, 2002.

Upon completion of financial evaluations for all surplus lines insurers operating in Texas our Priority Rating reveals 39 Priority 1 insurers (25 in 2001), 44 Priority 2 insurers (37 in 2001) and 79 Priority 3 insurers. During the 2002 evaluation process 39 insurers had priority scores poorer than the prior year while only 20 had improved priority scores. 2002 financial statements for surplus lines insurers will be most interesting and very important. Closed claims related to 9/11, higher premium rates, hardening markets, alternative markets, lower investment income and capital losses, capital infusions -- all will have a bearing on the state of the surplus lines insurers operating in Texas. H

by Brian D. Wilds, CPA, ASLI
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Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 9/02	Premium through 9/01	Percent Change
1 Fire (incl. allied lines)	$510,414,797	$280,718,337	81.8%
2 Allied lines	$26,735,524	$14,881,980	79.7%
3 Farmowners multiple peril	$920,317	$1,252,866	-26.5%
4 Homeowners multiple peril	$62,846,383	$32,950,465	90.7%
5 Commercial multiple peril	$29,566,761	$15,199,254	94.5%
8 Ocean marine	$6,745,897	$5,681,368	18.7%
9 Inland marine	$39,215,576	$27,896,592	40.6%
11 Medical malpractice	$45,497,429	$19,982,729	127.7%
12 Earthquake	$38,622	$183,215	-78.9%
13 Group accident & health	$82,410,324	$58,917,596	39.9%
15 All other A&H	$101,732	$17,350	486.4%
17 Other liability	$806,435,984	$516,744,313	56.1%
18 Products liability	$27,980,424	$16,414,331	70.5%
19.2 Other priv pass auto lia	$72,756	$16,885	330.9%
19.4 Other comm. auto liab	$58,734,450	$35,637,778	64.8%
21.1 Priv pass auto physical	$902,380	$835,761	8.0%
21.2 Comm auto phys.damage	$50,447,324	$42,139,471	19.7%
22 Aircraft (all perils)	$3,058,569	$1,604,127	90.7%
23 Fidelity	$441,247	$887,847	-50.3%
24 Surety	$299,842	$535,169	-44.0%
26 Burglary & theft	$2,457,526	$1,669,705	47.2%
27 Boiler & machinery	$254,075	$28,005	807.2%
28 Credit	$42,703,639	$42,065,154	1.5%
31 Aggregate/other business	$1,309,115	$1,283,105	2.0%
TOTAL	$1,799,590,693	$1,117,543,403	61.0%

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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