

2014

Annual Report to the Commissioner of Insurance



Surplus Lines Stamping Office of Texas
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Executive Summary

The Surplus Lines Stamping Office of Texas (“Stamping Office”) was created by the 70th Legislature in 1987 to provide oversight with statutory regulation, research, and reporting for the surplus lines market. The Stamping Office encourages and enhances compliance by agents and insurers, and performs functions enumerated in the Texas Insurance Code to assist the Texas Department of Insurance (“TDI”) with functional compliance with the surplus lines insurance laws of the State of Texas.

This report is made pursuant to the Stamping Office Plan of Operation, which requires that an annual summary of operations containing information on transactions, conditions, operations, and investments during the preceding year be made to the Commissioner of Insurance [28 TAC §15.101(e)(6)(C)].

Goals

- Effectively meet Plan of Operation to enhance compliance with Texas surplus lines laws
- Foster a reputable, efficient, and financially strong Texas surplus lines market
- Maintain excellent working and customer service relationships with key stakeholders

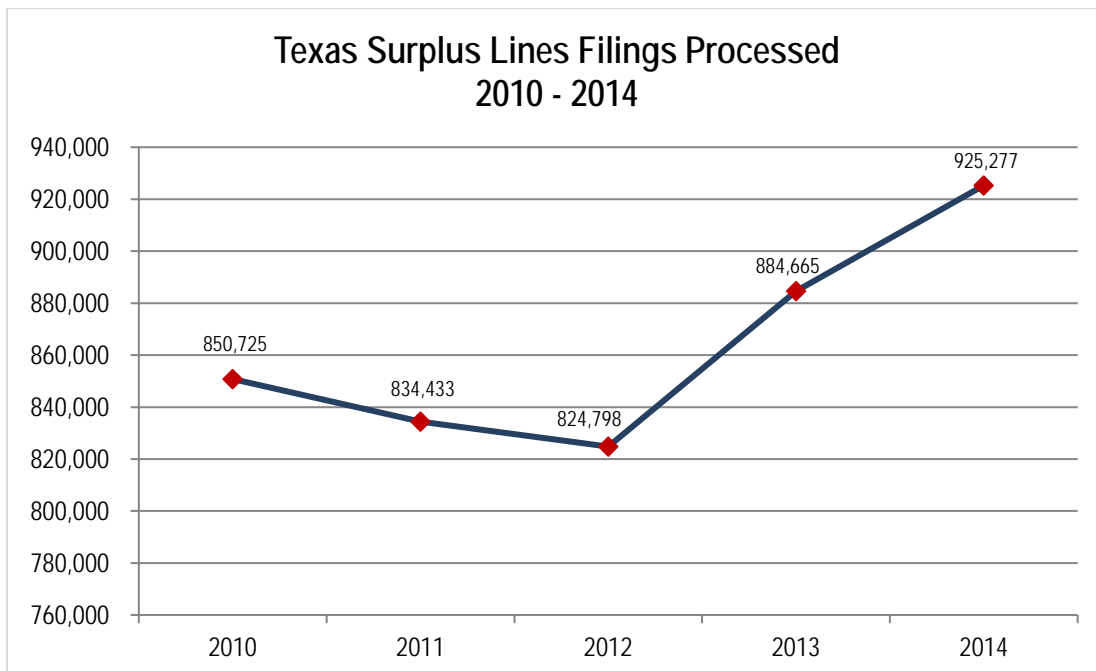
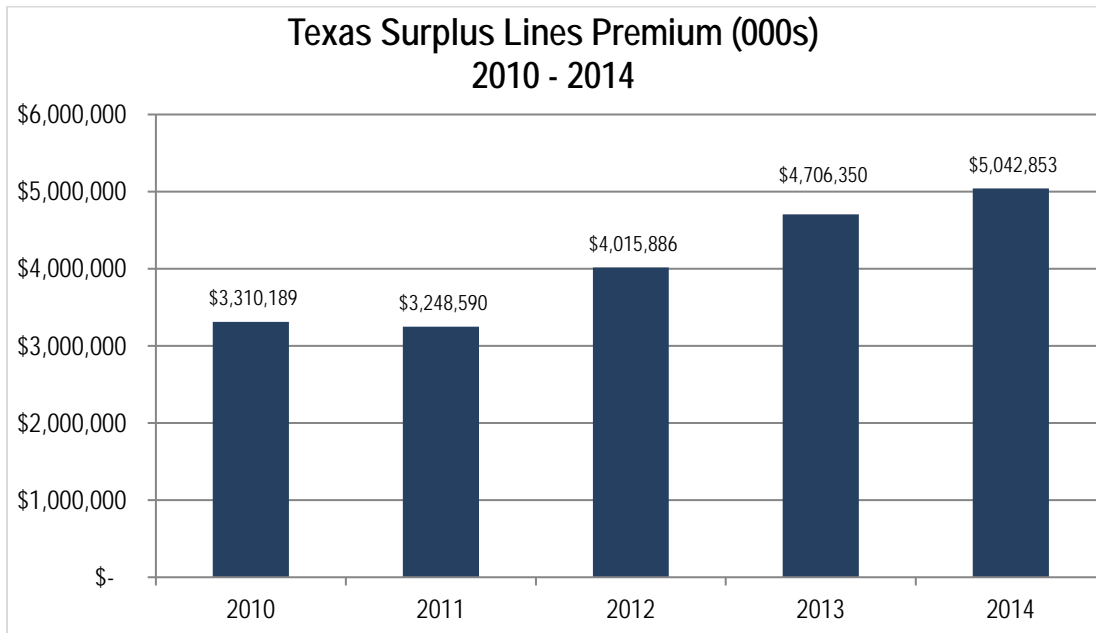
Stamping Office Highlights

