

2016

SURPLUS LINES STAMPING OFFICE
of Texas

Annual Report



CHAIRMAN'S REPORT: *Paul Rainey*



The Texas excess and surplus (E&S) lines industry continues to remain stable and strong, in the midst of mergers and acquisitions, Brexit, and the presidential election. While the stability can be attributed to a number of factors, one of the primary reasons is the demand for specialty coverage afforded through the surplus lines market, specifically created for consumers and commercial buyers.

As Chairman of the Surplus Lines Stamping Office of Texas (SLTX) and Board of Directors, we understand that the ability to accept unusual coverage needs of the marketplace, also requires compliance to ensure the safety and stability of surplus lines insurance. As such, our objectives are twofold: protection and innovation. The global marketplace requires both, and it is imperative that our industry stays attune to the needs, developments and opportunities that will inevitably require E&S “wholesale brokers” to be in the wings of innovation for emerging risks.

It has been my pleasure and honor in serving at the helm of SLTX, with a Board and leadership team committed to maintaining business value and serving our stakeholders. Our State has made a large imprint in the excess and surplus lines industry, so it is only appropriate that we also recognize and provide credit to our industry peers who have focused their practice on surplus lines insurance and made us a successful State.

VISION *Lead with innovative solutions that enrich the Texas insurance & specialty marketplace.*

MISSION *To provide our business partners with meaningful data, analysis & educational resources to empower their decisions.*

CORE PRINCIPLES

- **Integrity.** Ethical and Accountable.
- **Communication.** Clear, Consistent, and Collaborative.
- **Compliance.** Responsive and Results Oriented.
- **Culture of Excellence.** Specialty Focused and Value Driven.

EXECUTIVE SUMMARY

GOALS

- Effectively meet Plan of Operation to enhance compliance with Texas surplus lines laws
- Create a comprehensive communications strategy to provide information to key stakeholders
- Maintain excellent working and customer service relationships with key stakeholders

EXECUTIVE HIGHLIGHTS

- \$5.12 billion in Texas surplus lines premium
- 973,474 filings
- \$2.37 billion in liability premium
- \$2.03 billion in property premium
- Evaluated eligibility evidence for 215 unlicensed insurers
- \$248M in premium tax revenue for the State of Texas
- Tremendous growth in Specialty Markets since 2012
 - 427% increase in Cyber premium
 - 126% increase in Flood premium
 - 13% increase in Terrorism premium

EXECUTIVE DIRECTOR'S REPORT: *Norma Essary*



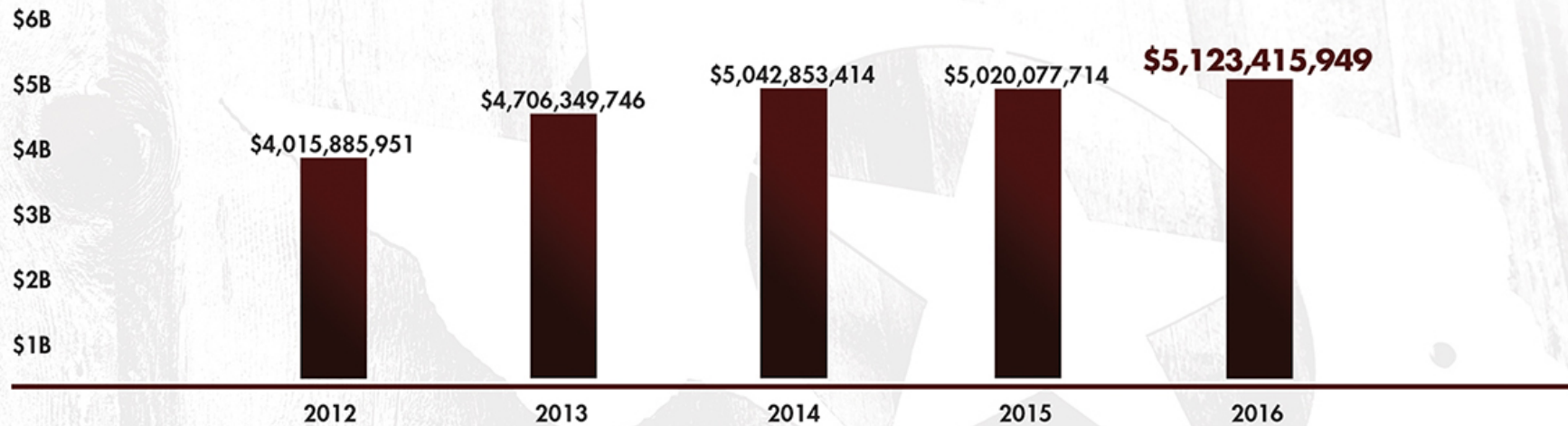
The past year has proven that the excess and surplus (E&S) lines insurance market is as capable as ever to meet the unique needs of Texas residents. In 2016, E&S premium continued an upward trend, culminating in a record high surplus lines annual premium total in Texas of \$5.12 billion, which represents a 2% increase over 2015.

