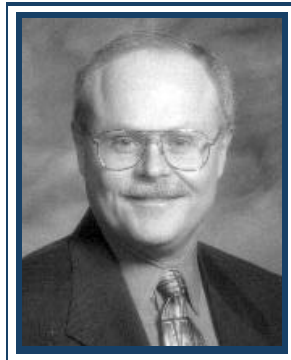


H Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

Stamping Office Rings in the New Year with a New General Manager



Philip R. Ballinger, Jr.
General Manager

On December 8, 1999, the Board of Directors of the Surplus Lines Stamping Office of Texas named Philip Ballinger General Manager, effective January 1, 2000. He succeeds Charles Tea, who retired December 31, 1999.

Mr. Ballinger was hired as Director of Technical Services at the Stamping Office in 1992, then subsequently named Assistant General Manager in 1996 and Associate General Manager in 1998. Prior to his arrival at the Stamping Office, he was Director of Tax Administration at the Texas Department of Insurance.

Mr. Ballinger holds a Bachelor of Business Administration degree in Management and a Master of Arts degree in Energy and Mineral Resources from the University of Texas at Austin. He received the Chartered Property and Casualty Underwriter (CPCU) and Associate in Surplus Lines Insurance (ASLI) professional designations in 1997. Phil serves on the National Advisory Committee for the ASLI designation and is currently Treasurer of the Central Texas Chapter of CPCU. H

From the General Manager...

Turning the Page.

Change. Our lives are all about change. Your physical and mental condition, the weather, your family, your business - everything is constantly in flux. Some types of change are subtle and slow; others are rapid and unsettling, such as the commercial upheaval introduced by the Internet. Regardless of how satisfied and adjusted you might think you are, today's page turns to a less certain tomorrow.

Here at the Stamping Office, you might notice some changes over the next months. Charles Tea retired to greener pastures December 31st. It is my great honor to succeed him as General Manager. Charles was nationally recognized as an effective manager and leader, so his is a tough act to follow. I believe the Texas surplus lines

industry owes him a great deal. The Stamping Office certainly does.

As I grasp the reins here at SLSOT, what changes do I see coming?

There are some aspects that must not change. Quality of service, professionalism, and a strong, knowledgeable staff are the underlying fundamentals driving the success of the Surplus Lines Stamping Office. This organization exists to promote an efficient, reputable, and financially strong surplus lines market. We accomplish this chiefly through providing assistance to TDI, encouraging agents and insurers to comply with the insurance laws of Texas, and providing effectual education programs. The law requires these things of us and our customers demand them. I assure you we shall continue to take our responsibilities (continued next page...)

INSIDE :

Surplus Lines
Taxes Due
page 2

2000 Evidence
Filing Requirements
for S/L Insurers
page 2

Stamping Fee
Rate Increase
page 2

Director
Appointed
page 3

Data Processing
Dates
page 3

Batchman's
Helpful Hints
page 3

Composite Financial
Information
page 3

Staff News
page 3

Premium
Comparison
page 4

PLUS.....

A SLSOT
Special Report

seriously and conduct them effectively.

There are areas where change should be considered.

I suggest it is time for the filings requirements to get a thorough evaluation by both TDI and industry. Currently, Texas law requires reporting a "true and correct copy" of each SL policy with the Stamping Office. There is a substantial cost involved in this, for each agency and for our office. The benefits derived from these filings should outweigh the costs, but at present there is some question whether that is the case. Filing requirements might be reduced to certain parts of the policy with no significant effect on the value of the Stamping Office in identifying violations or accumulating statistical information. I encourage regulators and industry to examine the policy filing requirements. Perhaps a consensus for change will emerge from this discussion.

Secondly, electronic filing with the Stamping Office should be evaluated as a viable and reasonable alternative to paper filing. We know the technology currently exists. Last October I visited the Florida Surplus Lines Service Office. All surplus lines filings are made in Florida electronically, most via the Internet. According to Gary Pullen, Executive Director for FLSO, his staff manually handles only the "exceptions" - those filings that fail automatic entry into his system. Contrast that with our situation, where multiple staff must process each filing. For

those agents selecting electronic submission as their mode of filing, required data could conceivably be gathered during policy issuance or invoicing for later transmission to the Stamping Office. This would require some technological work on both ends (i.e., in agents' offices and at SLSOT). There are also data validation concerns and some statutory hurdles to overcome. Nonetheless, electronic filing is a second issue ripe for regulator-industry discussion.

