

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas



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Federal Excise Tax

The U.S. government imposes a federal excise tax (FET) on premiums paid to alien (non-U.S.) insurers for policies issued to U.S. insureds covering risks located in this country. Once a common tax paid in the surplus lines market, today most non-U.S. insurers are exempt from the provisions of the FET. The FET tax rate is 4% on property, casualty, and marine risks and 1% for reinsurance and is in addition to the normal state premium taxes paid. The tax is payable by the entity that "exports" the premium offshore (i.e., to either a nonresident agent or insurer).



Federal tax treaties with selected foreign governments once afforded most alien insurers exempt status. Today each insurer must also enter into a "closing agreement" with the IRS to obtain a "qualified exemption" from the FET. An insurer claiming a

qualified exemption should be able to provide evidence of its closing agreement with the United States. Alternatively, an insurer can be exempt by electing to pay U.S. income taxes.

Certain Bermuda-domiciled eligible surplus lines insurers currently appear to be subject to the FET. Those insurers are:

Ariel Reinsurance Company Ltd.

Gard Marine & Energy Ltd.

Glencoe Insurance Ltd.

Ironshore Insurance Ltd.

Lancashire Insurance Company Ltd.

Steamship Mutual Underwriting Association (Bermuda) Ltd.

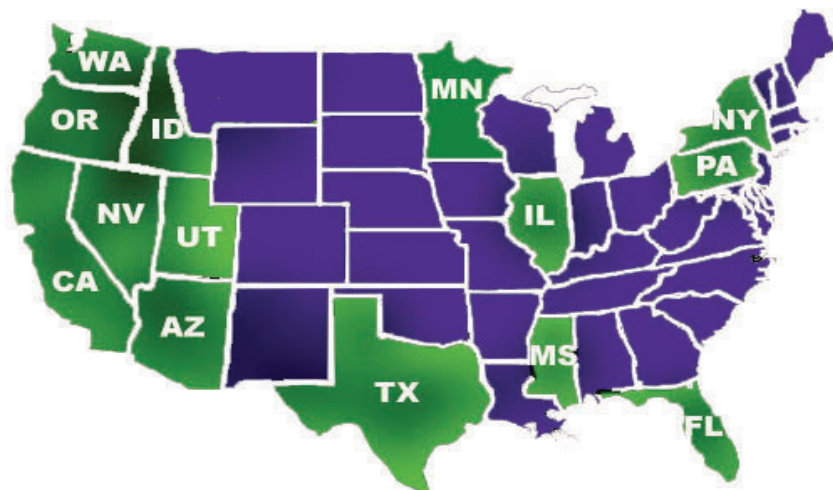
United Kingdom Mutual Steamship Assurance Association (Bermuda) Ltd.

Wind River Reinsurance Company Ltd.

The above is a brief summary of a complex and widely misunderstood tax. Consult your legal counsel for questions regarding the FET. ★

U.S. Stamping Office / Service Office Production Statistics

Statistics reported by the fifteen stamping offices for 2008 continue to reflect the effect of the soft market. Total premium declined 8.2% from 2007 and total items processed decreased 3.6%. However, there were a few offices reporting increases. Only Oregon, Pennsylvania, and Utah reported increases in both premium and items.



STATE	Rates		Premium (millions)			Items		
	St. Fee	SL Tax	2008	2007	% Chg	2008	2007	% Chg
AZ	0.20%	3.00%	\$445.6	\$540.0	-17.5%	69,325	66,554	4.2%
CA	0.225%	3.00%	\$5,723.5	\$5,864.0	-2.4%	466,397	489,998	-4.8%
	New stamping fee rate effective January 1, 2009							
FL	0.10%	5.00%	\$4,400.3	\$4,780.3	-7.9%	1,140,124	1,213,651	-6.1%
	2007 premium adjusted due to corrections by agents in 2008							
ID	0.25%	1.50%	\$75.8	\$86.3	-12.2%	14,598	14,747	-1.0%
IL	0.10%	3.50%	\$1,062.0	\$1,089.9	-2.6%	102,353	109,294	-6.4%
MN	0.25%	3.00%	n/a	n/a		n/a	n/a	
	New stamping office operational January 1, 2009							
MS	0.25%	4.00%	\$352.3	\$387.5	-9.1%	86,194	69,614	23.8%
MT	1.00%	2.75%	\$54.2	\$68.8	-21.2%	13,174	16,261	-19.0%
NV	0.40%	3.50%	\$293.1	\$360.2	-18.6%	28,676	29,878	-4.0%
NY	0.20%	3.60%	\$3,416.2	\$4,042.4	-15.5%	215,698	218,566	-1.3%
	Additional fee of \$25 applies for late/erroneous filing							
OR	\$5.00	2.00%	\$300.3	\$250.2	20.0%	38,877	35,378	9.9%
	Flat stamping fee rate of \$5 per original filing - Additional 1% premium tax on "fire" premium							
PA	\$25.00	3.00%	\$989.0	\$973.7	1.6%	170,803	159,076	7.4%
	Additional fee of \$25 applies for late filing							
TX	0.06%	4.85%	\$3,282.6	\$3,726.2	-11.9%	850,757	890,105	-4.4%
UT	0.15%	4.25%	\$178.5	\$176.3	1.2%	19,154	17,829	-7.4%
	New stamping fee rate effective January 1, 2009							
WA	0.25%	2.00%	\$595.1	\$711.4	-16.3%	93,795	100,893	-7.0%
TOTAL			\$21,168.5	\$23,057.2	-8.2%	3,309,925	3,431,844	-3.6%

NY data is gross premium; 2008 net premium = \$2,430.0 million.

