

Lone Star Lines

Volume 5, January - March Issue 1999 ~ Surplus Lines Stamping Office of Texas

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Governor Appoints New Commissioner

Governor George W. Bush has appointed José Montemayor as the new Commissioner of Insurance in Texas.

“José understands insurance issues and will be fair and evenhanded as he balances the interests of industry and consumers,” Bush said.

Mr. Montemayor replaces Elton Bomer, who has been appointed Secretary of State.

Montemayor, 47, has been Associate Insurance Commissioner for Finance since 1995. Before that, he worked

in Insurer Services for the department and served in the U.S. Air Force.

Charles Tea, General Manager of the Stamping Office, states, “José has been a speaker a number of times at our annual seminars. He has a good understanding of the complexities of the surplus lines market and has served for several years on the NAIC Surplus Lines Task Force. We believe the governor

“... We believe the governor has made an excellent choice. José should prove to be an outstanding commissioner.”

- Charles Tea, GM, SLSOT

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Commissioner Montemayor Appoints Associate

Commissioner José Montemayor appointed Betty Patterson as the new Associate Commissioner of the Financial Program at the Texas Department of Insurance, effective January 11, 1999. “Betty’s education, background in accounting, and first-hand knowledge of the industry and professional designations make her uniquely qualified for this position,” Montemayor said. Her 11 year tenure at TDI includes Life Analyst, Supervising Property and Casualty Analyst, and most recently, Director of Analysis in which she was a key member of the Financial Leadership Team. H

Texas Surplus Lines Insurer Composite Financial Information

Composite year-end 1997 financial data for insurers eligible in Texas offers no hint of a reversal to present soft market conditions. (See Table I on page 2). There were 185 insurers (129 US and 56 non-US) eligible as of December 31, 1998. Information compiled by Brian Wilds, Senior Financial Analyst at the Stamping Office, indicates total capital and surplus increased more than 16% from 1996, to \$48.4 billion. (Note: all financial information excludes Underwriters at Lloyd’s. However, for comparison purposes, Lloyd’s capacity was estimated at \$16.8 billion for the 1998 underwriting year.)

This increase in capital and surplus was contrasted by declines in both gross and net premiums written. Gross written premium dropped 9.3% from 1996, to \$36.9 billion.

Net premium fell even further, decreasing 15.5%, to just under \$23 billion.

Total underwriting losses incurred by eligible insurers increased 11.7%, to \$1.7 billion. However, strong investment returns were sufficient to offset this loss and provide insurers a total net income after tax of \$3.7 billion (still a drop of 5.2% from the prior year).

Return on equity dropped nearly 2.5 points from 1996 to 10.0%, due to the increase in capital and surplus, coupled with the decrease in net income.

The key measure of underwriting leverage, net premiums to surplus, stood at 47% in 1997. This is a drop of 57 percentage points from its 1992 level of 104%, emphasizing both the ongoing supply-demand imbalance in the surplus lines market and the resultant downward pressure on prices. H



TEXAS SURPLUS LINES COMPOSITE FINANCIAL INFORMATION

Calendar Year 1997 - 1992

12/31/98 Eligible Insurers

	1997	1996	1995	1994	1993	1992
Capital & Surplus	48,422,747,486	41,697,982,057	38,240,524,191	28,544,643,104	25,862,897,606	20,836,728,781
Average	263,167,106	231,655,456	214,834,406	160,363,164	146,118,066	118,390,504
Median	39,671,414	38,742,694	35,638,767	29,439,875	29,348,021	24,284,937
Underwriting Gain (Loss)	(1,700,343,740)	(1,522,273,150)	(2,047,520,699)	(1,504,700,858)	(2,450,047,253)	(2,093,463,969)
Average	(9,342,548)	(8,457,073)	(11,502,925)	(8,453,376)	(13,842,075)	(11,894,682)
Median	0	(92,543)	0	(61,364)	(408,071)	(306,016)
Net Income After Tax	3,715,799,864	3,918,555,313	2,653,610,143	1,511,166,441	2,079,246,698	692,778,233
Average	20,194,564	21,769,752	14,907,922	8,537,664	11,813,902	5,586,921
Median	3,885,750	3,461,701	3,214,509	2,043,200	1,983,641	1,408,186
Return on Policyholder Surplus	10.00%	12.48%	11.80%	5.60%	9.50%	10.70%
Gross Premium	36,870,900,032	40,654,247,818	40,667,365,819	38,103,061,797	33,867,746,204	31,969,138,004
Net Premium	22,991,029,437	27,203,895,210	27,453,465,896	25,013,862,779	22,731,926,070	21,638,369,311
Gross Premium to Surplus Ratio	76%	97%	106%	133%	131%	153%
Net Premium to Surplus Ratio	47%	65%	72%	88%	88%	104%
Combined Ratio	103%	104%	110%	103%	102%	110%

