

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



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SLSOT
Special Report

Nonresident Agents: Surplus Lines Filings & Independently Procured Insurance

Some nonresident agents are mistakenly reporting all policies to the Stamping Office as surplus lines transactions whenever the policy has insured risk in Texas. Often, such transactions are "independently procured" (IP) insurance under Texas law (Insurance Code, Sec. 101.053(b)(4)). While IP transactions may be subject to payment of premium taxes to Texas, the policies themselves should not be filed with the Stamping Office. Also, there is no stamping fee charged on the Texas exposure.

Consider the following example. A New York agent that holds a Texas nonresident surplus lines license procures a surplus lines policy for a corporation headquartered in New York. The insured property is located primarily in New York, but there are exposures in other states, including Texas. In New York, this transaction is surplus lines insurance. A regulatory filing would be made to the Excess Line Association of New York (ELANY). However, in those states where there was covered property, but in which no "business of insurance" occurred, the transaction is deemed to be independently procured. For Texas, there would be no regulatory filing; that is, the New York agent would not report the Texas portion to the Stamping Office. The premium tax on the policy would be IP and the insured or any person designated by the insured would follow the instructions on the tax form when reporting the premium tax to the Texas Comptroller's Office. (Sections 226.051-226.056 of the Insurance Code apply to

premium taxes on IP insurance. The appropriate tax form is #25-103, Texas Annual Insurance Tax Report – Independently Procured Insurance, available from the Comptroller's website at <http://window.state.tx.us/taxinfo/taxforms/25-103.pdf>.)

If the Stamping Office identifies a transaction that appears to be IP insurance based on the location of the insured and non-resident surplus lines agent, rather than process the policy as surplus lines, we will notify the agent by "tag" that we have entered the policy as a "pending" item. The pending status will remain until the agent verifies that the policy is in fact a Texas surplus lines transaction. The agent can then resubmit the policy and we will complete processing it. If the agent determines it is truly an IP transaction, it need not be returned to the Stamping Office.

Differentiating between surplus lines and IP can be confusing. Ultimately, it depends on whether the policy has been negotiated in Texas. Typically, a policy is a surplus lines policy in the state in which the policy is negotiated. In other states, the policy may be considered under state law to be IP (although some states do not have IP laws).

Tax questions should be directed to the Comptroller's Office at 800-252-1387.

Please call our staff (512-346-3274) if we can assist you in understanding this issue. ★

Kester, Koch, & Roeder Join SLSOT Board of Directors

Commissioner Mike Geeslin has named David Kester, Harris County, Bart Koch, Tejas American General Agency, LLC, and Carl Roeder, Western Surplus Lines Agency, Inc. to the Surplus

Lines Stamping Office of Texas Board of Directors. Each director will serve 3-year terms. We congratulate them on their appointments and look forward to their participation on our Board. ★

What's
on File
for

Surplus
Lines

2007

Stamping Fee Reduction Proposed

In December, the Stamping Office Board of Directors approved a recommendation that the Commissioner of Insurance authorize a decrease in the stamping fee rate. Based upon a review by the Texas Department of Insurance staff, the rate is recommended to decrease from .1% (.001) to .06% (.0006) Following notice in the Texas Register, a change in the rate would be accomplished through a Commissioner's Order. SLSOT would then give agents approximately 90 days advance notice of the new rate, to ensure binding of business and necessary systems changes are not a problem. ★

Insurance Regulation Reform

A successor bill to HR 5637, the Nonadmitted and Reinsurance Reform Act of 2006, is being prepared for introduction in the US House Financial Services Committee. As with the NIRA, the goal of any legislation is to clarify and simplify how agents make regulatory and tax filings on policies insuring multi-state risks. Also, the initial draft of a Surplus Lines Interstate Compact is anticipated to be ready by the NAIC March meeting in New York City. The compact likewise attempts to solve problems arising out of writing multi-state business. The draft will be made available to regulators, tax officials, brokers, attorneys, and others for review and comment. ★

Premium Taxes Due March 1st

Premium taxes for all 2006 surplus lines business are due to the Texas Comptroller of Public Accounts by March 1, 2007. If you held a surplus lines agent's license at any point during



