

# Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

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## Reflections on a Hard Market

*The following summarizes a series of conversations I had in mid-January with 9 large Texas wholesalers. Don't take this as a scientific or even comprehensive survey, just "some random comments from the market".*

--Phil Ballinger, General Manager

**Hard market.** The consensus appeared to be that the present hard market would last from 18-24 months. At that point, additional capacity flowing into the market would result in excessive competition and a lowering of rates.

Today, as rates rise, agents are often working especially hard to re-shop many accounts, to satisfy their clients they are obtaining the best deal. In some cases, this is costing the agents a dollar to save the clients a dime.

Several agents expressed concern that the present environment is one conducive to the operations of unauthorized insurers, where ill-informed retail agents might place business based exclusively on cheap rates.

**Projections for 2002.** During 2001, many agents experienced an increase in premium volume for their entire books of business in excess of 50%. (SLSOT processing indicated that total Texas surplus lines premium increased nearly 34% in 2001.) While expectations for this year are good, they do not approach this level. Most agents projected an increase in the 20-25% range for 2002. Also, several commented that this is the time to evaluate the retail agency base and limit relationships to those agents providing profitable accounts and meeting minimum production thresholds.

**London.** The open market placement market in London was described as chaotic and in turmoil by numerous agents, with several stating it was extremely difficult to bring a risk there currently. Also, many Texas binding authorities were being restricted or canceled outright, primarily tied to failure to produce an underwriting profit. However, agents whose books were profitable were experiencing little problem in renewing or replacing London line slips.

**Restricted classes.** In commercial lines, agents were seeing the most difficulty placing coverage for high-limits large commercial property (especially habitational) risks and residential contractors liability (especially tract home builders). The problem of liability for latent defects, first seen in California, has now clearly made its way to Texas. Also, nursing home liability coverage remains extremely tight, with few facilities available even in the surplus lines market. Terrorism coverage is available through both London and domestic markets as a mono-line coverage and is typically written due to a lender requirement. (Note: SLSOT has seen very little of this coverage to date.)

In personal lines, more retail agents are appearing to prefer writing homeowners coverage in the surplus lines market, as they can still use the more expansive HO-B form by attaching a mold exclusion, something obviously not possible in the admitted market. While HO surplus lines premium was up only 10% in 2001, the mold problem is likely to result in a larger increase this year.

see **Hard Market**, page 2

## HARD MARKET, continued from page 1...

**Hiring.** Nearly every agency appeared to be hiring, although the competition is great for experienced, quality personnel. Several agents emphasized the industry has done a miserable job in attracting young talent to the

business. One large agency has introduced an innovative 9-month internship program, hiring recent college graduates having no experience in insurance, to address this issue.

**Licensing.** As a result of passage of SB 414, most agencies were licensing

more of their staff, particularly underwriters, managers, and "brokers". One agency was licensing "dozens" of employees; most were obtaining surplus lines licenses for from 5-15 individuals. All were looking to TDI for clearer guidelines (regulations) regarding who must be licensed. **H**

### Commissioner Appoints New Board Member

**C**ommissioner José Montemayor has appointed Marshall B. Leicht, Jr., Leicht General Agency, to serve a three-year term as a member of the Surplus Lines Stamping Office of Texas Board of Directors. We congratulate Mr. Leicht on his appointment.

The new appointee replaces Don Meyer, Texas General Agency. Mr. Meyer served as Chairman during 2001. We thank him for his leadership and commitment to serving on our Board.

The SLSOT board consists of nine directors who are appointed by the Texas Commissioner of Insurance and all serve three-year terms as established by the SLSOT Plan of Operation. **H**

## It's Tax Time!

**A**ll surplus lines premium taxes from 2001 business are due to the Texas Comptroller of Public Accounts by March 1, 2002. If you held a surplus lines agent's license at any point during 2001, you are required to file a tax report, even if you wrote no surplus lines business during the year. Tax forms will be mailed to each surplus lines agent by the Comptroller's Office during the month of January. If you do not receive a form, please call the Comptroller at (512) 463-4074.

Also, please remember you are now required to file taxes electronically if your tax liability last year exceeded \$100,000. (Refer to SLSOT Bulletin 2001-13.)

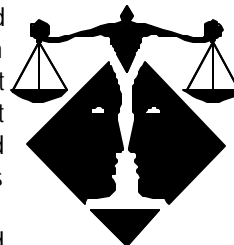
By now, you should have received a summary of all business processed for your agency by the Stamping Office during 2001. If you have not received your Agents Annual Tax Report, please call SLSOT at (512)346-3274 x228. **H**

*Additional information and links to tax forms can be located on our website at [www.slsot.org](http://www.slsot.org) under Agent Information.*

## US Supreme Court Denies Writ in Texas Appeal of

### *Dow v. Rylander*

**T**he final door to Texas's appeal in *Dow v. Rylander* was closed in October when the U.S. Supreme Court denied review of the case. Early in 2001, the Texas Third District Court of Appeals ruled that the *Dow* case was controlled by the U.S. Supreme Court's *Todd Shipyards* decision, effectively rendering invalid the state's independently procured insurance premium tax. With both the Texas and now the U.S. Supreme Courts denying review, the Texas appellate court decision stands. The



Comptroller's Office appears poised to continue its enforcement of the IP tax when a taxpayer's circumstances differ from the criteria listed in both *Dow & Todd Shipyards*. However, it does appear that the IP tax will no longer be enforceable against foreign (i.e., non-Texas) corporations and individuals. The Comptroller is currently preparing information for taxpayers regarding the tax and is also evaluating the many requests it has received demanding refunds of IP taxes previously remitted. **H**