Finally, as a result of passage of S900 (the Financial Services Modernization Act) by Congress, it appears inevitable that at some not-too-distant time a non-resident surplus lines agent will be able to legally write business in Texas, just as if he was a resident agent. Some view this as a profound alteration of market structure, unfair competition, and a threat to the viability of surplus lines in Texas. Others feel it merely belated recognition of existing practice. I guess it depends upon your perspective. There is little question that removing the prohibition against the writing of SL business by non-resident agents will have some significant impact on regulators, industry, and the Stamping Office. Only time will tell what these changes will be.

We'll have to wait for those pages to turn.



Texas Department of Insurance to maintain the "Surplus Lines Insurers List" compiled from the information submitted to meet the eligibility requirements. 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. The first filing deadline for foreign (US) insurers is March 31, 2000.

You can locate a full copy of the filing requirements on our web site at www.slsot.org or request a copy by mail by calling the Technical Services Department, (512) 346-3274, ext. 215. ^H

Stamping Fee Increase April 1st

Last September, the Board of Directors of the Surplus Lines Stamping Office requested the Commissioner of Insurance to approve an increase of one tenth of one percent in the stamping fee rate. The Board of Directors made its request after receiving comments and suggestions from the Texas Surplus Lines Association, the Independent Insurance Agents of Texas, the Texas Public Insurance Counsel and various consumer organizations. On December 28, 1999, following publication of the proposed increase and a period for public comments, Commissioner Jose Montemayor signed an order approving the increase in the stamping fee from .15% (.0015) to .25% (.0025), to be effective April 1, 2000.

The new rate will apply to each new or renewal surplus lines policy with an effective date on or after April 1, 2000. Policies effective on or before March 31, 2000 will run to expiration, cancellation, or next annual anniversary date (for multi-year policies) at the old rate. This includes any subsequent endorsements, audits, cancellations, reinstatements, installments, and monthly or quarterly reports. The new rate will apply to policy date extensions effective on or after April 1, 2000. ^H

Surplus Lines Taxes Due

All surplus lines premium taxes collected during 1999 are due to the Texas Comptroller of Public Accounts by March 1, 2000. If you held a surplus lines agent's license at any point during 1999, you are required to file a tax report. This applies even if you wrote no surplus lines business during the year. Tax forms will be mailed to each surplus lines agent by the Comptroller during the month of January. If you do not receive a form, please call the Comptroller at (512) 463-4074.

By now, you should have received a summary of all business processed for your agency by the Stamping Office during 1999. If you have not received your Agents Annual Tax Report by this date, please call our office.

As a result of HB 3211, there have been several changes to the premium tax statutes, which became effective January 1st. These changes include the

elimination of tax trust accounts and introduction of new tax prepayment requirements. For more information, visit our web site at www.slsot.org or refer to bulletin SO-2000-01 that was distributed in January. ^H

Evidence Filing Requirements for Surplus Lines Insurers

The annual "Evidence Filing Requirements for 2000" letter has been released by the Texas Department of Insurance (TDI) and distributed via bulletin SO-2000-01 by the Stamping Office. These filing requirements are in accordance with the Texas Insurance Code, Article 1.14-2 and related provisions of the Texas Administrative Code, 28 TAC Subsection 15.8(b) and (c). Subsection 15.8 (i) requires the

Commissioner Appoints Director

Commissioner Jose Montemayor appointed Simon Bancroft, Executive Vice President, Swett & Crawford of Texas, Inc., to the SLSOT Board of Directors for a three year term effective January 1, 2000. Mr. Bancroft replaces Brent Davis of Texas Specialty Underwriters. **H**

Data Processing 2000 Closing Dates

JANUARY..... January 28
 FEBRUARY.....February 25
 MARCH..... March 31
 APRIL..... April 28
 MAY.....May 26
 JUNE..... June 30
 JULY.....July 28
 AUGUST.....August 25
 SEPTEMBER....September 29
 OCTOBER.....October 27
 NOVEMBER.....November 22
 DECEMBER.....December 29

Composite Financial Information for Surplus Lines Insurers

Composite year-end 1998 financial data for insurers eligible in Texas suggest a continuation of soft market conditions (See Table 2 on Special Report) As of December 31, 1998 there were 186 entities on the Surplus Lines Insurers List (129 U.S. and 57 non-US). Information compiled again this year by Brian Wilds, Director of Financial Analysis, indicates total capital and surplus increased 13% to \$54.6 billion. (Note: this composite financial information excludes Underwriters at Lloyds.) Lloyds' capacity for 1998 was \$16.8 billion and \$16.6 billion for 1999. Texas premium writings for Lloyd's was \$152.8 million.)

