Lone Star Lines

Volume 4, Spring Issue 1998 ~ Surplus Lines Stamping Office of Texas

INSIDE:

SLSOT Celebrates 10th Anniversary!

10 Years and Counting...

July 1st marks the tenth anniversary of the Surplus Lines Stamping Office of Texas. One certainty has emerged since we opened our doors a decade ago. That certainty is change.

Consider a few of the changes that have occurred. Prior to our existence, agents filed affidavits of diligent effort with the State Board of Insurance (SBI) on each risk written. No minimum capitalization was required of surplus lines insurers. Agents paid premium taxes semi-annually to SBI. Today, agents file a copy of each surplus lines policy written in Texas to the Stamping Office in lieu of an affidavit. Surplus lines insurers must maintain minimum capital and surplus of $15 million. Agents pay taxes annually to the Comptroller of Public Accounts. Over the past decade,the 3-member State Board of Insurance was abolished and replaced with the Texas Department of Insurance, headed by the Commissioner. Seven Commissioners have served Texas. A surtax on each policy was introduced, then abolished. The stamping fee rate was originally set at .4%, then decreased to .23%, to .1%, then increased to the current .15%. The original Stamping Office was located at Great Hills Corporate Center in Austin, with Jack Claitor as General Manager. Today's Stamping Office operates from Bridgepoint Plaza in the hills of Northwest Austin, with Charles Tea as General Manager.

The present location of the Surplus Lines Stamping Office located in Austin, Texas.

The concept of a stamping office was certainly not a new concept back in 1987. The California and Oregon stamping offices began their operations in 1938. In Texas, the possibility of creating a stamping office to provide effective self-regulation had been a topic of discussion in the Texas Surplus Lines Association (TSLA) for many years. Two converging factors in the mid-'80s demonstrated that the stamping office was an idea whose time had come.

First, a fiscal crisis in state government, tied primarily to precipitous declines in the price of oil, caused severe constraints on state agency budgets. This led to concern at the State Board of Insurance over its ability to properly regulate the surplus lines industry. Secondly, the crisis in the availability of liability insurance promoted an extremely hard market and a dramatic jump in surplus lines writings, a situation noted by the Texas Legislature.

TSLA brought forward the feasibility of a stamping office as potentially beneficial to all parties. Subsequently, a committee composed of members of the TSLA Board of Directors, the State Board of Insurance, and members of interested insurance industry organizations met to hammer out Senate Bill 989, passed by the 70th Legislature and becoming effective September 1, 1987. The Stamping Office officially opened for business and began processing policies July 1, 1988. At the same time the Stamping Office was being created, concern over the solvency of unauthorized insurers writing surplus lines insurance led to the adoption of Senate Bill 526,also drafted with the assistance of TSLA. This bill phased in a minimum level of capital and surplus for surplus lines insurers, beginning at $2.5 million 12/31/87 and increasing to $6 million by 12/31/92. Subsequent legislation ultimately increased the amount to the current $15 million figure, required as of 12/31/95.

There have been numerous changes to the *Surplus Lines Insurers List* (eligible list). The initial eligible list contained 226 insurers. *(continued, see Anniversary, next page)*

Anniversary...continued from page 1

Over these 10 years 192 insurers have been added and 234 insurers removed, resulting in 184 insurers listed as of March 1, 1998. In addition, Underwriter's at Lloyds syndicates are now individually listed.

Over the years, it is true that much has changed. However our fundamental goals remain: to promote an efficient, reputable, and financially stable surplus lines market; to monitor the activities of people and entities involved in the surplus lines insurance industry; to facilitate compliance with the law by licensed surplus lines agents; to work to protect the tax revenues of the state; and ultimately to protect the policyholders of Texas. ■

Words from the Associate Commissioner of Insurance...

Please accept our congratulations to the Surplus Lines Stamping Office of Texas on their 10th anniversary. We wish you continued success into the future.

Looking back over the last 10 years, I see many positive developments in your operations and the services given to the Department and the surplus lines industry. Even in "soft" markets, the surplus lines industry continues to play a critical role in our marketplace by "filling in the gaps." The operations of the Stamping Office have been a vital component of that marketplace and have gone a long way toward ensuring compliance with Texas statutes and rules through educational progams and other endeavors. You are to be commended for those very fine efforts.

Again, our heartfelt congratulations on your 10th birthday, and best wishes for continued success.

