

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

Update: Surplus Lines Composite Financial Data

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The Surplus Lines Stamping Office of Texas' (SLSOT) annual evaluation of each and every insurer that is eligible or seeking initial eligibility in Texas results in a recommendation to the Texas Department of Insurance, who ultimately decides an insurer's status. A by-product of the evaluation process is the accumulation of statistical data on all eligible insurers. The accompanying exhibit is a composite of essential financial data for the group of eligible surplus lines insurers over the years 2001-2004.

The surplus lines landscape is in constant change, whether from catastrophic disasters, legal challenges, market cycles, reinsurance pressures or regulatory issues at both the state and federal level.

The insurer composite data reveals trends and changes taking place.

■ In 2004, capital and surplus (C&S) in aggregate increased for the 167 eligible surplus lines insurers. The total was \$65.4 billion compared to \$55.8 billion in 2003. The average was \$392 million, an increase of 17% over 2003; the median C&S was \$64 million, or 12% greater than in 2003. (Lloyd's underwriting capacity for 2004 was \$29.2 billion and projected capacity for 2005 is \$26.6 billion, a 9% reduction. This suggests an emphasis on underwriting discipline.) One hundred forty-two of 167 insurers increased C&S, 151 insurers had positive unassigned surplus (retained earnings) and only 16 had negative unassigned surplus. This result is an improvement over the prior

three years. Of the insurers that increased C&S, 102 increased their value by more than their net income, indicating capital infusions and unrealized capital gains.

■ The composite underwriting result for 2004 was negative, as was the average underwriting result, reversing the underwriting gains of 2003. Seventy-nine of 167 insurers reported underwriting gains, down 16% from 2003 and 7% fewer than in 2002.

■ Net income remained strong, suggesting improved investment income. On average, net income increased 10.9% over 2003, with 144 of 167 insurers reporting a profit. Return on policyholder surplus slid from 10.4% in 2003 to 9.3% in 2004.

■ Cash flow from operations was less in 2004 as 6% fewer U. S. domiciled insurers reported positive cash from operations.

■ The combined ratio for this composite was 97% or 6% higher than 2003, indicative of the softening market in 2004. The good news is that 2004 was the second consecutive year the combined ratio was less than 100%.

■ The effect of the prior years' hard market on pricing and profitability was shown by 32 insurers receiving improved SLSOT priority scores, while only 9 were downgraded.

■ Surplus lines premium processed by the Stamping Office in 2004 increased \$376 million, or 12.8%. Premium for 2005 through September compared to the same period in 2004 was 8.1% lower, further indicating a softening of the market. The year-to-date average premium per policy at September 30,

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2005 was \$6,135, a decline of 1.8% from the same period last year. Texas surplus lines premium is declining while other large states continue to show increases in surplus lines business. Sources within the market suggest the Texas market hardened earlier and more quickly than other states and a market softening is following a similar pattern. Rumbblings are that 'all bets are off' due to the recent hurricanes Katrina, Rita and Wilma. There is uncertainty in the marketplace because of the losses from these catastrophes and their impact on reinsurance costs.

■ A slow down in the number of new submissions for eligibility coincided

with the softening of the market in 2004.

■ Currently there are 126 foreign (U. S. domiciled) surplus lines insurers, Underwriters at Lloyd's London (57 syndicates), and 42 alien (non-U. S. domiciled) insurers eligible in Texas. Market share as of September 30, 2005 is comparable to prior years with foreign insurers commanding 80% of the market, up 1% over 2004, Lloyds's remaining at 15%, and other alien insurers down at 5%. Market share for the top ten insurers rose slightly in 2004 to 51% of total Texas surplus lines premium, while the top ten insurance groups' market share remained 62%. For the first time since

the inception of the Stamping Office a group other than Underwriters at Lloyds held the top spot in surplus lines premium writings in Texas – as of September 30, 2005 the American International Group had written \$362 million and Lloyd's had written \$334 million.

The insurers making up the Texas surplus lines market are of excellent quality, as 98% of the foreign insurers maintain an A. M. Best secure rating, compared to 87% for the U.S. property / casualty industry as a whole. Non-U.S. insurers that are formally followed by Best all had secure ratings. ★

COMPOSITE FINANCIAL INFORMATION

Calendar Year 2004 - 2001

Comprised of currently Eligible Insurers*

	2004	2003	2002	2001
Capital & Surplus	65,448,080,153	55,849,152,951	42,062,637,753	38,368,679,185
Average	391,904,671	334,426,066	258,052,992	236,843,699
Median	64,323,256	57,339,000	45,941,353	38,649,500
Underwriting Gain (Loss)	(590,055,784)	923,880,897	(763,346,938)	(2,841,152,243)
Average	(3,907,654)	5,532,221	(4,712,018)	(17,537,977)
Median	751,623	0	0	(1,586,406)
Net Income After Tax	5,622,573,701	5,072,091,271	814,008,648	593,388,231
Average	33,668,106	30,371,804	5,055,954	3,662,890
Median	3,825,700	2,853,996	1,520,000	1,121,624
Return on Policyholder Surplus	9.3%	10.4%	4.4%	3.1%
Gross Premium	69,867,100,778	69,968,959,001	57,423,352,196	38,788,001,284
Average	418,365,873	418,975,802	354,465,137	239,432,107
Net Premium	35,467,692,764	34,276,556,365	27,939,361,255	20,923,554,440
Average	212,381,394	205,248,841	172,465,193	129,157,743
Gross Premium to Surplus Ratio	107%	125%	137%	101%
Net Premium to Surplus Ratio	54%	61%	66%	55%
SLSOT Premium Processed**	2,800,896,916	2,645,125,725	2,074,174,528	1,168,870,342
Average	16,975,133	16,128,815	12,724,997	7,492,759
Combined Ratio	97%	91%	104%	111%
Number of Insurers				
Insurers Included	167	166	166	162
New Submissions for Eligibility	4	6	12	0
Upgraded SLSOT Evaluation Priority Ratings	32	24	30	22
Downgraded SLSOT Evaluation Priority Ratings	9	14	25	36
Increased Capital & Surplus	142	148	123	103
Underwriting Gains	79	94	85	56
Net Income	144	146	121	127
Positive Cash From Operations	101	107	106	87

