



# Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

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## Agent Responsibilities for Surplus Lines Eligibility

From March through September, the Surplus Lines Stamping Office (SLSOT) evaluates 175+ surplus lines insurers' annual filings. The Texas Insurance Code (TIC) and Texas Administrative Code (TAC) prescribe the requirements for an insurer's eligibility, as well as SLSOT's responsibilities. Prior to the creation of the Stamping Office by the 70th Legislature in 1987, surplus lines agents determined Texas surplus lines insurer eligibility, with some oversight by the Texas Department of Insurance (TDI), which identified insurers not to be used. This was a "file and use" method of insurer eligibility. Contemporaneous with the creation of SLSOT, Texas began using an eligibility list ("white list") to identify eligible insurers. The TDI is solely responsible for maintaining the "Surplus Lines Insurers List" of eligible insurers for use in Texas. SLSOT is responsible for assisting TDI by evaluating insurers and making confidential eligibility recommendations based upon these evaluations.

There is another important party responsible for determining eligibility -- the surplus lines agent. Ultimately, agents have the final authority, by controlling which insurers they use to place business. In addition to this authority, the surplus lines agent has certain legal responsibilities specified by law and regulation.

Article 1-14.2 Section 8(a), TIC, states: "A surplus lines agent shall not knowingly place surplus lines insurance

with financially unsound insurers. The surplus lines agent shall make a reasonable effort to ascertain the financial condition of the eligible surplus lines insurer before placing insurance therewith." Title 28 TAC Section 15.9 expands these requirements. The surplus lines agent must:

a) personally make a reasonable inquiry into the financial condition and operating history of an unauthorized insurer.

b) A surplus lines agent shall be under a continuous duty to stay apprised of each insurer's solvency and financial strength.

c) A surplus lines agent is under a further duty to inform the Commissioner and SLSOT of any reasonable doubt as to the capacity, competency, stability, claims practices or good faith of a surplus lines insurer.

d) Each surplus lines agent has the duty to place surplus lines insurance on Texas risks only with an eligible insurer:

1. that possesses financial solvency adequate to its business;
2. that has a surplus to policyholders which is reasonable in relation to its outstanding liabilities;
3. that is of good repute and is competently managed;
4. that provides reasonably prompt

**Information available at the Stamping Office can assist agents in fulfilling their responsibility to place coverage with financially sound surplus lines insurers.**



At its March meeting in Chicago, the Surplus Lines Task Force of the NAIC has again decided to tackle a historical

tarbaby - payment of surplus lines premium taxes on multi-state exposures. While the NAIC has a model law outlining suggested allocation methods, laws among the various states remain inconsistent, conflicting, or even nonexistent. Double taxation on some portion of a policy premium can be the result.

As states begin licensing nonresident surplus lines agents in the coming months, payment of taxes must not remain an obstacle to the insuring of national accounts in the surplus lines market. This is an issue where the interests of the larger states diverge from those of the smaller states. Single-situs payment (i.e., remitting 100% of the taxes to the home state of the agent) appears a reasonable resolution, but one that small states will be unlikely to support.

Commissioner Montemayor of Texas has been asked to sit on the group evaluating the multi-state tax problem, along with representatives from Nevada, California, Alaska, and Georgia. Three of these states have stamping offices.

**Phil Ballinger, CPCU, ASLI  
General Manager**

## Agent Responsibilities (continued from page 1)...

claims service; and

5. that meets all other criteria under the TIC Art. 1.14-2.

The Stamping Office provides the following information to help surplus lines agents meet their responsibilities:

1. The SLSOT web site ([www.slsot.org](http://www.slsot.org)) includes the list of eligible insurers, SLSOT bulletins and various information from TDI, such as the annual insurer evidence filing requirements letter. Perhaps of most value to agents is a five-year financial summary page for each currently eligible surplus lines insurer, highlighting key financial results, ratios and graphs of certain financial trends. The five year financial summary pages are updated each Friday for insurers we have evaluated that week, making this web site the most current information available almost anywhere.