Pointing to the soft market conditions were increases in underwriting losses and decreases in net income and gross and net



Batchman's Helpful Hints

Be sure your policies, binders, cover notes, and policy extension endorsements show the name and address of the procuring surplus lines agent. If not shown, the item will be tagged.

When submitting policies replacing binders, use a NON premium transmittal unless there is a change in the premium.

Remember to return the tag memo along with corrections so we will know to remove the suspense. This prevents unnecessary late tags. **H**

Y2K

So far, so good! As we informed you previously, we performed extensive testing on all the programming changes made to accommodate the year 2000. We have seen no problems within our office and, as we expected, it is "business as usual" at the Stamping Office. We hope your experience has been the same. **H**

Employee of the Year

Melody Farley was honored in December as the Stamping Office Employee of the Year. Ms. Farley was nominated for her dedication as a Data Entry Analyst as well as the Trainer for new employees to the Data Entry Department. She began her career with the Stamping Office in 1993.



Melody Farley

Promotion & Staff Changes

The following personnel have been promoted to new positions: Shannon Whitely, Mail Administrator, Elaine White, ASLI, Director of Data Services, Brian Wilds, CPA, ASLI, Director of Financial Analysis; and Dalen Chisholm, Communication Coordinator.

Sandy Christian has moved to the Technical Services Department as an Analyst I, Financial Analysis.

Who's New?

The Stamping Office is pleased to introduce Janine Cade and Brenda Steinhauser, who joined our staff as Data Entry Clerks in the Data Entry Department. Additions to the Document Processing Department include Caroline

Astran, Microfilm Prep Clerk, and Jose Jasso, Team Leader.



From Left: Janine Cade, Brenda Steinhauser, and Caroline Astran. Back: Jose Jasso



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Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 12/99	Premium through 12/98	Percent Change
1 Fire(incl. allied lines)	\$225,803,486	\$217,770,415	3.69%
2 Allied lines	\$7,354,075	\$7,584,110	-3.03%
3 Farmowners multiple peril	\$2,158,366	\$2,046,939	5.44%
4 Homeowners multiple peril	\$40,599,424	\$40,470,440	0.32%
5 Commercial multiple peril	\$26,902,505	\$27,062,359	-0.59%
6 Mortgage guaranty	\$0	\$0	0.00%
8 Ocean marine	\$10,520,620	\$8,839,499	19.02%
9 Inland marine	\$20,427,678	\$18,230,569	12.05%
10 Financial guaranty	\$0	\$0	0.00%
11 Medical malpractice	\$19,281,405	\$16,029,940	20.28%
12 Earthquake	\$173,939	\$11,882	1363.89%
13 Group accident & health	\$68,978,728	\$70,147,877	-1.67%
14 Credit A&H(group & indiv)	\$0	\$0	0.00%
15 All other A&H	\$51,038	\$132,886	-61.59%
16 Workers' compensation	\$0	\$0	0.00%
17 Other liability	\$474,990,205	\$465,452,056	2.05%
18 Products liability	\$18,352,982	\$22,564,713	-18.67%
19.1 Priv pass auto no fault	\$0	\$0	0.00%
19.2 Other priv pass auto lia	\$53,007	\$65,200	-18.70%
19.3 Comm. auto no fault PIP	\$0	\$0	0.00%
19.4 Other comm. auto liab	\$30,997,919	\$32,362,104	-4.22%
21.1 Priv pass auto physical	\$861,067	\$843,359	2.10%
21.2 Comm auto phys.damage	\$35,829,445	\$32,453,688	10.40%
22 Aircraft (all perils)	\$6,458,397	\$6,145,961	5.08%
23 Fidelity	\$956,348	\$1,738,361	-44.99%
24 Surety	\$669,944	\$99,173	575.53%
26 Burglary & theft	\$1,341,018	\$811,889	65.17%
27 Boiler & machinery	\$591,165	\$1,454,626	-59.36%
28 Credit	\$34,290,612	\$34,964,020	-1.93%
31 Aggregate/other business	\$1,508,481	\$93,055	1521.06%
TOTAL	\$1,029,151,854	\$1,007,375,121	2.16%

Note: Due to rounding figures may not total

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 January - March

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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<http://www.slsot.org/slsotpub.htm>

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