Data for FL includes \$773.2 million /14,453 policies in IP insurance.

Data for TX excludes \$447.1 million in "other state" & \$182.7 million in "tax exempt" premium.

Stamping fee rates are at January 1, 2009.

Items include certain non-premium filings in IL, NV, & TX.

SLSOT Board Elects Officers

The SLSOT Board of Directors elected Carl Roeder, Western Surplus Lines Agency, Inc. as Chairman for 2009 at the Annual Meeting held at the Stamping Office in March. David Kester, Harris County, will serve as Vice Chairman, and William (Bill) Reynolds, Atlantic Casualty Insurance Company, will serve as Secretary. The remainder of the Board members include Phillip Dendy, The University of Texas System, Gil Hine, McClelland & Hine, Inc., James Huckaby, Mesquite Independent School District, Jennifer Jones, Omni Hotels, Len Kaplan, Delta General Agency Corporation, and Bart Koch, Tejas American General Agency. ★

Employee Update

The Stamping Office welcomed Catherine Hull, Christine McDaniel, and Toby Pick as new employees in May. Each are employed as Data Entry Analysts in the Data Services Department. ★



Hull



McDaniel



Pick

EFS Quick Tips Electronic Policy Filing

- When preparing your EFS data validation policies for submission, be sure to use the EFS Data Validation checklist that is enclosed with the request. This will greatly reduce the number of errors.
- It is necessary to enter a negative sign for cancellation entries. The EFS does not assume that a cancellation is return premium.
- In Texas, ultimate compliance responsibility falls on the surplus lines agent. Be sure that both the Complaint Notice and the Notice of Non-Participation in the Guaranty Fund are contained within every policy, binder, cover note, or other confirmation of coverage sent to the insured.

Helpful Hints Paper Policy Filing

- Effective 04/01/09, there is a new version of the mandatory guaranty fund non-participation notice. Remember that this notice is required on all Texas surplus lines insurance policies, as outlined in Sec 981.101(b) of the Texas Insurance Code.
- The name and address of the procuring surplus lines license holder is required on every policy, binder, certificate, cover note, or confirmation of coverage that is issued.
- Be sure the Transmittal and Verification Slip shows the correct name and license number of the surplus lines agent submitting the items for processing.

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 4/30/2009	Premium through 4/30/2008	Percent Change
1 Fire (including allied lines)	\$252,997,340	\$202,630,268	24.86%
2 Allied lines	\$19,182,906	\$12,436,811	52.24%
3 Farmowners multiple peril	\$284,628	\$345,242	-17.56%
4 Homeowners multiple peril	\$23,672,820	\$22,968,958	3.06%
5 Commercial multiple peril	\$59,397,355	\$57,626,245	3.07%
8 Ocean marine	\$1,590,518	\$1,996,749	-20.34%
9 Inland marine	\$25,061,364	\$24,465,883	2.43%
11 Medical malpractice	\$12,298,731	\$17,679,090	-30.43%
12 Earthquake	\$163,961	\$333,493	-50.84%
13 Group accident & health	\$32,396,541	\$31,234,179	3.72%
15 All other A&H	\$1,375,474	\$865,844	58.86%
17 Other liability	\$454,787,385	\$508,897,236	-10.63%
18 Products liability	\$8,396,010	\$9,786,075	-14.20%
19.2 Other private passenger auto liability	\$281	\$13,449	-97.91%
19.4 Other commercial auto liability	\$23,414,535	\$33,862,805	-30.85%
21.1 Private passenger auto physical damage	\$606,088	\$448,601	35.11%
21.2 Commercial auto physical damage	\$31,783,501	\$20,403,576	55.77%
22 Aircraft (all perils)	\$1,061,500	\$7,396,322	-85.65%
23 Fidelity	\$205,394	\$658,504	-68.81%
24 Surety	\$852,417	\$13,203	6356.24%
26 Burglary & theft	\$897,309	\$237,767	277.39%
27 Boiler & machinery	(\$451,398)	\$977,567	-146.18%
28 Credit	\$142,938,610	\$96,793,575	47.67%
31 Aggregate/other business	\$122,906	\$135,906	-9.57%
TOTAL	\$1,093,036,176	\$1,052,207,348	3.88%

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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