

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



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Texas Surplus Lines Insurer Financial Update

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This is the eleventh year the Surplus Lines Stamping Office of Texas (Stamping Office) has prepared a Composite Financial Summary of the insurers operating on a surplus lines basis in Texas. These composites are a product of the insurer evaluation function of the Stamping Office. Under our plan of operation the Stamping Office is required to evaluate each insurer that is eligible (listed on Surplus Lines Insurers List) in Texas and also those seeking initial eligibility. We have been performing this function for 22 years, with the primary work product an evaluation report delivered to the Texas Department Insurance (TDI) for its use in deciding on insurer eligibility. An important component of this process is a one-page, five-year financial summary for each insurer, published as a pdf file on our website (www.slsot.org). These summaries are useful for interested parties needing this type of information. Potential insureds can review financial information for an insurer offering coverage. Surplus lines agents may use these summaries to help fulfill their statutory 'duty of reasonable effort ... to ascertain the financial condition ... of surplus lines insurers', 'to make a reasonable inquiry into the financial condition of the insurer' and their 'continuous duty to stay informed of the insurer's solvency and financial strength'. Each Friday during the year, the Stamping Office publishes the five-

year summaries for those insurers that have been evaluated during that week, making the summaries some of the most current financial data available. The exhibit on page 2 is the result of compiling many significant data elements from each insurer's evaluation. This exhibit compares various annual aggregate financial data and ratios for a five-year period.



The year 2009 can, in some respects, be considered a year of recovery in that aggregate net income after tax was \$8.351 billion for the 195 Texas eligible surplus lines insurers, a 109% increase over 2008. The return on policyholder's surplus grew to 7.2 % compared to 4.3% in 2008. Underwriting

gain grew more than eightfold in this sample and was \$2.526 billion in 2009. Evidence suggests that more disciplined underwriting, fewer catastrophic events, improved loss development and the release of redundant loss reserves positively impacted the underwriting result. The other significant driver of net income, net investment gain (before tax), grew to \$7.416 billion compared to \$4.529 billion in 2008, when the financial market turmoil was at its worst. The combined ratio in 2009 for these surplus lines insurers improved to 91% compared to 96% in 2008.

Capital and surplus in aggregate for 2009 increased \$17.810 billion or 18%

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over the prior year, with average capital and surplus of \$94.4 million, a 19% increase. In addition to net income, the equity market recovery resulted in unrealized capital gains in 2009 compared to unrealized losses in 2008. The year of recovery did not extend to gross premium, net premium or leverage ratios. Nearly every company's Management Discussion and Analysis of operations or Director's report identified soft rates, lower insured exposures due to the world wide economic downturn, competition, and excess insurer capital as causes for the decline in premium with the expectation that the soft market will continue through 2010 and may continue

into 2011. Gross premium for these 195 insurers was \$85.514 billion, a decline of 2.8% over the prior year. Net premium declined 6.1% in aggregate, \$3.064 billion. The gross premium to surplus ratio fell to 74% in 2009 from 90% in the prior year with net premium to surplus ratio declining to 41% from 51%. These two ratios are indicative of excess capital in the market.

There are three distinct risk-bearing entities in the Texas surplus lines market. As of October 1, 2010 foreign (U.S.) insurers make up 75% of eligible insurers [146], Alien (Non-U.S.) insurers are 25% of eligible insurers [48] plus Underwriters at Lloyd's, London

[74 Syndicates]. Of the 48 Non-U.S. insurers 45 are IID listed. Premium produced by licensed surplus lines agents and processed by the Stamping Office for these entities in 2009 was as follows: Foreign insurers \$2.556 billion, 75%; Alien insurers \$203.9 million, 7% and Lloyd's \$660.3 million, 18%. As of September 30, 2010 the total processed premium of \$2.498 billion was down year-to-date 5.0% compared to the same period in 2009. The three types of entities maintained the same market share in 2010 as in 2009. The top ten individual insurers (including Lloyd's) reported 53% of the total premium processed by

(continued, Insurer, page 3)

