

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

Composite Financials for Texas Surplus Lines Insurers Show Improved Results for 2003

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

One of the important functions of the SLSOT is the evaluation of surplus lines insurers. We evaluate each currently eligible insurer annually and also evaluate insurers seeking initial eligibility. One component of the evaluation process is a five year 'financial summary' page for each insurer that is published on our website. The exhibit on page 2 is a composite of selected financial data for all currently eligible insurers. It highlights the characteristics of their 2003 results compared to similar data for the prior three years. (This composite financial statement data excludes Underwriters at Lloyd's, London (Lloyd's), as its financial information is not compatible with this compilation.)

■ The state of the surplus lines market is good and showed improvement in 2003. Aggregate capital and surplus (C&S) for eligible surplus lines insurers was \$55.8 billion at the end of 2003, an increase of 33% over the prior year's level. Average and median C&S also increased 30% and 25% respectively. (Lloyd's underwriting capacity increased to \$26.78 billion beginning 2004 from \$25.76 billion beginning 2003). C&S increased due to capital infusions, net income and the entry of new eligible insurers. Of the 167 eligible insurers in the composite, 148 insurers increased C&S, 133 insurers increased unassigned surplus (retained earnings) and only 17 had unassigned surplus deficits, all improvements over prior years.

■ For the first time in many years there was an aggregate underwriting gain of \$923 million, with the average underwriting gain \$5.5 million. Ninety-four of 167 insurers reported underwriting gains. Net income after tax has been positive for several years, but

there was more than a six-fold aggregate and average increase in 2003. There were 146 of 167 insurers reporting net income.

■ Gross premium increased 22% and net premium increased 23% in 2003. Leverage ratios fell (125% gross premium to C&S and 61% net premium to C&S). This is explained by the large increases in total capital and surplus.

■ Positive cash flow from operations was reported by 107 of the 125 foreign (U.S. domiciled) insurers.

■ The combined ratio for this composite fell a whopping 13 points to 91% from the prior year's 104%. This is the first time in over a decade this ratio has been below 100%.

Other indicators of the health of the surplus lines insurance market in Texas are:

■ There were six new submissions for eligibility in 2003 and twelve in 2002. The increases in new submissions coincide with the hardening of the P&C market and continues a trend started in 2001.

■ Twenty-four insurers received improved SLSOT priority ratings, while only 12 insurers worsened in priority.

■ Surplus lines premium was 9.1% of total Texas property and casualty premium in 2003, compared to 8.3% in 2002.

■ Average premium per policy processed increased from \$5,831 in 2002 to \$5,915 in 2003 and at September 30, 2004 was \$6,246.

continued as SL RESULTS, page 2

INSIDE:

Texas Surplus
Lines Insurers
Composite Results
page 2-3

EFS Quick Tips
page 3

SLSOT
Customer Service
Survey Results
page 3

Helpful
Hints
page 3

Premium
Comparison
page 4

TEXAS SURPLUS LINES INSURER COMPOSITE FINANCIAL INFORMATION

Calendar Year 2003 - 2000
Comprised of currently Eligible Insurers*

	2003	2002	2001	2000
Capital & Surplus	55,849,152,951	42,062,637,753	38,368,679,185	39,872,702,705
Average	334,426,066	258,052,992	236,843,699	243,126,236
Median	57,339,000	45,941,353	38,649,500	39,287,777
Underwriting Gain (Loss)	923,880,897	(763,346,938)	(2,841,152,243)	(1,937,712,890)
Average	5,532,221	(4,712,018)	(17,537,977)	(11,815,322)
Median	0	0	(1,586,406)	(1,127,506)
Net Income After Tax	5,072,091,271	814,008,648	593,388,231	773,726,058
Average	30,371,804	5,055,954	3,662,890	4,717,842
Median	2,853,986	1,520,000	1,121,624	1,837,028
Return on Policyholder Surplus	10.4%	4.4%	3.1%	5.1%
Gross Premium	69,968,959,001	57,423,352,196	38,788,001,284	30,880,805,231
Average	418,975,802	354,465,137	239,432,107	188,297,593
Net Premium	34,276,556,365	27,939,361,255	20,923,554,440	16,239,068,194
Average	205,248,841	172,465,193	129,157,743	99,018,709
Gross Premium to Surplus Ratio	125%	137%	101%	77%
Net Premium to Surplus Ratio	61%	66%	55%	41%
SLSOT Premium Processed**	2,493,256,428	2,074,174,528	1,168,870,342	851,167,070
Average	15,390,472	12,724,997	7,492,759	5,221,884
Combined Ratio	91%	104%	111%	106%
	Other Measures			
Insurers Included	166	166	162	164
New Submissions for Eligibility	6	12	0	5
Upgraded SLSOT priority rating	24	30	22	27
Downgraded SLSOT priority rating	14	25	36	26
Increased capital & surplus	148	123	103	96
Underwriting gains	94	85	56	59
Net income	146	121	127	131
Positive cash from operations	107	106	87	91