The Surplus Lines Stamping Office of Texas (SLTX) continues to serve the industry by administering and confirming that compliance requirements are met in the Texas market. As such, we strive to ensure transparency and add value to stakeholders by supporting the progress, trade, and expansion that specialty insurance is having on our State as compared to the global marketplace. To this end, we are committed to demonstrating that E&S is an effective solution for consumers who seek coverage for special risks and unique needs, such as drones, terrorism, and cyber liability, which have all experienced significant growth over the last year. We look forward to observing these areas and others as they continue to evolve over the coming year.

FINANCIAL

For the year 2016, SLTX revenues exceeded expenses by \$3,839,174, increasing the reserve fund balance by that amount. Additionally, in 2016 the SLTX Board designated \$4,300,000 for replacement of an internally developed software project. The net effect of these two items was a reduction in the unrestricted, undesignated fund balance of \$460,826 for 2016. At December 31, 2016 the unrestricted, undesignated reserve fund balance was \$3,094,736, an amount \$3,442,367 under the maximum permitted in the Plan of Operation. Consistent with the conservative Investment Policy adopted by the SLTX 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.

ANNUAL TEXAS SURPLUS LINES PREMIUM



\$5.12 Billion Texas premium written

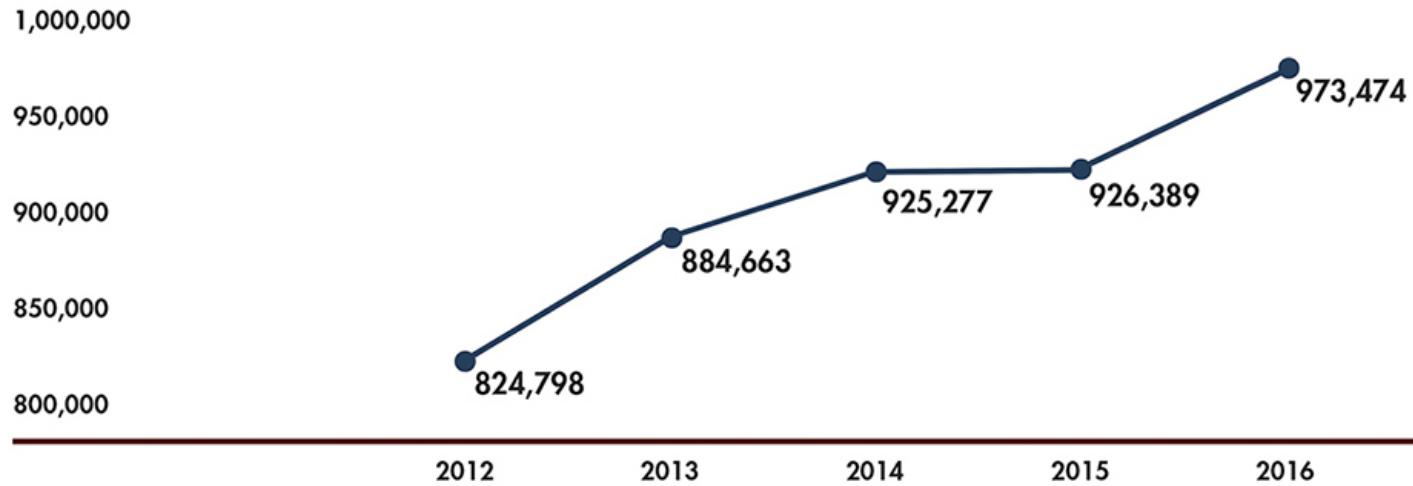
in the Excess & Surplus Lines marketplace