- Record \$5 billion in Texas surplus lines premium processed
- 925,277 surplus lines insurance filings processed
- More than 96% of all filings processed through Stamping Office’s Electronic Filing System (EFS)
- Audited 4,945 policies reported by 577 surplus lines agents under Data Validation Program
- Evaluated eligibility evidence for 210 unlicensed insurers
- Unrestricted, undesignated reserve fund balance \$2,314,886 below permitted maximum amount

Operational

Premium and Filings

In 2014, the Stamping Office processed 925,277 surplus lines insurance filings and a record \$5,042,853,414 in Texas surplus lines premium, reflecting increases from the prior year of 4.6% and 7.1% respectively.



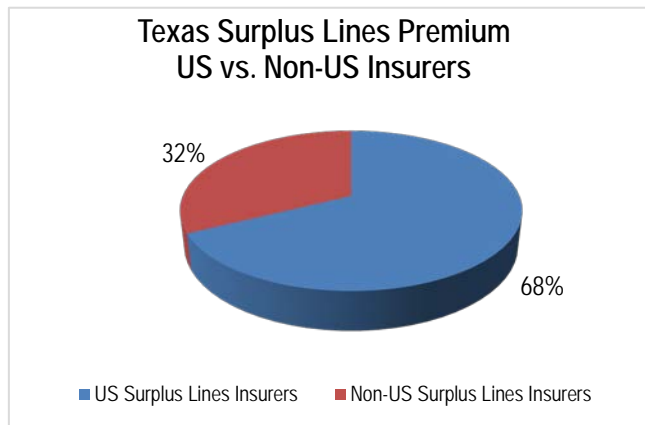
Texas Premium by Coverage		2014
Fire (Including Allied Lines)		\$1,481,742,112
Allied Lines		\$98,736,766
Farmowners Multiple Peril		\$1,512,891
Homeowners Multiple Peril		\$153,636,895
Commercial Multiple Peril		\$331,094,317
Ocean Marine		\$20,695,482
Inland Marine		\$91,278,757
Medical Malpractice		\$48,446,631
Earthquake		\$592,229
Group Accident & Health		\$80,406,206
All Other A&H		\$7,112,722
Other Liability		\$2,219,548,436
Products Liability		\$33,826,434
Other Private Passenger Auto Liability		\$1,445
Other Commercial Auto Liability		\$68,774,549
Private Passenger Auto Physical Damage		\$3,044,268
Commercial Auto Physical Damage		\$149,333,215
Aircraft (All Perils)		\$7,643,550
Fidelity		\$4,864,332
Surety		\$11,412,406
Burglary and Theft		\$2,925,245
Boiler and Machinery		\$954,595
Credit		\$222,680,978
Agg Write-Ins for Other Line of Business		\$2,588,953
Total		\$5,042,853,414

