

# Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

## Texas Surplus Lines Insurer Financial Update

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### INSIDE:

Composite  
Financial  
Information  
page 2

Surplus Lines  
Interstate  
Compact  
page 3

SLSOT  
Employee  
News  
page 3

Annual  
Queso  
& Salsa  
Contest  
page 3

1st Web Seminar  
Big Hit For Filers!  
page 3

EFS Quick Tips  
page 3

Helpful Hints  
page 3

Premium  
Comparison  
page 4

The Surplus Lines Stamping Office of Texas (SLSOT) evaluates each surplus lines insurer and recommends to the Texas Department of Insurance (TDI) whether an insurer should remain on the Surplus Lines Insurer List (Eligible List). The TDI makes the final decision on which insurers are listed after considering the recommendation of the SLSOT. A by-product of the evaluation of each insurer is the accumulation of certain key financial information. The financial information is compiled into a composite picture of the surplus lines insurance companies operating in Texas. The composite information is compared to prior year data to measure the relative health of eligible insurers in Texas and spot trends. The exhibit on page 2 compares the composite financial data for the past five years.

Surplus lines insurers continue to serve as the safety valve for the property and casualty (P&C) insurance industry. The surplus lines share of the Commercial P&C market in Texas stood at 19.1% at the end of 2004 compared to 17.0% at the end of 2003 and has continued to increase each year since an 11.8% market share in 1995. Nationwide the surplus lines commercial market has grown from 4.4% of the market in 1985 to 12.7% in 2005 according to A.M. Best's Surplus Lines Special Report.

Currently there are 169 eligible surplus lines insurers; 124 Foreign (U.S. domiciled), 44 Alien (Non-U.S. domiciled) and Underwriters at Lloyds, London. The market share for these three types of insurers has been consistent over the past five years with Foreign insurers writing 78% of Texas' 2005 surplus lines premium, Lloyds writing 15% and other Aliens writing 7%. In 2005 the top ten insurance groups commanded 62% of the Texas surplus lines market and the top ten individual insurers wrote 54%. As of September 30, 2006 the top ten groups wrote 64% of the total and the top

ten individual insurers wrote 53% of the nine month total.

Reviewing the A.M. Best ratings for all eligible insurers, 97% fall into the secure range (B+ and higher) and 3% in the vulnerable range. This compares favorably with A.M. Best's distribution of U.S. surplus lines insurers, where 98.8% were secure and 1.2% vulnerable. However, both far exceed the Total P&C industry, where 88.5% were rated secure and 11.5% rated vulnerable. There are several non-U.S. insurers that are not rated, but those that were rated all fell into the secure range.

In 2005, aggregate, average and median Capital and Surplus (C&S) all increased: 15%, 14% and 26% respectively, compared to 2004. This increase is greater than the change in gross and net premium. In aggregate, gross and net premium was flat in 2005 and on average declined 1%.

Since 2001, C&S levels have almost doubled, experiencing a 97% increase. This indicates an increase in size and capacity of the insurers operating here. The increase in C&S since 2001 is significantly greater than the increase in aggregate and average gross and net premium. Aggregate gross and net premium increased 79% and 69% respectively since 2001. In contrast, Texas premium reported by surplus lines agents and processed by the SLSOT increased 146% in aggregate and 155% on average during the same time frame. This trend indicates these surplus lines insurers are writing a greater portion of their premium in Texas.

Lloyd's underwriting capacity for 2005 was \$26.6 billion, a 9% reduction from 2004's capacity. Lloyd's publications indicated there was an emphasis on underwriting discipline. Prior to the impact of the U.S. hurricanes in 2005, Lloyd's capacity for 2006 was estimated to decline another 7%.

**continued Financial Update, page 2**

**Financial Update, continued from page 1**

The capacity was instead raised to \$28.7 billion or an 8% increase.

Among the eligible insurers in Texas, ten insurers are domiciled in Bermuda and one in Barbados. Five of these insurers became eligible during the past five years. At the end of 2005 these eleven insurers' C&S was \$4.5 billion (6% of the aggregate), gross premium \$3.2 billion (4.5% of the aggregate), net premium \$2.3 billion (6.6% of the aggregate) and Texas premium processed \$66.9 million (2.3% of the aggregate). Even though these insurers' percent of the Texas market is relatively small, there is significant potential for growth. Their gross premium to surplus ratio of 70% and net premium to surplus ratio of 51% leaves much room to leverage their premium writings in the future as the Bermuda insurance market continues to grow.

Composite results of operations for 2005 improved in most areas. The aggregate underwriting gain was \$1.2 billion (average underwriting gain \$7.1 million) compared to 2004's aggregate underwriting loss of \$590 million (average loss of \$3.9 million).

