

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



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If You Build It, They Will Come...

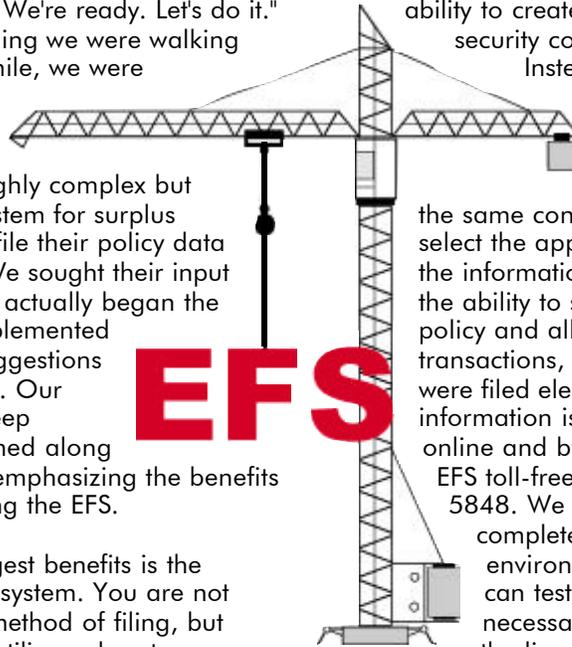
by Elaine White, ASLI, Director of Data Services

The long-awaited SLSOT Electronic Filing System (EFS) was deployed on July 1, 2003. After hundreds of hours of intense labor, lively discussions and even some headaches, we were finally able to say, "It's ready. We're ready. Let's do it." Rather than feeling we were walking the last green mile, we were elated with the knowledge that we had developed a highly complex but user-friendly system for surplus lines agents to file their policy data electronically. We sought their input even before we actually began the project. We implemented many of the suggestions given by agents. Our intent was to keep everyone informed along the way, while emphasizing the benefits received by using the EFS.

One of the biggest benefits is the flexibility of the system. You are not limited to one method of filing, but rather you can utilize web-entry, programmatic file uploads or the old standby, manual paper filing. You pick whatever method best fits your needs on a particular line of business or even an individual item. You have immediate turnaround when filing electronically, which allows you to make any necessary corrections right away. This might prevent you from even being listed on the monthly ineligible report sent to TDI each month. Reports are available on-line, so

no more waiting for the mail to arrive. Instead you receive e-mail notifications as the processes complete, with links telling you where to obtain the information you need. You have the ability to create and maintain security contract information. Instead of entering each company and/or syndicate each time you have a policy written under the same contract, you simply select the appropriate contract and the information is there. You have the ability to see the history of a policy and all its associated transactions, whether or not they were filed electronically. Help information is available both online and by telephone using our EFS toll-free number (800) 681-5848. We established a secure, completely separate environment where agents can test for as long as necessary before moving into the live production environment. Best of all, according to some, there are no more transmittals to complete and no more copies to make and mail!

Over 25% of the agents who file on a regular basis have registered to use the EFS. We feel this is a great start on what will prove to be a far more economic and efficient way of filing with the Stamping Office for all of us. ★



Register For Free EFS Training Workshop!
See next page for details.

EFS Training Workshops Scheduled for Dallas & Houston

The Stamping Office is offering free Electronic Filing System (EFS) training with two upcoming workshops scheduled for Dallas and Houston. There will be a detailed demonstration of the EFS during which you will view live data input and correction of errors, observe reports that are available to your agency, learn about coverage mapping, and have your questions answered regarding EFS specifics for your agency.

Free

Although filing on the EFS is voluntary, using it could save you and your staff hours of additional work normally associated with paper submissions of policies. Please join us for one of the following free 2-hour workshops.

Workshop Locations:

Dallas

Wednesday, November 12, 2003

Omni Mandalay @ Las Colinas
221 East Las Colinas Boulevard
Irving, Texas 75039
Workshop: 9:00 to 11:00 a.m.

Houston

Thursday, November 13, 2003

Omni Houston Hotel
Four Riverway
Houston, TX 77056
Workshop: 9:00 to 11:00 a.m.

Registration Information:

On-line registration is available for these workshops through the SLSOT website at:

www.slsot.org

Registration ends Nov. 7th

Texas Surplus Lines Insurers

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

The accompanying exhibit is a composite of selected financial data for currently eligible Texas surplus lines insurers. The chart highlights the characteristics of the 2002 market results compared to data for the prior 2 years. This data excludes Underwriters at Lloyd's, London (Lloyd's), as their financial information is not compatible with this analysis. This year new measures of market health were added.