Surplus Lines Tax

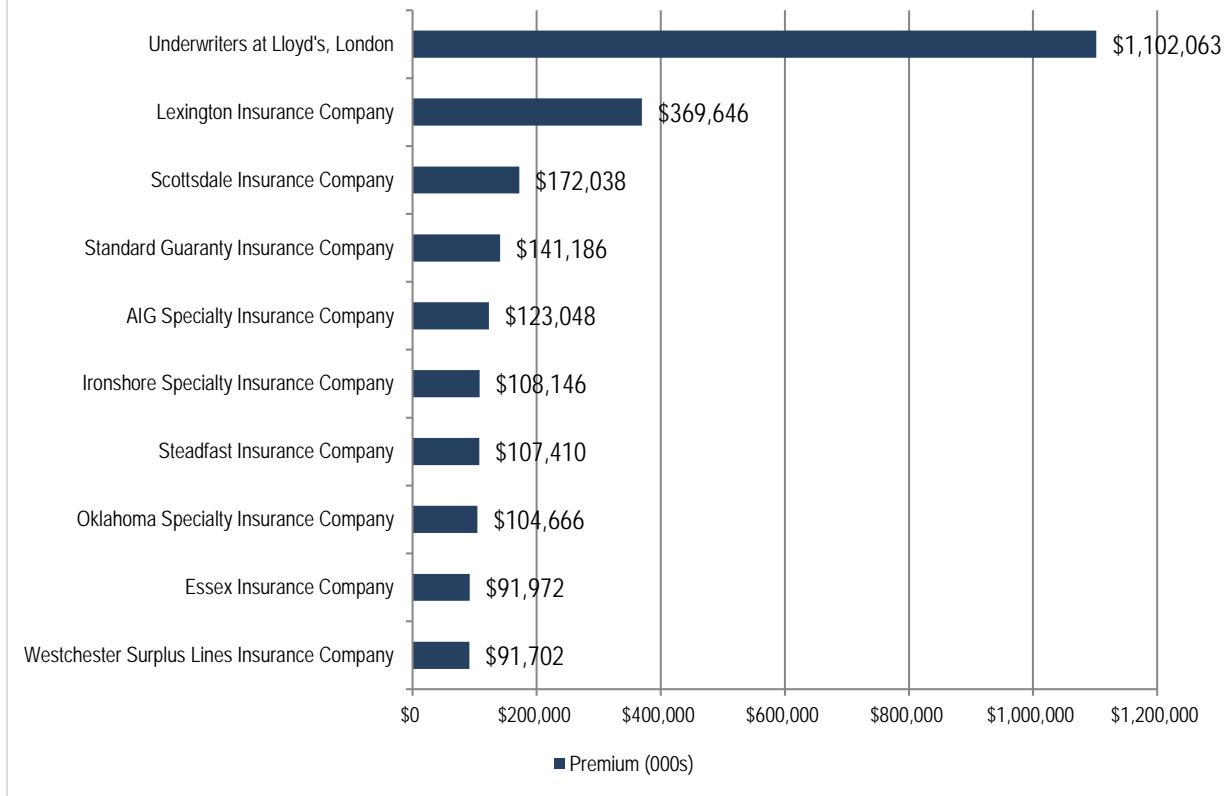
The Stamping Office identified \$244,493,194 in surplus lines premium tax, which was reported to the Comptroller of Public Accounts for collecting the appropriate amount of tax from surplus lines agents and to surplus lines agents for use in preparing their annual tax returns.

US vs. Non-US Surplus Lines Insurers

In 2014, US surplus lines insurers wrote 67.6% of total Texas surplus lines premium, with non-US insurers writing 32.4%. The largest single writer, Underwriter's at Lloyd's, London, had volume of \$1,102 million, representing 22% of the total Texas premium.



Top Ten Surplus Lines Insurers in Texas



Education Programs

The Stamping Office web site (www.slsot.org) is a valuable resource for information regarding surplus lines insurance. During 2014, the Stamping Office launched a new website that includes:

- Quick and easy navigation
- Search feature
- Texas market data
- On-demand web seminars
- Surplus lines laws and regulations
- Informational bulletins
- *Lone Star Lines* newsletter

Legal & Regulatory

Insurer Eligibility Evaluations & Recommendations

- Evaluated eligibility evidence and provided recommendations to TDI on 43 unlicensed insurers
- Completed 167 unlicensed insurer eligibility reviews
- Evaluated six non-admitted insurers who became newly eligible

Nonadmitted and Reinsurance Reform Act

In July 2011, federal standards were imposed on the national surplus lines market as the Nonadmitted and Reinsurance Reform Act (NRRA) became effective. Key aspects of the NRRA included:

- Regulation and taxation of a multi-state procurement solely by the home state of the insured
- Authorization for the states to join an interstate agreement for the sharing of premium taxes
- Restrictions on the criteria used by states to determine insurer surplus lines eligibility
- Preemption of state diligent effort requirements for Exempt Commercial Purchasers (ECPs)