2006, you are required to file a tax report, even if no tax is due. Tax forms were mailed to each surplus lines agent by the Comptroller's Office at the end of January. If you did not receive a form, please call (800) 252-1387. ★

SL Company Filing Requirements Released

The Texas Department of Insurance (TDI) has released the annual Evidence Filing Requirements Letter for surplus lines insurers for 2007. The Stamping Office distributed the letter in a Bulletin published January 23, 2007. These filing requirements are in accordance with the Texas Insurance Code (Code) and related provisions of the Texas Administrative Code (Rules). The Code and Rules require the TDI maintain a "Surplus Lines Insurers List" compiled from the information submitted by insurers that 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, 2006. Please note that certain evidence can be transmitted electronically. Refer to the letter for instructions.

You can locate a copy of these requirements on our web site at www.slsot.org. ★

Texas Legislative Session



In the 80th Texas legislative session, funding for the Texas Windstorm Insurance Association (TWIA) remains a key issue. Representative Craig Eiland has filed HB 635, which would provide TWIA the authority to request the issuance of bonds by the Texas Public Finance Authority for this purpose. (By the

end of 2007, total TWIA exposure for policies it has issued is expected to reach \$55 billion.) In addition, Mr. Eiland has filed HB 698, which would add commercial property insurance as coverage available from the Texas FAIR Plan to applicants in "underserved areas." Updates regarding these bills and others potentially affecting the surplus lines market can be found on SLSOT's website under "Legislation." ★

TDI Issues Data Call

The Stamping Office is again responding on behalf of surplus lines insurers to a data call from TDI requiring all carriers to provide a count of

policies in force in Texas as of December 31, 2006. SLSOT's involvement has been at the request of both NAPSLO and PCI. ★

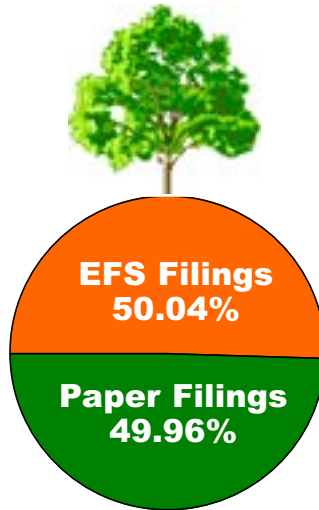
"Filing Strategies - A Road Map to Success"

The SLSOT Web Seminar "Filing Strategies – A Road Map for Success" is now available for review! If you missed the original presentation in October, or you would like to review it a second time, the recorded web seminar in its entirety is now available. (We are in the process of having the presentation edited and broken into topic categories

and will post those sessions as they become available.) We have published the recorded seminar on our website as well as a printable pdf file of the slides that accompanied the session. Please visit the SLSOT Seminars & Workshops link under Publication and Education at www.slsot.org for further details. ★

Electronic Filings vs. Paper Filings in 2006

Electronic filings through the Stamping Office EFS system continue to grow during 2006, with EFS filing totaling more than 50% of total filings for the year. If you have not made the transition to paperless filing, our EFS Department will be happy to assist you in setting up this service to start enjoying the benefits of EFS. Contact the EFS team at (800) 681-5848 or efsinfo@slsot.org for more information. ★



SLSOT Bulletins & Newsletters Go Paperless!



In January, SLSOT ended its practice of sending out paper copies of the Procedures Manual to new agents and insurers, as well as monthly bulletins and quarterly newsletters going to each. Instead, SLSOT now sends an e-mail notification when a new publication becomes available on our website. If you ignored our repeated requests to provide us your e-mail address, obviously we will not be able to send you a notification and you are responsible for monitoring the website to learn of changes to the insurer eligibility lists and other important updates.

For more information on how to subscribe to e-mail notifications, please contact Dalén Harris, Communication Coordinator, at (800) 449-6394 ext. 226, or info@slsot.org. ★

QUICK TIPS

E
F
S

■ Filing electronically allows you to immediately see and correct any errors or "tags" that occur.

■ Once you have submitted your transaction via EFS, you do not have to also submit paper copies of those items to the Stamping Office.

■ Filing transactions via EFS can greatly reduce delays, resulting in fewer (if any) late filed policies.