Composite net income improved by 41% over the prior year.

Return on policyholder surplus was the same 9.3% as in 2004; even so it was three times greater than the 3.1% return in 2001.

From a company standpoint the only negative indicator was a decline in leverage ratios. Gross premium to surplus was 92%, down 15% points from 2004. Net premium to surplus was 47%, down 7% points. Some of this

decline may be due to capacity provided by newly eligible insurers that have not yet attained full operation in Texas.

The composite combined ratio improved to 94% from 97% with a five year average of 99%. This compares favorably to the 104% combined ratio for P&C industry overall.

Other indicators of a healthy surplus lines insurance industry in Texas are:

Eight new submissions for eligibility; 39 insurers received improved priority ratings ; 135 of the 169 insurers increased capital and surplus; 91 of the 124 foreign insurers had positive cash from operations; 108 of 169 insurers had underwriting gains; 150 of 169 insurers had net income. Average premium per policy processed decreased 2.2% in 2005 but as of

September 30, 2006 had increased 5.8% and is trending upward.

Premium processed by the SLSOT was \$3.046 billion in 2005, a decrease of \$275 million from 2004. As of September 30, 2006 \$2.569 billion had been processed and we anticipate the full year processing total to be \$3.5 billion or a 15% increase.

The surplus lines insurers eligible in Texas are of the highest quality with excellent management and underwriting, utilizing the professional surplus lines agents in Texas. Capital and Surplus continues to expand along with premium volume. These insurers fulfill their role by stepping in where the authorized market refuses, producing positive results even in the most difficult circumstances. They are an enhancement to the Property and Casualty industry as a whole. ★

**Composite Financial Information  
Calendar Year 2005-2001**

**Comprised of currently eligible insurers\***

	2005	2004	2003	2002	2001
<b>Capital &amp; Surplus</b>	75,403,523,298	65,448,080,153	55,849,152,951	42,062,637,753	38,368,679,185
<b>Average</b>	448,830,496	391,904,672	334,426,066	258,052,992	236,843,699
<b>Median</b>	79,990,451	64,323,256	57,339,000	45,941,353	38,649,500
<b>Underwriting Gain (Loss)</b>	1,196,354,228	(590,055,784)	923,880,897	(763,346,938)	(2,841,152,243)
<b>Average</b>	7,121,156	(3,907,654)	5,532,221	(4,712,018)	(17,537,977)
<b>Net Income After Tax</b>	7,952,450,619	5,622,573,701	5,072,091,271	814,008,648	593,388,231
<b>Average</b>	47,336,016	33,668,106	30,371,804	5,055,954	3,662,890
<b>Return on Policyholder Surplus</b>	9.3%	9.3%	10.4%	4.4%	3.1%
<b>Gross Premium</b>	69,551,987,565	69,867,100,778	69,968,959,001	57,423,352,196	38,788,001,284
<b>Average</b>	413,999,926	418,365,873	418,975,802	354,465,137	239,432,107
<b>Net Premium</b>	35,325,177,586	35,467,692,764	34,276,556,365	27,939,361,255	20,923,554,440
<b>Average</b>	210,268,914	212,381,394	205,248,841	172,465,193	129,157,743
<b>Gross Premium to Surplus Ratio</b>	92%	107%	125%	137%	101%
<b>Net Premium to Surplus Ratio</b>	47%	54%	61%	66%	55%
<b>SLSOT Premium Processed**</b>	2,879,629,825	2,800,896,916	2,645,125,725	2,074,174,528	1,168,870,342
<b>Average</b>	19,070,396	16,975,133	16,128,815	12,724,997	7,492,759
<b>Combined Ratio</b>	94%	97%	91%	104%	111%
<b>Number of Insurers</b>					
<b>Insurers Included</b>	169	167	166	166	162
<b>New Submissions for Eligibility</b>	8	4	6	12	0
<b>SLSOT Priority Upgraded</b>	39	32	24	30	22
<b>SLSOT Priority Downgraded</b>	14	9	14	25	36
<b>Increased Capital &amp; Surplus</b>	135	142	148	123	103
<b>Underwriting Gains</b>	108	79	94	85	56
<b>Net Income</b>	150	144	146	121	127
<b>Positive Cash from Operations</b>	91	101	107	106	87

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

# Surplus Lines Interstate Compact

U P D A T E

Since May, the stamping offices, AAMGA, and NAPSLO have worked to bring interested parties together for development of an interstate compact to resolve the compliance and tax problems facing agents writing multi-state risk policies. Meetings in St. Louis and Philadelphia have included state regulators, the Texas Comptroller's Office, attorneys, and major brokers. The goal of the group is to

provide the operational outline of the compact to the NAIC Surplus Lines Task Force at its December meeting in San Antonio. It is notable that HR 5637 (Nonadmitted and Reinsurance Reform Act), which passed the US House of Representatives in September by a vote of 417-0, calls for enactment of a compact by the states to address these same compliance and tax issues. ★