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

SL RESULTS, continued from page 1

The eligible surplus lines insurers making up the Texas surplus lines market are stronger than in recent years and the trends appear positive. As of September 30, 2004 there were 168 insurers (including Lloyd's) operating as eligible surplus lines insurers compared to 166 at September 30, 2003. At the beginning of 2004 there were 163 eligible insurers for a net increase of five thus far in 2004. Prior to 2002, the number of eligible insurers declined each of the past 14 years, from a high of 226 in 1988. Currently, 125 foreign (U.S.

domiciled) insurers, Underwriters at Lloyds (64 syndicates) and 42 alien (non-U.S. domiciled) insurers are eligible. The market share (as of September 30, 2004) is similar to the prior year with foreign insurers writing 79%, Lloyd's writing 15%, and other alien insurers writing 6% of the Texas surplus lines premium. The top ten individual surplus lines writers in Texas commanded 50% of the market at September 30, 2004, slightly down from 52% in 2003 and 53% in 2002. Of the 168 insurers currently eligible, only four insurers are not affiliated with an

insurance group. These write less than 1% of the Texas S/L market. Compiling premium statistics by group affiliation reflects the top ten groups plus Lloyd's wrote 66% of the total Texas S/L premium in 2003 and 2002, but only 61% through September 30, 2004.

Observers of the P&C market offer many varied conclusions, although the consensus suggests downward pressure on premium rates. Improved equity market returns, underwriting profit, net income and increased capacity indicate the P&C

continued as SL RESULTS, page 3

industry will become more competitive and reduce pricing in 2005. Offsetting trends may be the recent series of catastrophe losses and the need to recover reserve strength depleted over the past 15 to 20 years. Stamping office analysis of activity through September 2004 reflects continued premium increases (15.1% overall) and a 5.6% increase in average premium per policy. Based on composite financial data the surplus lines market in Texas remains strong. ★

EFS

EFS Help Desk
Toll Free
(800) 681-5848



- Delete Transactions can only be processed in the current accounting month. Once the month has been closed, you must use a Reversal Transaction.
- When entering transactions, especially Reversals and Deletes, make sure you select the correct transaction type.
- If you are unsure if an item has been filed with our office, you can run the Ad-Hoc Report -SLRP57Mod - Individual Policy Transaction Listing with Securities. This will help eliminate being tagged for "Parent Policy Not Found" as well as duplicate entries.
- Set a suspense flag in your own calendar with a reminder to change your EFS password (especially if you do not use the EFS on a regular basis). ★



SLSOT Customer Service Survey Results

Thanks to all of you responding to the Stamping Office's recent Customer Service Survey. Responses have provided some interesting information and valuable feedback to us.

Generally, there appears to be a high level of satisfaction with the services provided by SLSOT. Nearly 90% of the respondents worked for either a resident or nonresident surplus lines agency. More than 85% contact the Stamping Office primarily to discuss policy-filing issues. Sixty percent have been dealing with our office for longer than five years (and 13% since we first opened our doors in 1988).

The table indicates survey responses regarding overall service received from the Stamping Office.

