Annual Report to the Commissioner of Insurance for 2013
Surplus Lines Stamping Office of Texas

The Surplus Lines Stamping Office of Texas (SLSOT) was created by the 70th Legislature to assist the Texas Department of Insurance (TDI) in the oversight of surplus lines insurance and to encourage compliance by agents and insurers with the surplus lines laws of the state.

This report is made pursuant to the SLSOT 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)]

Premium and Items Processed

In 2013, the Stamping Office processed 884,665 surplus lines insurance filings (items) and a record $4,706,349,746 in Texas surplus lines premium, reflecting increases from the prior year of 7.3% and 17.2% respectively. SLSOT identified $228,167,638 in surplus lines premium taxes, which was reported (1) to the Comptroller of Public Accounts for collecting the appropriate amount of tax from surplus lines agents, and (2) to surplus lines agents for use in preparing their annual tax returns.

The table below illustrates Texas surplus lines premium and total items processed by SLSOT over the past five years.

Surplus Lines Premium & Items Processed, 2009 – 2013
Surplus Lines Stamping Office of Texas

Year	Premium (000s)	Items
2009	$3,420,619	859,732
2010	$3,310,189	850,725
2011	$3,248,590	834,433
2012	$4,015,886	824,798
2013	$4,706,350	884,665

In 2013, US surplus lines insurers wrote 70.2% of total Texas surplus lines premium, with non-US insurers writing 29.8%. The largest single writer, Underwriters at Lloyd's, London, had volume of $949.3 million, representing 20.2% of total Texas premium. The table below lists the top ten surplus lines insurers writing in Texas in 2013 based upon premium volume processed on policies reported to SLSOT by surplus lines agents.

Top Ten Surplus Lines Insurers in Texas for 2013

Insurer	**Premium (000s)**
Underwriters at Lloyd's, London	$949,316
Lexington Insurance Company	$403,157
Scottsdale Insurance Company	$163,624
Standard Guaranty Insurance Company	$146,646
AIG Specialty Insurance Company	$117,221
QBE Specialty Insurance Company	$111,878
Steadfast Insurance Company	$108,752
Ironshore Specialty Insurance Company	$ 91,903
Westchester Surplus Lines Insurance Company	$ 89,649
Gemini Insurance Company	$ 85,913

Electronic Filing System (EFS)

On July 1, 2003 SLSOT officially deployed the EFS, which provides an efficient method for surplus lines agents to comply with statutory reporting requirements by filing policy data with SLSOT electronically. In 2013, 607 agents reported 844,148 items through the EFS, representing more than 95% of total items processed, an increase of 8.0% over 2012. More than $4.3 billion in surplus lines premium was filed via the EFS for the year.

SLSOT employs its Data Validation Program as a method for auditing the accuracy of information filed on the EFS, by comparing randomly selected "hard copy" insurance policies to their corresponding electronic submissions. During 2013, Stamping Office staff audited 3,719 policies reported by 493 surplus lines agencies under this program.

Insurer Eligibility Evaluations & Recommendations

In 2013, SLSOT evaluated eligibility evidence and provided individual recommendations on 117 unlicensed insurers to TDI. Eight non-admitted insurers became newly eligible in Texas during 2013. As the federal Nonadmitted and Reinsurance Reform Act (NRRA) effectively has made the NAIC's IID *Quarterly Listing of Alien Insurers* the default national eligibility list for non-US carriers, virtually all evaluations conducted by SLSOT were for US insurers.

Education Programs

The SLSOT web site (www.slsot.org) has been a valuable resource for information regarding surplus lines insurance since its introduction in 1998. Beginning in 2006, a variety of seminars have been developed and archived on the website, providing detailed policy filing guidelines for agents, as well as presentations by speakers from TDI, the Comptroller, and the Stamping Office. Other information available includes surplus lines laws and regulations, TDI's *Surplus Lines Insurers List*, frequently asked questions, Texas market statistics and publicly available insurer financial data, descriptions of proposed legislation relating to surplus lines, insurer eligibility filing requirements, and links to other relevant sites. During 2013, more than 41,000 visitors accessed the website.

Finally, the Stamping Office continued to update agents and insurers on current matters of importance through electronic distribution of informational bulletins and its quarterly newsletter, *Lone Star Lines*.

Texas Windstorm Insurance Association

Pursuant to the Plan of Operation [28 TAC §15.101(e)(10)(E)(vi)], SLSOT 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.

Result of Operations; Reserve Fund; Investments

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 had grown during the prior "hard market" of 2002-2006.

For the year 2013, office expenses exceeded revenues by $536,336, lowering the reserve fund by that amount. At December 31, 2013, SLSOT's unrestricted reserve fund balance was $4,391,242, an amount nearly $700,000 under the maximum permitted in the Plan of Operation. (These figures should be considered "draft" until approval by the SLSOT Board of Directors of the annual financial audit in March 2014. Following approval, the audit report is forwarded to the Commissioner.) Consistent with the conservative SLSOT Investment Policy adopted by the Board, invested funds consist 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.

Nonadmitted and Reinsurance Reform Act

In July 2011, federal standards were imposed on the national surplus lines market as the 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 on these transactions, restrictions on the criteria used by states to determine insurer surplus lines eligibility, and 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 2013, 2,644 multi-state policies were reported to the Stamping Office, insuring more than $434 million in premium on risks located outside Texas. As Texas chose not to participate in one of the interstate tax-sharing agreements, this amount was treated as Texas premium and reported to the Comptroller as taxable by the state. Premium tax on these non-Texas exposures exceeded $21 million.
- The Stamping Office revised its insurer evaluation procedures in recognition of the NRRA's restrictions on permissible requirements to determine insurer eligibility. SLSOT continued to publish 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, 2013 agents began identifying those policies filed with the Stamping Office that were ECP procurements. There were a total of 1,137 ECP policies reported for the year, representing 0.2% of total policies filed.