In passing the NRRA, Congress sought to achieve a simpler, more uniform and efficient system of regulation and taxation of the surplus lines industry. The Stamping Office observed the following major effects resulting from the NRRA:

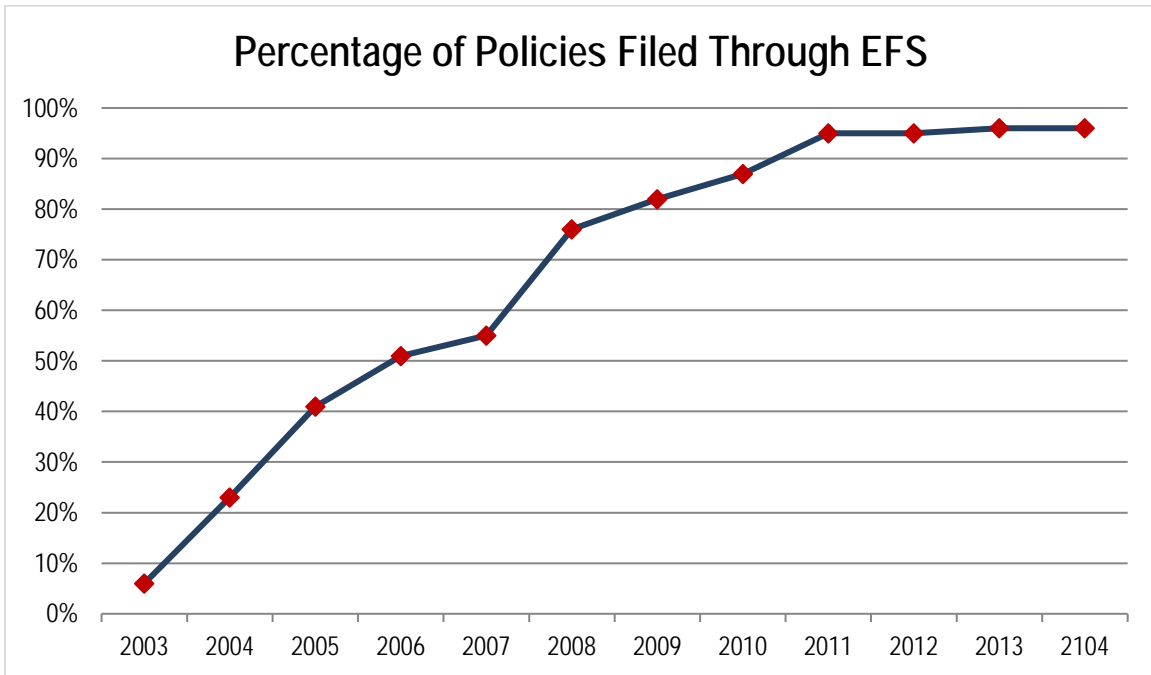
- In 2014, 2,908 multi-state policies were reported to the Stamping Office, insuring more than \$443 million in premium on risks located outside Texas. As Texas chose not to participate in an interstate tax-sharing agreement, this amount was treated as Texas premium and reported to the Comptroller as taxable by the state. Premium tax on these non-Texas exposures was \$21.5 million.
- The NAIC's IID Quarterly Listing of Alien Insurers became the default national eligibility list for non-US carriers, therefore virtually all evaluations conducted by the Stamping Office were for US insurers.
- The Stamping Office revised its insurer evaluation procedures in recognition of the NRRA's restrictions on permissible requirements to determine insurer eligibility, publishing a five-year financial summary for each eligible insurer, whether foreign or alien, to assist agents in their "due diligence" statutory responsibility to only place insurance with financially sound carriers.
- At the direction of TDI, effective January 1, 2014 agents began identifying those policies filed with the Stamping Office that were ECP procurements. There were a total of 1,105 ECP policies reported for the year, representing 0.2% of total policies filed.

Texas Windstorm Insurance Association

Pursuant to the Plan of Operation [28 TAC §15.101(e)(10)(E)(vi)], the Stamping Office prepared an annual report to the Texas Windstorm Insurance Association (TWIA) reflecting the extended coverage property premiums written in Texas by all surplus lines insurers. As a result, in the event excessive losses from a future hurricane forced TWIA to impose windstorm participation assessments on its member insurers, adjustments could be made to the assessments of any admitted affiliates of those surplus lines carriers.

Technology

On July 1, 2003, the Stamping Office officially deployed the Electronic Filing System (EFS), which provides an efficient method for surplus lines agents to comply with statutory reporting requirements by filing policy data with the Stamping Office electronically. In 2014, 640 agents reported 891,892 filings through the EFS, representing more than 96% of total filings processed. More than \$4.6 billion in surplus lines premium was filed via the EFS for the year.