Currently 166 insurers (including Lloyd's) are operating as eligible surplus lines insurers, compared to 162 last year. Prior to 2002 the number of eligible insurers had declined each of the past 14

years, from a high of 226 in 1988. In 2002 there were 12 new submissions for eligibility and to date in 2003 there have been 11 new submissions, reversing the trend of prior years when there were few or no new submissions. Currently 124 foreign (U.S. domiciled) insurers, 41 alien (non-U.S. domiciled) insurers, and Lloyd's are eligible. The market share trend (as of September 30, 2003) is similar to the prior year with foreign insurers writing 77%, Lloyd's writing 15%, and other alien insurers writing 8% of the Texas surplus lines premium. Size and 'flight to quality' trends experienced in 2000 were not apparent in 2001 or 2002. The top ten surplus lines writers in Texas commanded 53% of the market in both 2001 and 2002 and 52% to September 30, 2003.

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ODDS & ENDS

Biggest news currently is the Comptroller's long-announced implementation of a tax audit program for surplus lines agents. Auditors are already in the offices of approximately 15 agencies. The Comptroller expects to audit all agents about every 5 years. Gary Johnson of the Comptroller's Tax Policy Division will be making a presentation on the audit program at TSLA's Annual Meeting in Austin on November 17.

--- A bill passed during the third special session revises the qualifications required of the Commissioner of Insurance. Necessary experience in "administration of business or government" has been lowered from ten years to five. Also, the requirement that five years of that experience be in insurance or insurance regulation was removed.

--- Average premium per surplus lines policy at the Stamping Office is a gross aggregate measure for gauging market conditions. In 2001, average premium was up 32.5% over the prior year. For 2002, the increase was another 35.5%. However, through September of 2003, average premium per policy has risen only 1.8% over last year, reflecting a flattening in the rate of increase particularly on property lines.

--- AM Best's Annual Review of the Excess and Surplus Lines Industry is now available. Among many findings, the study concludes "surplus lines insurers retained a greater percentage of financial strength ratings in the secure category compared with the total property/casualty industry". ★

**Texas Surplus Lines Composite
Financial Information
Calendar Year 2002 - 2000
Comprised of Currently Eligible Insurers***

	2002	2001	2000
Capital & Surplus	42,062,637,753	38,368,679,185	39,872,702,705
Average	258,052,992	236,843,699	243,126,236
Median	45,941,353	38,649,500	39,287,777
Underwriting Gain (Loss)	(763,346,938)	(2,841,152,243)	(1,937,712,890)
Average	(4,712,018)	(17,537,977)	(11,815,322)
Median	0	(1,586,406)	(1,127,506)
Net Income After Tax	814,008,648	593,388,231	773,726,058
Average	5,055,954	3,662,890	4,717,842
Median	1,520,000	1,121,624	1,837,028
Return on Policyholder Surplus	4.4%	3.1%	5.1%
Gross Premium	57,423,352,196	38,788,001,284	30,880,805,231
Average	354,465,137	239,432,107	188,297,593
Net Premium	27,939,361,255	20,923,554,440	16,239,068,194
Average	172,465,193	129,157,743	99,018,709
Gross Premium to Surplus Ratio	137%	101%	77%
Net Premium to Surplus Ratio	66%	55%	41%
SLSOT Premium Processed**	2,074,174,528	1,168,870,342	851,167,070
Average	12,724,997	7,492,759	5,221,884
Combined Ratio	104%	111%	106%
Number of Insurers			
Insurers Included	166	162	164
New Submissions for Eligibility	12	0	5
SLSOT Evaluation Priority Ratings:			
Upgraded Rating	30	22	27
Downgraded Rating	25	36	26
Increased Capital & Surplus	123	103	96
Underwriting Gains	85	56	59
Net Income	121	127	131
Positive Cash From Operations	106	87	91

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

increased significantly as the market hardened. The composite Gross Premium reflects an \$18.6 billion or 48% increase over 2001. Net premium increased \$7.0 billion or 34%. Texas premium processed for the insurers included in this composite increased \$905 million or 77%. Leverage ratios of gross premium and net premium to surplus grew to 101% and 55% respectively, compared to 2001's 77% and 41%, continuing a trend of greater utilization of capital & surplus. The composite combined ratio for 2002 improved to 104% from 111% for the prior year.