2. Each eligible insurer and those wishing to become eligible must file a variety of evidence to prove they meet the requirements of our state. Most of this information is deemed "public record". SLSOT maintains an evidence file containing the required evidence on each insurer, including annual

statements, annual reports, exam reports, biographical affidavits, and licenses or certificates of authority. We can make this evidence available for inspection at our offices. (If you are interested in reviewing the evidence files of certain insurers, please contact the Technical Services Department. We need some advance notice so files can be prepared.)

3. The Financial Analysis section evaluates each insurer annually. In so doing we gain knowledge about the surplus lines insurers operating in Texas. This evaluation process comprises many financial tests, ratio analysis and other objective measures. Part of our evaluation relies on familiarity with current information about each insurer and its company group. Financial Analysis staff are available to answer questions you may have about an insurer. Although we may not express our opinion, we may provide information of a public nature.

Under Texas law, the surplus lines agent is held legally responsible for placing coverage with financially sound surplus lines insurers. Information available at SLSOT can assist an agent in fulfilling this responsibility. H

## STOP Giving Your Interest to the State!

Effective January 1, 2000, HB 3211 made some important changes to the maintenance and payment of surplus lines premium taxes. First, the law removed the language from Article 1.14-2, Sec. 12 (b) requiring surplus lines agents to maintain a tax trust account. If you choose to continue using a separate bank account for your surplus lines premium taxes, please remove the Texas Department of Insurance (TDI) from the account title and discontinue using the TDI's federal employer identification number

(FEIN). The interest earned on your tax trust account(s) is now yours!

With the elimination of tax trust accounts, there is likewise no longer a requirement to send the account bank statements to the Texas Department of Insurance. This was effective beginning with your January 2000 statement.

HB 3211 also set a threshold of \$70,000 in accrued taxes owed at which you must file a prepayment



with the Comptroller's Office. All surplus lines premium taxes collected are still considered trust funds in the hands of the surplus lines agent.

For additional information on this subject you may want to refer to item two of our Bulletin #SO-2000-01, or contact the Texas Department of Insurance, Company Licensing & Registration, at (512) 322-3522 or the Comptroller of Public Accounts at 800-531-5441 extension 3-4068 or 3-4074. H

## SLSOT Seminars Scheduled for September

This year the focus of our seminars is on the **who, what, when, where, why** and **how** to make your policy filings with the Stamping Office. The sessions will be full of useful filing information, so if you are the person responsible for submitting items to the Stamping Office, please make plans to attend. Because we are dealing only with filing issues, we will be able to go into greater detail than ever before.

Registration information will be mailed to all Texas surplus lines agents in June. On-line registration and additional information will also be available on our web site.

### San Antonio, TX

**Wednesday, September 6, 2000**

San Antonio Convention Center  
200 E. Market Street  
San Antonio, Texas 78205

### Arlington, TX

**Wednesday, September 20, 2000**

Arlington Convention Center  
1200 Stadium Drive East  
Arlington, Texas 76011

### Houston, TX

**Thursday, September 28, 2000**

Westin Galleria - Galleria Tower  
5060 West Alabama  
Houston, Texas 77056

[www.slsot.org](http://www.slsot.org)

### Commissioner Names Two to Board; Board Elects Officers

Commissioner Jose Montemayor has named Cynthia K. Kirk and Dean Frigo to serve three-year terms as public members on the Stamping Office Board of Directors. Ms. Kirk is Division Manager, Risk Management, for the City of Bryan. Mr. Frigo is the Director of Finance for the City of Amarillo. Congratulations to both these new members.

At its March 22nd Board meeting in Austin, the directors elected the following officers for 2000: James Brown, Chairman; Neil Haverlah, Vice-Chairman; and Don Meyer, Secretary. **H**



### Batchman's Helpful Hints

**U** An Agent of Record letter must be sent with renewal certificates if the agent is different from the prior year.

**U** When submitting the annual installments on multi-year policies, don't send the entire policy again. Just file the installment schedule or, if none, just send the dec page with the appropriate info highlighted & a note of explanation. Also remember to use the new stamping fee if the anniversary date is on or after 4/1/00.