Texas Surplus Lines Insurer Composite Financial Information

Calendar Year 2009-2005 and Comprised of Currently Eligible Insurers *

	2009	2008	2007	2006	2005
Capital & Surplus	115,689,479,798	97,879,840,420	102,692,104,822	96,255,165,279	75,403,523,298
Average	593,279,384	496,699,698	546,234,600	556,388,239	448,830,496
Median	94,401,947	83,750,500	92,426,439	86,819,000	79,990,451
Underwriting Gain (Loss)	2,525,510,498	253,624,543	4,006,155,437	3,571,040,220	1,196,354,228
Average	13,222,568	1,424,857	21,538,470	20,883,276	7,121,156
Median	960,152	1,034,000	1,969,636	1,835,687	450,642
Net Income After Tax	8,351,650,025	4,067,005,775	10,146,951,413	6,294,992,030	7,952,450,619
Average	43,049,742	20,750,029	54,261,772	36,812,819	47,336,016
Median	4,863,624	2,358,436	5,697,642	5,877,948	4,299,424
Return on Policyholder Surplus	7.2%	4.1%	13.0%	10.5%	9.3%
Gross Premium	85,514,361,135	87,958,091,414	72,764,196,877	81,066,459,165	69,551,987,565
Average	443,079,591	451,067,135	395,457,592	479,683,190	413,999,926
Net Premium	47,004,141,691	50,067,687,310	51,322,190,259	41,542,047,622	35,325,177,586
Average	242,289,390	259,418,069	278,924,947	245,810,933	210,268,914
Gross Premium to Surplus Ratio	74%	90%	71%	84%	92%
Net Premium to Surplus Ratio	41%	51%	50%	55%	47%
SLSOT Premium Processed**	3,274,335,562	3,222,601,195	3,724,220,192	2,998,384,870	2,879,629,825
Average	18,499,071	1,810,451	21,527,284	20,536,883	19,070,396
Combined Ratio	91%	96%	92%	88%	94%
Number of Insurers					
Insurers Included	195	190	187	173	169
Foreign (U.S.)	146	143	139	130	124
Alien (Non-U.S.)	49	47	47	44	44
Underwriters at Lloyd's (Syndicates)	74	76	70	63	60
Eligible Insurers Owned by a Top 50 Global Reinsurance Group	44 (23%)	40 (21%)			
Premium / % of total	\$1.3 B / 37%	\$1.1 B / 33%			
New Submissions for Eligibility	5	14	12	8	8
Priority Rating Changes Upgrades	20 / 10%	23 / 12%	17 / 9%	27 / 16%	39 / 23%
Priority Rating Changes Downgrades	19 / 10%	22 / 11%	14 / 7%	7 / 4%	14 / 8%
Increased capital & surplus	150 / 77%	100 / 51%	143 / 76%	157 / 91%	135 / 80%
Underwriting gains	132 / 68%	107 / 60%	136 / 72%	124 / 72%	108 / 64%
Net income	162 / 83%	139 / 71%	164 / 88%	151 / 87%	150 / 89%
Positive Op. Cash (U.S. insurers)	107 / 73%	111 / 77%	112 / 79%	110 / 86%	91 / 72%

* Exclusive of Underwriters @ Lloyd's ** Will not equal total premium processed by the SLSOT

(continued, Insurer, from page 2)

the Stamping Office in 2009 with this percent declining to 50% as of September 30, 2010. All of the individual top ten premium writing insurers are members of insurance groups. When compiling premium for insurers belonging to an insurance group the top ten groups wrote 62% of the premium processed by the Stamping Office in 2009, declining to 60% as of September 30, 2010. New in the 2009 Financial Update is an analysis of Texas eligible insurers and their relation to reinsurance groups. We used the 2010 A. M. Best Top 50 Global Reinsurance Groups and compiled a list of Texas eligible surplus lines insurers that are owned by one of these reinsurers. Twenty-three of the top fifty groups owned eligible surplus lines insurers. These twenty-three reinsurers owned forty-four surplus lines insurers as of October 1, 2010 or 23% compared to 21% for 2008. Texas surplus lines premium reported to the Stamping Office for these 44 insurers was \$1.268 billion or 37% of 2009's premium processed compared to 33% for 2008. Of note: only two of the twenty-three reinsurers owning eligible surplus lines insurers are based in the U.S.

The data in the lower section of the exhibit reflect the improving health of surplus lines insurers operating in Texas. Capital and surplus increased for 150 insurers (77%), underwriting gains were recorded by 132 insurers (68%), Net income was earned by 162 insurers (83%) and operating cash flow was positive for 73% of the U.S. Insurers. Even in the soft market Texas had five new submissions for eligibility.