Evidence Filing Requirements Set for Texas Surplus Lines Insurers

The annual "Evidence Filing Requirements for 1999" letter has been released by the Texas Department of Insurance (TDI) and distributed via bulletin by the Stamping Office. Only one change has been made to the requirements from the previous year, concerning Y2K issues. The minimum capital and surplus requirement remains at \$15 million. All surplus lines insurers wishing to retain or gain Texas surplus lines eligibility must file complete and legible evidence by the due dates contained in the TDI letter. At right is a listing of requirements for U.S. and non-U.S. insurers.

You can locate a full copy of the filing requirements on our web site at www.slsot.org. To request a copy by mail, please call the Technical Services Department, (512) 346-3274, ext. 26. [H](#)

U.S. Company Filing Requirements

- 4 1998 NAIC Form 2 Annual Statement
- 4 Actuarial Opinion
- 4 Mgmt. Discussion & Analysis
- 4 License/Certificate of Authority
- 4 List of Texas Surplus Lines Agents
- 4 Three Year Business Plan
- 4 Biographical affidavits
- 4 NAIC IRIS Ratio results
- 4 Regulatory Disclosure Statement
- 4 Examination Report & Response
- 4 GAAP/SAP Financial Statement
- 4 10K Report (if applicable)
- 4 Quarterly Financial Statements
- 4 Y2K plans

Non-U.S. Company Filing Requirements

- 4 Ann. Report/Audited Financial Stmt.
- 4 License or Certificate of Authority
- 4 List of Texas Surplus Lines Agents
- 4 Three Year Business Plan
- 4 Biographical affidavits for officers
- 4 Trust Fund Agreement
- 4 Statement of Trust Fund Account
- 4 Premium Written in Texas
- 4 Actuarial Opinion
- 4 IID Preliminary Report
- 4 IID Final Report with diskette
- 4 Y2K plans



Batchman's Helpful Hints

1. Please use the green Transmittal & Verification Slip for your security corrections.
2. Date extensions must include a list of all syndicates whenever the policy is written through Underwriters at Lloyd's.
3. Be sure to include an agent of record letter when filing endorsements, etc. pertaining to business originally filed by another agent. [H](#)

In observance of the Easter holiday, our office will be closed on Good Friday, April 2, 1999. [H](#)



Stamping Office Welcomes New Board of Directors

On December 17, 1998, Commissioner Elton Bomer made the following appointments to the Stamping Office Board of Directors: Susan Bulla, Risk Manager, City of Fort Worth; Steve Conner, Crump Insurance Services of Texas; and Don Meyer, Texas General Agency. The new members will serve their terms from January 1, 1999 to December 31, 2001. The outgoing directors are Charles Bailey; Jack Adams, Adams Special Risk; and Gerald Furhman. We extend a warm welcome to the new board members of the Stamping Office and offer our sincere thanks to the outgoing directors for their efforts and dedication throughout their terms.

SLSOT Employee of the Year



Stephanie Laurich was honored in December as the Stamping Office Employee of the Year. She was nominated by her peers for her hard work and dedication as Human Resource Assistant as well as her positive attitude in dealing with employee issues. For her efforts, Stephanie received a gift certificate for dinner, a commemorative plaque and certificate, and a much deserved day off of her choosing. H

Data Processing Closing Dates 1999

JANUARY.....	January 29, 1999
FEBRUARY.....	February 26, 1999
MARCH.....	April 1, 1999
APRIL.....	April 30, 1999
MAY.....	May 28, 1999
JUNE.....	July 2, 1999
JULY.....	July 30, 1999
AUGUST.....	August 27, 1999
SEPTEMBER....	October 1, 1999
OCTOBER.....	October 29, 1999
NOVEMBER.....	November 24, 1999
DECEMBER.....	December 30, 1999

Year in Review

Figures compiled by the Stamping Office from 1998 filings continue to demonstrate the extreme softness of the surplus lines market. Total premium processed for 1998 dropped

1998

SLSOT PROCESSING TOTALS

Year	Premium (000's)	Items
1994	\$1,097,136	574,125
1995	\$1,104,932	586,314
1996	\$1,094,279	568,077
1997	\$1,068,857	614,040
1998	\$1,007,375	629,575

5.75% from the previous year. However, as seen in the table, items processed actually increased.