**U** Please remember to send two copies of the Transmittal and Verification Slip with each batch (but only one copy of each item). **H**

### ASLI Program Is a Great Training Aid

**D**on't forget about the Associate in Surplus Lines Insurance (ASLI) program when developing a training program for your office. This designation is for everyone whose job duties or professional interests involve surplus lines insurance. What can you gain from the ASLI studies?

**U** Increased knowledge of surplus lines

**U** Continuing education requirements for your license

**U** Competitive advantage

The ASLI designation is awarded following successful completion of four courses - Surplus Lines Principles & Issues; Surplus Lines Insurance Practices; Ethics, Insurance Perspectives, & Insurance Contract Analysis; and Insurance Operations. For further information, contact Doris Hoopes at (610) 644-2100, ext. 7558 or e-mail her at [hoopes@cpcuia.org](mailto:hoopes@cpcuia.org). Also, you can find information on the program on the Stamping Office web site at [www.slsot.org](http://www.slsot.org). Get your staff involved - it's a great way to expand their horizons! **H**

### Who's New?

The Stamping Office welcomes Regina Jackson who joins us as a Records Prep Clerk in the Document Processing Department, and Tammy McDonald, Data Entry Clerk in the Data Entry Department. **H**



Jackson



McDonald



Lone Star Lines  
 Surplus Lines Stamping Office of Texas  
 P.O. Box 9906  
 Austin, Texas 78766-0906

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

Annual Statement Line of Business	Premium through 3/00	Premium through 3/99	Percent Change
1 Fire (incl. allied lines)	\$46,087,777	\$52,275,382	-11.84%
2 Allied lines	\$1,565,421	\$1,852,389	-15.49%
3 Farmowners multiple peril	\$453,517	\$591,062	-23.27%
4 Homeowners multiple peril	\$8,916,354	\$9,310,632	-4.23%
5 Commercial multiple peril	\$4,430,499	\$5,345,156	-17.11%
6 Mortgage guaranty	\$0	\$0	0.00%
8 Ocean marine	\$2,804,772	\$3,388,944	-17.24%
9 Inland marine	\$5,669,712	\$4,646,093	22.03%
10 Financial guaranty	\$0	\$0	0.00%
11 Medical malpractice	\$4,951,415	\$2,803,941	76.59%
12 Earthquake	\$0	\$157,311	
13 Group accident & health	\$14,313,768	\$18,993,728	-24.64%
14 Credit A&H (group & indiv)	\$0	\$0	0.00%
15 All other A&H	\$12,464	\$6,885	81.03%
16 Workers' compensation	\$0	\$0	0.00%
17 Other liability	\$110,237,127	\$103,972,471	6.03%
18 Products liability	\$4,148,020	\$5,172,302	-19.80%
19.1 Priv pass auto no fault	\$0	\$0	0.00%
19.2 Other priv pass auto lia	\$17,754	\$8,698	104.12%
19.3 Comm. auto no fault PIP	\$0	\$0	0.00%
19.4 Other comm. auto liab	\$7,382,249	\$7,648,292	-3.48%
21.1 Priv pass auto physical	\$222,356	\$156,402	42.17%
21.2 Comm auto phys.damage	\$10,226,825	\$7,587,267	34.79%
22 Aircraft (all perils)	\$442,291	\$122,580	260.82%
23 Fidelity	\$74,640	\$168,651	-55.74%
24 Surety	\$40,353	\$409,517	-90.15%
26 Burglary & theft	\$358,296	\$477,464	-24.96%
27 Boiler & machinery	(\$18,803)	\$2,400	-883.46%
28 Credit	\$9,578,492	\$7,518,784	27.39%
31 Aggregate/other business	\$928	\$69,879	-98.67%
TOTAL	\$231,916,227	\$232,686,230	-0.33%

Note: Due to rounding figures may not total

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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 surplus lines business.

Lone Star Lines Staff:  
 Phil Ballinger, CPCU, ASLI  
 Dalén Chisholm  
 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 9906**  
**Austin, Texas 78766-0906**  
**phone (512) 346-3274**  
**fax (512) 346-3422**

SLSOT web site:  
<http://www.slsot.org>  
 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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