In addition to the financial amounts contained in the composite there are other indicators showing improvement in the performance and health of eligible insurers serving the Texas market. New submissions for eligibility are up and new insurers have become eligible. Thus far in 2003 twelve new insurers have been added to the Surplus Lines Insurer List and eight were added in 2002. Three of these new insurers are Bermuda companies with significant capital & surplus. Better underwriting results and net income underscore improvement in the number of insurers upgraded by our priority rating system, while insurers receiving downgrades declined. Of the 162 insurers included in the composite, 123 insurers increased capital and surplus, 85 insurers generated underwriting gains, 121 insurers earned net income, and 106 insurers had positive cash flow from operations.

The eligible surplus lines insurers making up the Texas surplus lines market are stronger than in recent years. The trends appear positive although significant questions remain. How long will the industry maintain discipline and produce positive underwriting results? How will future catastrophes, whether natural or man-made, affect financial results? Will an improving economy enhance investment income? Will efforts at regulatory reform adversely affect the surplus lines industry? ★

Insurers, continued from page 2

When compiling premium statistics by group affiliation, the top ten groups plus Lloyd's wrote 66% of the surplus lines premium in Texas in both 2001 and 2002 and 65% at September 30, 2003.

Aggregate, average, and median capital & surplus increased in 2002, reversing the recent trend. Capital infusions, net income, and new eligible insurers with higher levels of capital &

surplus replacing smaller, weaker insurers account for this improvement. Lloyd's underwriting capacity increased for the third consecutive year, up \$3.6 billion to \$23.2 billion for 2003. While composite underwriting results showed a loss, the result was a significant improvement over 2001. Net income after tax increased, resulting in a return on policyholder surplus of 4.4% compared to 3.1% in 2001. Gross premium and net premium both



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

Annual Statement Line of Business	Premium through 9/03	Premium through 9/02	Percent Change
1 Fire (incl. allied lines)	\$598,152,110	\$510,042,588	17.3%
2 Allied lines	\$38,162,161	\$26,735,678	42.7%
3 Farmowners multiple peril	\$1,140,377	\$920,317	23.9%
4 Homeowners multiple peril	\$117,544,257	\$62,838,923	87.1%
5 Commercial multiple peril	\$43,974,312	\$29,562,765	48.8%
8 Ocean marine	\$9,093,382	\$6,745,897	34.8%
9 Inland marine	\$37,492,564	\$39,222,571	-4.4%
11 Medical malpractice	\$41,930,892	\$45,497,429	-7.8%
12 Earthquake	\$271,885	\$404,507	-32.8%
13 Group accident & health	\$77,985,733	\$82,416,096	-5.4%
14 Credit A&H (group & individual)	\$26,940	\$0	0.0%
15 All other A&H	\$26,138	\$101,732	-74.3%
17 Other liability	\$996,102,269	\$808,164,572	23.3%
18 Products liability	\$33,309,360	\$27,985,626	19.0%
19.2 Other priv pass auto lia	\$8,011	\$8,623	-7.1%
19.4 Other comm. auto liab	\$72,382,175	\$58,829,138	23.0%
21.1 Priv pass auto physical	\$1,095,617	\$902,937	21.3%
21.2 Comm auto phys.damage	\$48,341,692	\$50,456,184	-4.2%
22 Aircraft (all perils)	\$3,768,433	\$3,058,569	23.2%
23 Fidelity	\$954,708	\$441,246	116.4%
24 Surety	\$11,957	\$299,842	-96.0%
26 Burglary & theft	\$810,038	\$2,457,526	-67.0%
27 Boiler & machinery	\$9,168	\$254,075	-96.4%
28 Credit	\$52,706,963	\$40,957,360	28.7%
31 Aggregate/other business	\$98,641	\$1,286,491	-92.3%
TOTAL	\$2,175,399,783	\$1,799,590,692	20.9%

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.

Lone Star Lines Staff:
Phil Ballinger, CPCU, ASLI
Dalén Chisholm
Elaine White, ASLI
Brian Wilds, CPA, ASLI

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:

Lone Star Lines
SLSOT
P.O. Box 160170
Austin, Texas 78716-0170
phone (512) 346-3274 Austin
Toll Free (800) 449-6394
fax (512) 346-3422

SLSOT web site:
<http://www.slsot.org>
Internet E-Mail address:
info@slsot.org

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