In conclusion, the insurers operating on a surplus lines basis in Texas are financially sound. Their balance sheets are in good condition and they have adjusted well to both insurance and financial market conditions. Even though gross and net premiums were lower in 2009, underwriting gains have increased. With the financial market recovery, investment income has returned, resulting in significant net income and increased capital and surplus. The soft market persists, but with the health of these insurers they should be able to maintain profitability. ★

EFS Quick Tips Electronic Policy Filing

- Sharing or loaning your EFS User ID is a violation of our EFS security procedures. Each EFS user MUST have his/her own unique EFS User ID and password. Once identified, users that continue to violate this security procedure may be subject to suspension from the system. Please remember, you need this User ID and password when accessing the EFS for filing transactions, producing reports, or requesting assistance from the EFS Help Desk.
- When you receive an email indicating coverage/class code misuse, please research or email us a copy of the policy to confirm the correct coding. Once the correct coding has been determined, you should then make any necessary corrections. These emails are not considered "tags"; they are simply to confirm that the correct coding has been selected.
- If you are a new user and have never used the EFS, please be advised you will need to complete testing in our test environment prior to accessing the EFS live environment.

Helpful Hints

Paper Policy Filing

- The mandatory Texas Complaint Notice must include the Texas Department of Insurance website and email address. You can download a printable pdf version from our website.
<http://www.slsot.org/SLSOT/AgentInformation/filingforms.html>
- Other States or Exempt premium amounts are only shown on the Other States/Exempt Premium form. Do not include these premium amounts on the Transmittal and Verification Slip.

Has Your Address Changed?

Now it's easier than ever to notify the Texas Department of Insurance of your change in address. Just copy and paste the following link into your web browser to access a variety of change forms. There is also a link to the National Insurance Producer Registry (NIPR) where you can locate an *Electronic Address Change Request for Agents and Adjusters* form.

TDI Link: <http://www.tdi.state.tx.us/forms/form11.html#informationupdate>

Also, don't forget to notify the Stamping Office of any address change at the same time. You can e-mail changes to info@slsot.org or on-line under the Publication/Education menu at www.slsot.org. ★

10th Annual Salsa/Queso Contest



To kick off fall activities, the Stamping Office held its 10th Annual Salsa & Queso Contest in October. This year Raquel Sosa, Data Quality Assurance Analyst, was a first-time winner taking bragging rights for Best Salsa. Brian Wilds, Director of Financial Analysis & Accounting, enjoyed his 5th overall win with Best Queso. The winners received \$25 cash prizes in addition to custody of the famous sombreros until next year's competition! ★

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 10/31/2010	Premium through 10/31/2009	Percent Change
1 Fire (including allied lines)	\$774,456,445	\$786,258,362	-1.50%
2 Allied lines	\$35,614,022	\$56,992,598	-37.51%
3 Farmowners multiple peril	\$985,068	\$869,550	13.28%
4 Homeowners multiple peril	\$83,145,576	\$67,990,316	22.29%
5 Commercial multiple peril	\$153,160,376	\$159,278,641	-3.84%
8 Ocean marine	\$13,538,256	\$13,008,653	4.07%
9 Inland marine	\$50,504,536	\$62,515,893	-19.21%
11 Medical malpractice	\$47,192,666	\$44,332,896	6.45%
12 Earthquake	(\$21,472)	\$205,001	-110.47%
13 Group accident & health	\$66,047,114	\$76,080,382	-13.19%
15 All other A&H	\$4,230,083	\$3,691,335	14.59%
17 Other liability	\$1,135,974,717	\$1,200,000,623	-5.34%
18 Products liability	\$16,328,564	\$22,221,265	-26.52%
19.2 Other private passenger auto liability	\$137,062	\$5,161	2555.73%
19.4 Other commercial auto liability	\$56,583,244	\$53,832,527	5.11%
21.1 Private passenger auto physical	\$1,965,066	\$1,928,614	1.89%
21.2 Commercial auto physical damage	\$53,754,330	\$55,145,115	-2.52%
22 Aircraft (all perils)	\$4,903,957	\$6,501,374	-24.57%
23 Fidelity	\$2,552,890	\$870,718	193.19%
24 Surety	\$833,505	\$410,850	102.87%
26 Burglary & theft	\$2,731,991	\$5,050,803	-45.91%
27 Boiler & machinery	(\$1,247,116)	\$322,646	-486.53%
28 Credit	\$253,002,043	\$291,638,813	-13.25%
31 Aggregate/other business	\$454,465	\$368,021	23.49%
TOTAL	\$2,756,827,388	\$2,909,520,157	-5.25%

Note: Due to rounding figures may not total

Texas market data reports are updated monthly and available to view and print on our website at www.slsot.org under the link Texas Market Data.



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We invite readers to suggest topics for articles that may be of interest to others.

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