Undoubtedly several factors contribute to the decrease in SL premium. With increasing capital chasing a relatively stable number of insured risks, competition continues to drive rates and premium down. This also causes admitted carriers to soften their underwriting guidelines and write risks that formerly were written in the surplus lines marketplace.

While less recognized, the exemption from form regulation afforded large commercial risks (Article 5.13-2, Sec. 8(f) TIC) has also had an effect. This provision exempts the policy forms for use with large insureds from the TDI forms filing and approval process. Large risks are defined as having insured property value of \$5 million or more; total

annual gross revenues of \$10 million or more; or total premiums of \$25,000 or more for property insurance, \$25,000 or more for liability insurance, or \$50,000 or more for multiperil insurance.

The large risk exemption, which is Texas's own version of the nationally-prominent topic of commercial lines deregulation, has clearly resulted in many large insureds finding coverage in the admitted market. The magnitude of the flow of business out of the SL market caused by the large risk exemption is impossible to quantify.

A final note - the alternative market (captives, self insurance, pools, and RRGs) continues rapid growth. According to AM Best, in 1998 this market expanded by an estimated 25%. Much of this growth is former SL business. H

Tax Filing Deadline Scheduled for March 1

The deadline for paying surplus lines taxes to the Comptroller is March 1, 1999. Surplus lines agents are legally required to pay surplus lines taxes for all premiums collected during 1998. If you held a surplus lines license at any time during 1998, you must file a tax report even if you did not write surplus lines business during the year. Late tax payments are subject to both penalty and interest.

If you have any questions concerning your tax filing, a tax specialist at the Comptroller's office can be reached at 1(800) 252-1387 or by mail at the Tax Administration Division, Comptroller of Public Accounts, P.O. Box 13528, Austin, Texas 78711-3528. H



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Bulk Rate
 U.S. Postage
 Paid
 Austin, Texas
 Permit #216

Return Service Requested

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 12/98	Premium through 12/97	Percent Change
1 Fire(incl. allied lines)	\$217,743,614	\$219,255,329	-0.69%
2 Allied lines	\$7,466,226	\$8,285,040	-9.88%
3 Farmowners multiple peril	\$2,046,939	\$2,180,957	-6.14%
4 Homeowners multiple peril	\$40,479,734	\$39,055,953	3.65%
5 Commercial multiple peril	\$26,960,821	\$33,280,840	-18.99%
6 Mortgage guaranty	\$0	\$0	0.00%
8 Ocean marine	\$8,827,149	\$16,468,595	-46.40%
9 Inland marine	\$18,200,825	\$12,915,319	40.92%
10 Financial guaranty	\$0	\$0	0.00%
11 Medical malpractice	\$16,031,189	\$27,098,718	-40.84%
12 Earthquake	\$11,882	\$80,060	-85.16%
13 Group accident & health	\$70,147,877	\$61,955,184	13.22%
14 Credit A&H(group & indiv)	\$0	\$0	0.00%
15 All other A&H	\$137,674	\$1,123,333	-87.74%
16 Workers' compensation	\$0	\$0	0.00%
17 Other liability	\$465,534,627	\$503,034,902	-7.45%
18 Products liability	\$22,553,021	\$27,648,623	-18.43%
19.1 Priv pass auto no fault	\$0	\$0	0.00%
19.2 Other priv pass auto lia	\$64,750	\$50,239	28.89%
19.3 Comm. auto no fault PIP	\$0	\$0	0.00%
19.4 Other comm. auto liab	\$32,340,870	\$39,107,015	-17.30%
21.1 Priv pass auto physical	\$843,359	\$1,056,632	-20.18%
21.2 Comm auto phys.damage	\$32,449,730	\$34,510,196	-5.97%
22 Aircraft (all perils)	\$6,146,136	\$5,962,936	3.07%
23 Fidelity	\$1,738,361	\$1,236,465	40.59%
24 Surety	\$99,173	\$602,819	-83.55%
25 Glass	\$75,884	\$31,823	138.46%
26 Burglary & theft	\$811,889	\$2,475,719	-67.21%
27 Boiler & machinery	\$1,454,626	\$345,739	320.73%
28 Credit	\$35,115,710	\$30,861,680	13.78%
31 Aggregate/other business	\$93,055	\$233,172	-60.09%
TOTAL	\$1,007,375,121	\$1,068,857,288	-5.75%

Note: Due to rounding figures may not total



Volume 5

January - March 1999

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.

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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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