## SLSOT Honors Employee of the Year



**Cheyenne Norment** was honored at the holiday luncheon in December as the 2001 Stamping Office Employee of the Year. Cheyenne was nominated by her peers for the service and dedication she has shown throughout the year. She also showed leadership when assisting in the testing and implementation of the new computer system that went live in October. Ms. Norment was

employed by the Stamping Office in 1998 and began as a Data Entry Clerk. She recently was promoted to Data Entry Examiner including System Support. We congratulate Cheyenne on this award and thank her for her dedicated service to our office. **H**

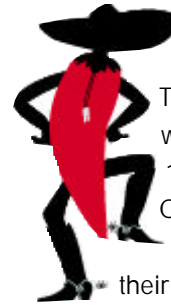
## 2002 Evidence Filing Requirements Set for Texas Surplus Lines Insurers

The annual "Evidence Filing Requirements for 2002" letter has been released by the Texas Department of Insurance (TDI) and distributed via bulletin #SO-2002-01 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 Section 15.8). Subsection 15.8 (j) requires the 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, 2002.

You can locate a full copy of the filing requirements on our web site at [www.slsot.org](http://www.slsot.org) or request a copy by mail by calling the Financial Analysis Department, (512) 346-3274, ext. 220. **H**

## Stamping Office **Heats Up** At 1st Annual Chili Cookoff



As the cold air blew through central Texas the Stamping Office was heating up with the 1st Annual Chili Cookoff. Competition was hot as employees served up their best chili recipes and showed off their culinary skills. Janet Kantor's "Damn Good Chili" recipe won top honors and bragging rights for the year. Tammy Kent and Dalén Chisholm were runners-up with their entries "Slap Yer Pappy Chili" and "Blazin' Saddles".

Employees were treated to eight differently prepared entries for the event.

Each was outstanding. We look forward to next year's cookoff which will no doubt bring out more hidden talents of our staff. **H**



Janet Kantor serves up samples of her winning chili recipe

## Employee News



Roque Ramirez

We welcome Roque Ramirez to our staff. Roque joins us as a Records Prep Clerk in the Document Processing Department.



Stephanie Noesser

Congratulations to Stephanie Noesser, Human Resources Manager, who has been awarded the designation of Senior Professional in Human Resources (SPHR). Ms. Noesser has been employed with the Stamping Office since 1997. **H**

## Helpful Hints

New rules adopted by TDI and the Comptroller's Office require significant changes in reporting premium to the Stamping Office when the policy includes exposures located both within and outside Texas, or if part of the premium is exempt from tax. When submitting items with premium allocated to Other States exposures or Exempt exposures, you must use the new "Other States/Exempt Premium" form. There is a space for Texas premium, Other States (all others) premium and Exempt premium. Only this form is acceptable. Please do not change it in any way. **H**



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Return Service Requested

### Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 12/01	Premium through 12/00	Percent Change
1 Fire (incl. allied lines)	\$391,466,131	\$243,768,108	60.6%
2 Allied lines	\$21,558,220	\$8,957,341	140.7%
3 Farmowners multiple peril	\$1,510,535	\$1,859,550	-18.8%
4 Homeowners multiple peril	\$46,121,332	\$41,866,489	10.2%
5 Commercial multiple peril	\$21,192,496	\$32,408,062	-34.6%
6 Mortgage guaranty	\$0	\$0	
8 Ocean marine	\$6,616,414	\$10,650,967	-37.9%
9 Inland marine	\$39,792,253	\$28,422,095	40.0%
10 Financial guaranty	\$0	\$0	
11 Medical malpractice	\$28,357,070	\$23,190,360	22.3%
12 Earthquake	\$183,215	\$47,688	284.2%
13 Group accident & health	\$85,612,472	\$61,931,915	38.2%
14 Credit A&H (group & indiv)	\$0	\$0	
15 All other A&H	\$82,096	\$51,503	59.4%
16 Workers' compensation	\$0	\$0	
17 Other liability	\$675,211,354	\$523,491,141	29.0%
18 Products liability	\$21,112,970	\$17,490,539	20.7%
19.1 Priv pass auto no fault	\$0	\$0	
19.2 Other priv pass auto lia	\$19,688	\$49,429	-60.2%
19.3 Comm. auto no fault PIP	\$0	\$0	
19.4 Other comm. auto liab	\$47,224,944	\$34,262,677	37.8%
21.1 Priv pass auto physical	\$1,029,092	\$946,576	8.7%
21.2 Comm auto phys.damage	\$56,592,758	\$47,904,540	18.1%
22 Aircraft (all perils)	\$2,098,677	\$2,789,210	-24.8%
23 Fidelity	\$1,116,301	\$977,658	14.2%
24 Surety	\$571,903	\$512,061	11.7%
26 Burglary & theft	\$2,251,757	\$2,059,079	9.4%
27 Boiler & machinery	\$29,982	\$117,904	-74.6%
28 Credit	\$57,341,862	\$42,961,552	33.5%
31 Aggregate/other business	\$1,285,776	\$659,108	95.1%
TOTAL	\$1,508,379,298	\$1,127,375,552	33.8%

Note: Due to rounding figures may not total

Volume 8, 2002  
 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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 Internet E-Mail address:  
[info@slsot.org](mailto:info@slsot.org)

You can locate a text copy of this and previous issues of this newsletter on our web site at:  
<http://www.slsot.org/slsotpub.htm>

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