Resulting in \$248,418,647 revenue

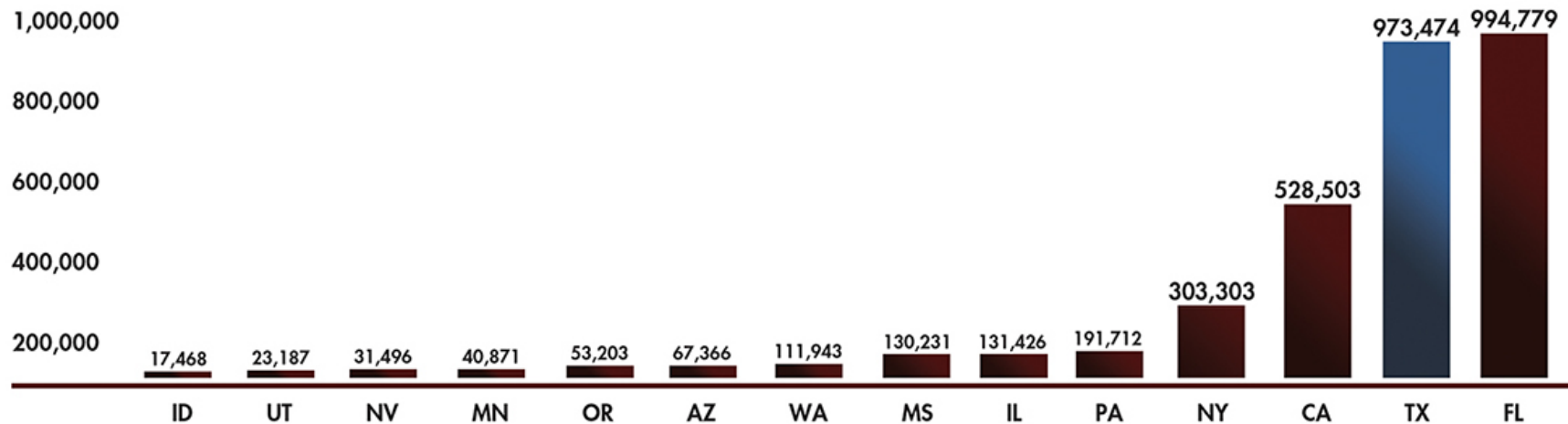
in 2016 for the State of Texas

OPERATIONAL

ANNUAL TEXAS FILINGS



ANNUAL FILINGS BY STATE



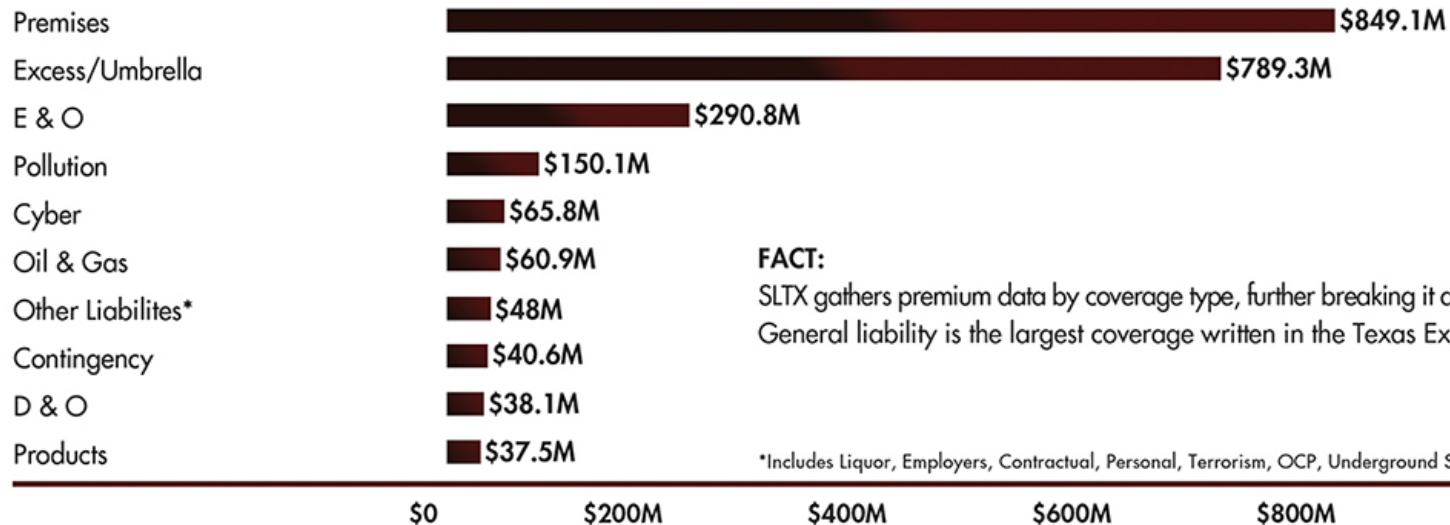
OPERATIONAL

TEXAS PREMIUM BY COVERAGE 2016

General Liability	\$2,332,817,632	46%
Fire Allied	\$1,452,119,226	28%
Commercial Multiple Peril	\$274,519,409	5%
Commercial Auto Physical Damage	\$193,547,509	4%
Homeowners Multiple Peril	\$176,153,091	3%
Allied Lines	\$120,703,672	2%
Credit	\$115,351,870	2%