Jackson



Sosa

## SLSOT Employee News

The Stamping Office welcomes new employees Shantell Jackson and Raquel Sosa to our office. Both are employed as Data Quality Assurance Analysts, where they check submitted policies for accuracy. ★

## Salsa & Queso Contest - Muy Delicioso!

The 6th Annual Employee Salsa & Queso Contest was held on Halloween this year. The temperature was "muy caliente" for this event as the competitors served up their best recipes. Cristina Abascal's hot and spicy recipe won her top honors and bragging rights for the second time for Best Salsa. Brian Wilds is also no stranger to the winners circle. His creamy cheese concoction won Best Queso bringing him to three wins overall! Cristina works as a Data Entry Examiner II in the Data Entry Department. Brian is the Director of Financial Analysis and Accounting. This highly anticipated event is always a hit with the employees who are encouraged to sample all the entries and vote for their favorite

in each category. The winners received \$25 in addition to custody of the famous sombreros to display proudly in their workspace until the next year's competition. ★



## 1st Web Seminar Big Hit For Filers!

The Stamping Office held its first web seminar on October 18, 2006. Our intent was to reach a larger segment of people than are normally able to attend the on-site seminars. We feel we were successful in reaching our goal since some 400 people viewed the presentation. Evaluations were overwhelmingly favorable regarding this method of participation. For those who were unable to attend the live event, there will be a recorded copy of the seminar available on our website soon. ★

## EFS

### QUICK TIPS

- There is a help button on every EFS page. This provides page specific assistance.
- The EFS Help Desk offers mapping of your lines of business to our coverage and class codes to simplify your entry process.
- Please verify information is entered correctly prior to posting, especially coverage and class codes. ★

EFS Help Desk hours: 8 am - 5 pm CST  
Call Toll Free: (800) 681-5848

## Helpful Hints

### *Paper filing of policies*

- If you have questions on multiple policies or transactions, please send them in an email for faster response.
- When providing the securities on policies, you must use the complete name of the company, just as it is shown on the TDI's insurer list. Do not omit any of the words.
- Please be sure to include the syndicate list when any of the coverage is written through Underwriters at Lloyd's. ★



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**Return Service Requested**

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

Annual Statement Line of Business	Premium through 9/06	Premium through 9/05	Percent Change
1 Fire (incl. allied lines)	\$588,785,316	\$505,202,401	16.54%
2 Allied lines	\$24,538,594	\$15,132,992	62.15%
3 Farmowners multiple peril	\$1,113,909	\$1,585,860	-29.76%
4 Homeowners multiple peril	\$72,029,148	\$82,653,131	-12.85%
5 Commercial multiple peril	\$85,254,878	\$60,089,142	41.88%
8 Ocean marine	\$5,136,613	\$5,293,661	-2.97%
9 Inland marine	\$61,004,997	\$51,376,115	18.74%
11 Medical malpractice	\$47,277,940	\$61,944,395	-23.68%
12 Earthquake	\$156,422	\$21,556	625.66%
13 Group accident & health	\$70,070,873	\$61,854,161	13.28%
15 All other A&H	\$1,975,199	\$1,251,439	57.83%
17 Other liability	\$1,269,614,663	\$1,189,688,552	6.72%
18 Products liability	\$30,942,529	\$24,553,779	26.02%
19.2 Other priv pass auto lia	\$41,721	\$4,666	794.15%
19.4 Other comm. auto liab	\$107,937,890	\$102,736,625	5.06%
21.1 Priv pass auto physical	\$1,347,615	\$1,049,576	28.40%
21.2 Comm auto phys.damage	\$50,023,966	\$47,907,850	4.42%
22 Aircraft (all perils)	\$11,202,152	\$7,746,973	44.60%
23 Fidelity	\$769,231	\$1,059,582	-27.40%
24 Surety	\$10,790	\$3,418,300	-99.68%
26 Burglary & theft	\$1,943,166	\$1,337,225	45.31%
27 Boiler & machinery	(\$62,326)	\$42,143	-247.89%
28 Credit	\$136,788,131	\$74,716,548	83.08%
31 Aggregate/other business	\$681,589	\$251,276	171.25%
<b>TOTAL</b>	<b>\$2,568,585,006</b>	<b>\$2,300,917,948</b>	<b>11.63%</b>

Note: Due to rounding figures may not total

Updated monthly premium totals can be found on-line at [www.slsot.org/premium.htm](http://www.slsot.org/premium.htm)

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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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