■ EFS users in the live environment have access to their agency's monthly reports (including invoices).

■ If a typo is made on an EFS entry, it is necessary for you to reverse the transaction and re-enter it with the correct information. You should never enter an "endorsement" that does not exist to correct an EFS typo. ★

EFS Help Desk hours: 8 am - 5 pm CST
Call Toll Free: (800) 681-5848

Helpful Hints

Paper filing of policies

■ When reversing an item, please state REVERSE on item and show the reversal premium on the Transmittal and Verification Slip.

■ Tag memos are not a part of the policy so corrections must be done by use of an endorsement or amended dec page. Be sure you include the tag memo when submitting a correction.

■ Late Tag Notices will not have a copy of the item attached. The original item is returned to you along with the tag when it is first issued.

■ When at all possible, submit a full batch of 20 items instead of 20 batches containing one item. ★



Lone Star Lines
Surplus Lines Stamping Office of Texas
P.O. Box 160170
Austin, Texas 78716-0170

Return Service Requested

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

| Annual Statement Line of Business | Premium through 1/07 | Premium through 1/06 | Percent Change |
|--------------------------------------|-------------------------|-------------------------|-------------------|
| 1 Fire (incl. allied lines) | \$71,490,455 | \$51,979,256 | 37.54% |
| 2 Allied lines | \$3,779,155 | \$1,514,147 | 149.59% |
| 3 Farmowners multiple peril | \$110,849 | \$163,459 | -32.19% |
| 4 Homeowners multiple peril | \$5,433,436 | \$7,766,186 | -30.04% |
| 5 Commercial multiple peril | \$5,606,436 | \$6,324,585 | -11.35% |
| 8 Ocean marine | \$504,741 | \$180,639 | 179.42% |
| 9 Inland marine | \$5,100,923 | \$4,751,433 | 7.36% |
| 11 Medical malpractice | \$3,718,258 | \$8,023,204 | -53.66% |
| 12 Earthquake | \$0 | \$898 | -100.00% |
| 13 Group accident & health | \$7,358,840 | \$7,034,392 | 4.61% |
| 15 All other A&H | (\$9,629) | \$102,406 | -109.40% |
| 17 Other liability | \$134,904,753 | \$144,524,241 | -6.66% |
| 18 Products liability | \$3,120,406 | \$3,709,026 | -15.87% |
| 19.2 Other priv pass auto lia | \$2,002 | \$400 | 400.60% |
| 19.4 Other comm. auto liab | \$9,116,087 | \$11,018,071 | -17.26% |
| 21.1 Priv pass auto physical | \$95,792 | \$101,001 | -5.16% |
| 21.2 Comm auto phys.damage | \$4,528,529 | \$4,153,398 | 9.03% |
| 22 Aircraft (all perils) | \$2,011,498 | \$1,317,029 | 52.73% |
| 23 Fidelity | \$22,325 | \$121,242 | -81.59% |
| 24 Surety | \$5,200 | \$0 | 0.00% |
| 26 Burglary & theft | \$220,916 | \$169,236 | 30.54% |
| 27 Boiler & machinery | \$211,572 | \$13,132 | 1511.12% |
| 28 Credit | \$28,315,152 | \$19,931,220 | 42.06% |
| 31 Aggregate/other business | \$4,662 | \$43,207 | -89.21% |
| TOTAL | \$285,652,358 | \$272,941,808 | 4.66% |

Note: Due to rounding figures may not total

Updated monthly premium totals can be found on-line at www.slsot.org/premium.htm

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The "Lone Star Lines" is published quarterly by the Surplus Lines Stamping Office of Texas for surplus lines agents, companies, and others involved in the surplus lines industry.

Lone Star Lines Staff:
 Phil Ballinger, CPCU, ASLI
 Dalén Harris
 Elaine White, ASLI
 Brian Wilds, CPA, ASLI

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:

Lone Star Lines
SLSOT
P.O. Box 160170
Austin, Texas 78716-0170
phone (512) 346-3274 Austin
Toll Free (800) 449-6394
fax (512) 346-3422

SLSOT web site:
www.slsot.org
 General e-mail address:
info@slsot.org

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

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