Overall	
Excellent	55%
Good	34%
Average	10%
Professionalism of Staff	
Excellent	68%
Good	32%
Response Time	
Excellent	62%
Good	31%
Average	6%
Below Average	1%
Helpfulness of Staff	
Excellent	72%
Good	22%
Average	4%
Below Average	1%
Knowledge of Staff	
Excellent	64%
Good	26%
Average	8%
Below Average	3%

already registered to use it. Another 29% planned to e-file over the next one to two years. However, 35% indicated no immediate plans to file policies electronically. Reasons given included budget constraints (5%), minimal need/low filing volume (26%), concern over availability of staff and time resources (12%), problems with current agency system (11%), and no awareness the EFS was available (10%). Fifty-nine percent of respondents were frequent or infrequent attendees at SLSOT agent seminars. However, 41% indicated they had never attended.

Individual SLSOT staff receiving favorable comments in the survey included Cheyenne Norment and Janet Kantor from the EFS Help Desk, Melody Lopez and Elaine White from Data Services, Monte Hall in Agent Services, and Dalen Chisholm in the GM Department.

Respondents also gave high marks to the EFS Help Desk, SLSOT's web site, Lone Star Lines newsletter, and monthly bulletins. Regarding the Electronic Filing System, 36% were

We are always interested in your comments and opinions as to how we can do a better job. Give us a call or send an e-mail and tell us what's on your mind. ★

Helpful Hints

■ Using the Checklist for Submitting Items to the Stamping Office will help you reduce the number of tags you receive. It can be found in your

procedure manual as well as on our website. www.slsot.org/checklis.htm
 ■ Tag memos are not a part of the policy so corrections must be done by

use of an endorsement or amended dec page. Be sure you include the tag memo when submitting a correction. ★



Lone Star Lines
 Surplus Lines Stamping Office of Texas
 P.O. Box 160170
 Austin, Texas 78716-0160

Return Service Requested

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 9/30/04	Premium through 9/30/03	Percent Change
1 Fire (incl. allied lines)	\$646,354,667	\$597,944,146	8.1%
2 Allied lines	\$23,096,637	\$38,352,543	-39.8%
3 Farmowners multiple peril	\$1,331,302	\$1,140,029	16.8%
4 Homeowners multiple peril	\$108,341,795	\$117,502,108	-7.8%
5 Commercial multiple peril	\$62,750,139	\$44,062,238	42.4%
8 Ocean marine	\$8,846,376	\$9,093,382	-2.7%
9 Inland marine	\$47,322,512	\$37,493,157	26.2%
11 Medical malpractice	\$57,878,953	\$41,930,892	38.0%
12 Earthquake	(\$2,337)	\$271,885	-100.9%
13 Group accident & health	\$74,958,167	\$78,004,300	-3.9%
15 All other A&H	\$684,015	\$26,138	2517.0%
17 Other liability	\$1,200,785,595	\$996,104,005	20.6%
18 Products liability	\$38,188,690	\$33,316,065	14.6%
19.2 Other priv pass auto lia	\$11,466	\$8,011	43.1%
19.4 Other comm. auto liab	\$108,997,608	\$72,345,817	50.7%
21.1 Priv pass auto physical	\$1,018,674	\$1,095,617	-7.0%
21.2 Comm auto phys.damage	\$53,177,482	\$48,337,359	10.0%
22 Aircraft (all perils)	\$5,641,627	\$3,768,433	49.7%
23 Fidelity	\$1,421,262	\$970,701	46.4%
26 Burglary & theft	\$1,328,104	\$809,188	64.1%
27 Boiler & machinery	\$90,927	\$9,168	891.8%
28 Credit	\$63,081,852	\$52,704,004	19.7%
31 Aggregate/other business	(\$769,165)	\$110,598	-795.5%
TOTAL	\$2,504,536,348	\$2,175,399,783	15.1%

Note: Due to rounding figures may not total

Updated monthly premium totals can be found on-line at www.slsot.org/premium.htm

Volume 10, 2004
 Oct. - Dec. Issue

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:
www.slsot.org
 General e-mail address:
info@slsot.org

You can locate a text copy of this and previous issues of this newsletter on our web site at:
<http://www.slsot.org/slsotpub.htm>

Copyright ©2004
 Surplus Lines Stamping Office
 of Texas.
 All rights reserved.