Inland Marine	\$107,900,514	2%
Other Commercial Auto Liability	\$97,136,641	2%
Group Accident & Health	\$69,656,564	1%
SUBTOTAL	\$4,939,906,127	96%
ALL OTHERS	\$183,509,822	4%
TOTAL	\$5,123,415,949	100%



GENERAL LIABILITY PREMIUM



OPERATIONAL

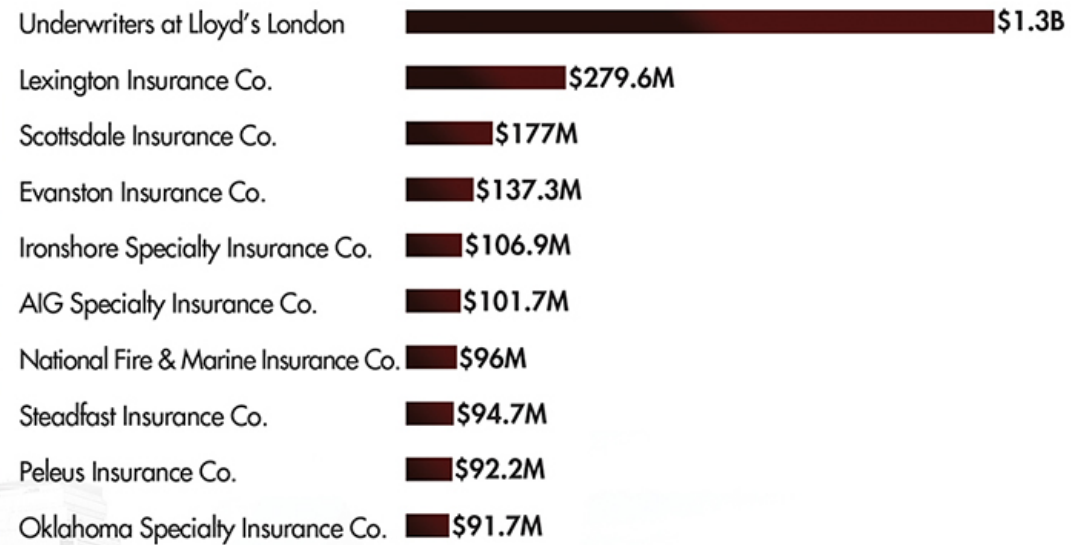
In accordance with 28 TAC 15.101(e)(10)(E)(vi), the affiliate information relates to holding companies that include admitted and surplus lines insurers, where the surplus lines insurer writes property coverage in Texas.