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

Commissioner Geeslin Appoints New SLSOT Board Member

Gilbert C. Hine, Jr., CPCU has been appointed by Commissioner of Insurance Mike Geeslin to the Stamping Office Board of Directors. Mr. Hine is President of McClelland & Hine, Inc. in San Antonio. He will serve the unexpired term of Paula Burnes, who retired earlier this year. His term expires on December 31, 2007. ★

TDI Issues Data Call to Surplus Lines Insurers

In coordination with regulators from Alabama, Florida, Louisiana, and Mississippi, the Texas Department of Insurance has issued a mandatory data call to all insurers writing property and casualty insurance in Texas, including surplus lines insurers. The data call

is for the purpose of providing TDI with information to determine the financial impact of claims resulting from Hurricane Rita. The data call bulletin can be accessed through the Stamping Office website under "Hot News." ★

Data Services Takes Top Honors in Annual Salsa & Queso Competition

Competition was strong and mouths were burning at the Stamping Office's 5th Annual Salsa & Queso Competition held on Halloween. This year's bragging rights go to Cristina Abascal for Best Salsa and Veronica Bohannon for Best Queso. Cristina works as a Data Entry Analyst / Agent Support in the Data Entry Department

and Veronica is the Data Services Supervisor. This highly anticipated event is always a hit with the employees who are encouraged to sample all the entries and vote for their favorite in each category. The winners receive \$25 in addition to custody of the famous sombreros to display proudly in their workspace until the next year. ★

**Best Salsa
2005**

--
*Cristina
Abascal*



**Best Queso
2005**

--
*Veronica
Bohannon*

Congratulations ladies!

Electronic Filing System Quick Tips

**E
F
S**



■ You must use the negative sign when entering a cancellation.

■ There is a HELP button on every page in the Electronic Filing System.

■ Please read all e-mails or faxes for notifications or other information from the EFS Help Desk.

■ All agent /agency information must be kept current with TDI. SLSOT receives its data on agents from TDI. ★

EFS Help Desk (800) 681-5848

Helpful Hints - paper filing of policies

■ When filing multiple endorsements to the same policy, list each endorsement separately on the Transmittal and Verification Slip, do not add them together and list them as one item.

■ When filing a policy replacing a binder, note this on the Transmittal and/or on the item itself to avoid duplication of premium.

■ When filing corrections, return the tag memo along with the item you submit for processing to insure removal of the suspense. Otherwise, you will continue to receive "Late Tags". ★

SLSOT Employee News

The Stamping Office congratulates Eva Deselms on her promotion to Data Entry Examiner II. Ms. Deselms has been employed with SLSOT since 1997.

SLSOT's Executive Director Phil Ballinger

has been appointed to the CPCU Society's Excess / Surplus / Specialty Lines Section Committee. Also, in November Phil will be an instructor for the fourth year at the NAPSLO Advanced School in Dallas. ★



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Return Service Requested

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

Annual Statement Line of Business	Premium through 09/05	Premium through 09/04	Percent Change
1 Fire (incl. allied lines)	\$513,014,577	\$646,185,324	-20.61%
2 Allied lines	\$17,701,713	\$23,103,988	-23.38%
3 Farmowners multiple peril	\$1,624,299	\$1,334,830	21.69%
4 Homeowners multiple peril	\$82,664,505	\$108,434,966	-23.77%
5 Commercial multiple peril	\$60,097,399	\$62,751,389	-4.23%
8 Ocean marine	\$5,293,707	\$8,846,375	-40.16%
9 Inland marine	\$51,250,278	\$47,397,776	8.13%
11 Medical malpractice	\$61,925,182	\$57,878,953	6.99%
12 Earthquake	\$21,556	(\$2,337)	1022.37%
13 Group accident & health	\$62,069,775	\$74,942,631	-17.18%
15 All other A&H	\$1,251,439	\$712,852	75.55%
17 Other liability	\$1,189,219,027	\$1,202,260,264	-1.08%
18 Products liability	\$24,547,258	\$38,190,287	-35.72%
19.2 Other priv pass auto lia	\$4,666	\$11,466	-59.31%
19.4 Other comm. auto liab	\$102,629,934	\$107,482,038	-4.51%
21.1 Priv pass auto physical	\$1,049,113	\$1,027,160	2.14%
21.2 Comm auto phys.damage	\$47,838,289	\$53,173,808	-10.03%
22 Aircraft (all perils)	\$7,746,973	\$5,641,627	37.32%
23 Fidelity	\$1,059,582	\$1,421,262	-25.45%
24 Surety	\$3,418,300	\$0	0.00%
26 Burglary & theft	\$1,337,244	\$1,328,103	0.69%
27 Boiler & machinery	\$42,143	\$90,927	-53.65%
28 Credit	\$64,859,712	\$63,091,824	2.80%
31 Aggregate/other business	\$251,276	(\$769,165)	132.67%
TOTAL	\$2,300,917,947	\$2,504,536,348	-8.13%

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

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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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