The Stamping Office employs its Data Validation Program as a method for auditing the accuracy of information filed through the EFS, by comparing randomly selected “hard copy” insurance policies to their corresponding electronic submissions. During 2014, Stamping Office staff audited 4,945 policies reported by 577 surplus lines agents under the program.

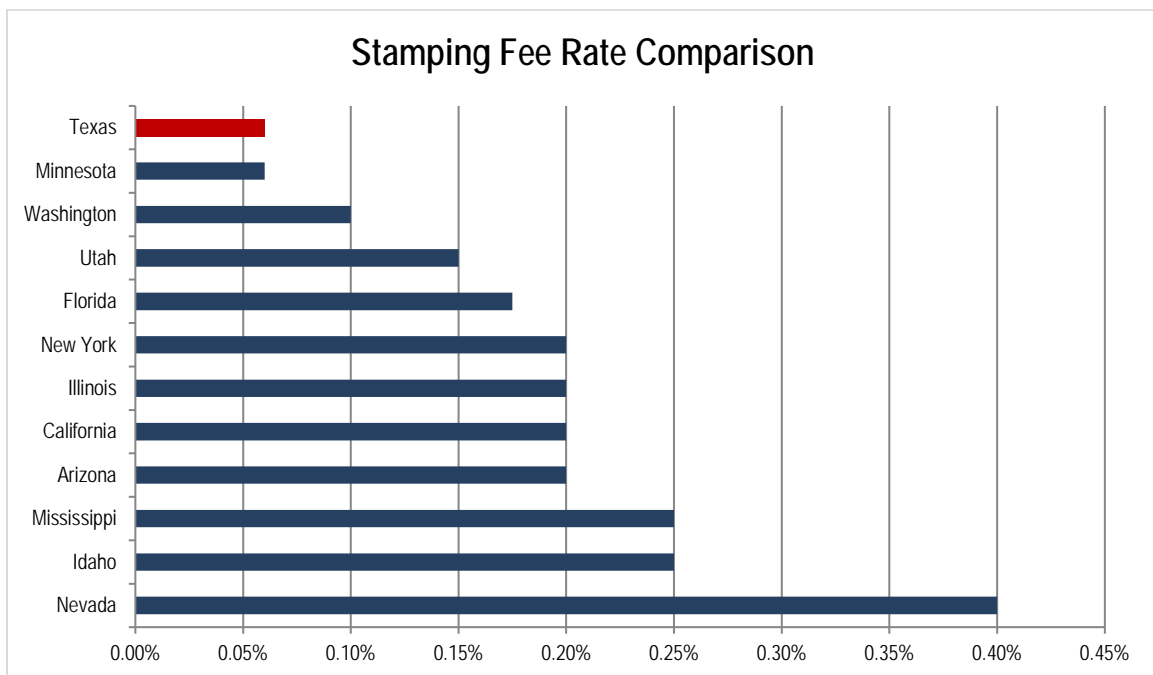
Financial

Financial Statement/Investments

For the year 2014, office expenses exceeded revenues by \$501,151, lowering the reserve fund balance by that amount. At December 31, 2014, the Stamping Office's unrestricted, undesignated reserve fund balance was \$3,890,091, an amount \$2,314,886 under the maximum permitted in the Plan of Operation. Consistent with the conservative Stamping Office Investment Policy adopted by the Board, invested funds are comprised entirely of a series of laddered Certificates of Deposit issued by various US banks, each for an amount equal to or less than the FDIC-insured threshold of \$250,000.

Reserve Fund/Stamping Fee Rate

On March 27, 2007, as requested by the Stamping Office Board of Directors, a Commissioner's Order directed that the stamping fee rate charged on surplus lines insurance policies be reduced from .1% (.001) to .06% (.0006), serving to keep the Texas rate the lowest in the nation. The intent of this revision was to decrease stamping fee revenue to an amount insufficient to meet annual operating expenses, thus reducing the unrestricted, undesignated fund balance. This fund balance had grown during the "hard market" of 2002-2006.



At its December 17, 2014 meeting, the Stamping Office Board of Directors voted to recommend to TDI an increase in the stamping fee rate from .06% (.0006) to .1% (.001). The requested change consists of two components: a "break even" rate sufficient to have revenue equal expenses and an additional amount to permit gradual accumulation of funds for replacement and enhancement of the Stamping Office Management Information and Electronic Filing System.

Appendix – 2014 Board of Directors

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