SURPLUS LINE INSURER AFFILIATES' PROPERTY WRITINGS

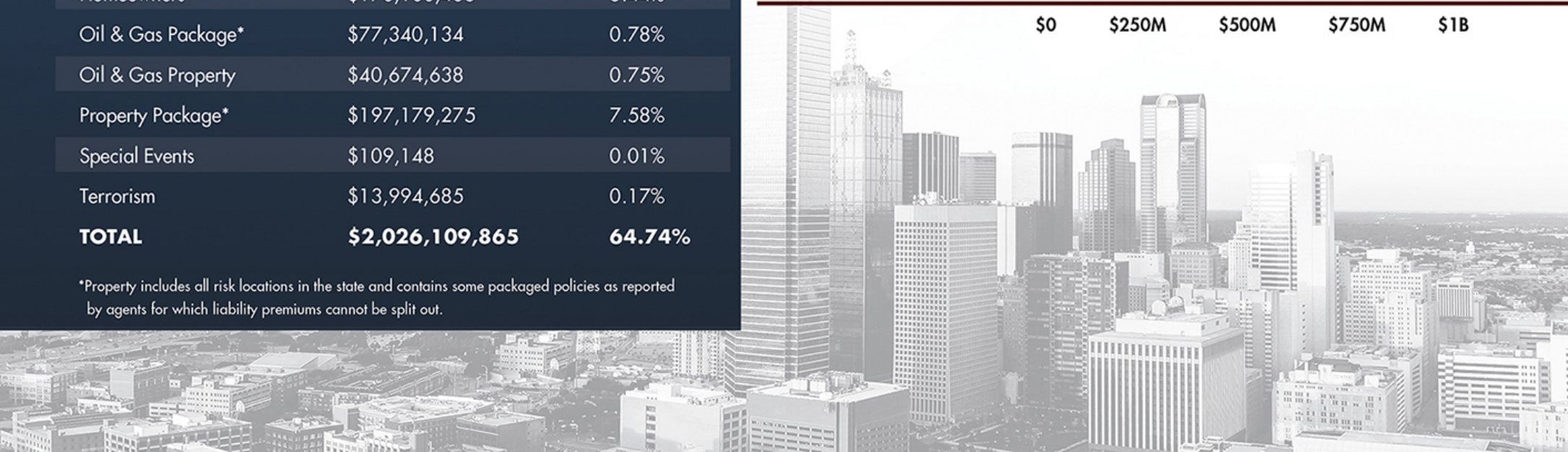
	S/L Property Insurers	% of 2016 Premium
Allied Lines	\$82,456,631	2.27%
Boiler and Machinery	\$47,023	0.01%
Difference in Condition	\$4,991,009	0.13%
Earthquake	\$466,880	-0.01%
Farmowners/Ranchowners	\$2,100,473	0.05%
Fire and Allied Lines	\$1,411,358,827	47.04%
Fire	\$72,167	0.00%
Flood	\$19,132,936	0.53%
Glass	\$19,553	0.00%
Homeowners	\$176,166,485	5.44%
Oil & Gas Package*	\$77,340,134	0.78%
Oil & Gas Property	\$40,674,638	0.75%
Property Package*	\$197,179,275	7.58%
Special Events	\$109,148	0.01%
Terrorism	\$13,994,685	0.17%
TOTAL	\$2,026,109,865	64.74%

*Property includes all risk locations in the state and contains some packaged policies as reported by agents for which liability premiums cannot be split out.

2016 TEXAS TOP 10 INSURERS



\$0 \$250M \$500M \$750M \$1B



2016 BOARD OF DIRECTORS

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Paul Rainey

President, RSI International, Inc.

VICE CHAIR

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Public Member

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Director of Risk Management, City of Garland

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DIRECTOR, HUMAN RESOURCES

Denisse Orellana, HRM

DIRECTOR, FINANCE, CFO

Kyle Bolls

DIRECTOR, ITS, CIO

Tara Mitchell, AFE, PMP

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