Sincerely,

Jose Montemayor, CPA
Associate Commissioner, Financial, Texas Department of Insurance

Introduction to Surplus Lines Insurance

FREE

As an expanding service to you and as an alternative to the yearly surplus lines educational seminars, the Stamping Office has designed a series of workshops that will be presented in 5 cities around the state of Texas. The first workshop was held in Austin at the Stamping Office on April 22. The next two will be held in Dallas, June 11, and Houston, July 13. Although open to any interested party, the sessions will be geared toward newly licensed surplus lines agents and new employees of existing surplus lines agencies. These workshops will be introductory level and will emphasize the basics of surplus lines insurance. Watch your bulletins or visit our website (www.slsot.org) for additional information on each workshop or call the Stamping Office at (512) 346-3274 ext. 26 for a brochure. ■

SLSOT Presents Educational Workshops...

Who should attend?

- Newly licensed surplus lines agents
- Agency staff with 0-2 years experience in surplus lines
- Offices receiving a large number of "tags" from the Stamping Office

Hear speakers from the...
Texas Department of Insurance,
Surplus Lines Stamping Office of Texas
Comptroller of Public Accounts

What will you learn?

- Basic surplus lines insurance regulation:
  Diligent effort, Use of eligible insurers,
  Collection and payment of taxes,
  Maintenance of agency records,
  Filing policies with the Stamping Office
- Comptroller's office - What is it? What does it do?
- Information on what the Stamping Office does
- What, when, and how to file with the Stamping Office
- How to pay stamping fees

The Insurance Fraud Prevention Act Affects You!!!

The Insurance Fraud Prevention Act (IFPA), passed by the U.S. Congress in September, 1994, creates new federal criminal liabilities and penalties for those employed in the insurance industry. The IFPA subjects insurance company executives, directors, employees, MGAs, brokers, and agents to potential federal criminal prosecution, yet most remain unaware of this law's impact.

The IFPA prohibits three basic types of activities:

- Presenting materially false financial reports about an insurer to either regulators or business associates.
- Misappropriating premiums and other funds belonging to an insurer; and
- Permitting a person convicted of a felony involving dishonesty to participate in insurance transactions.

The Act is quite broad. For example, the IFPA covers material misrepresentations resulting from manipulation of an insurer's assets, reserves, reinsurance, or dealings with affiliates. It covers personal behavior as well as failure to exercise appropriate supervisory controls.

The breadth of the IFPA generates many questions. What constitutes a "materially" false report? When is transfer of funds a "misappropriation"? How lengthy a background check must a manager perform on a job applicant to avoid "willfully permitting participation" in the insurance business by a convicted felon?

Each surplus lines agent and insurer should become familiar with the provisions of the IFPA. Since the Act does not recognize ignorance of its provisions as a defense, neglecting to learn about the IFPA can have serious consequences. Protect yourself and your organization. ■

A detailed discussion of the IFPA can be found on the Internet at: http://www.oversight-results.com. In addition, an article in the January 12, 1998, issue of BestWeek entitled "Could the Feds Nail You for Fraud? New Criminal Law Casts a Wide Net" provides a good overview of the law.

Congratulations
10 years of service

The Stamping Office congratulates Elaine White and Brian D. Wilds for their 10 years of service with our office! We wish them both continued success and thank them for a job well done.

Elaine White is the System Analyst and Production Supervisor of the Data Entry Department. Away from the office Elaine enjoys needlepoint and "cruising" to rod runs with her husband Joe in their 1940 beautifully restored Ford streetrod.

Brian D. Wilds, CPA, is the Senior Financial Analyst in the Technical Services Department. In his spare time you can find Brian working on home improvements with his wife Kim, or coaching their children in any number of sports in which they play. ■

Yours, Mine, & Ours

Filing polices during mergers & buyouts

If you file policy transactions pertaining to a policy originally filed by another agent, you must submit an "agent of record" letter along with those transactions. We recommend filing these items in separate batches so one letter is sufficient for the entire batch. If you maintain two separate licenses, items submitted for the different agents can not be mixed together in one batch. ■

1996 Texas Premium by Line of Business by Market Segment (000's of Dollars)

	Rate Regulated	Pct	County Mutuals	Pct	Surplus Lines	Pct	Totals
Fire & Allied Lines	$ 1,004,887	79.1%	$ 30,055	2.4%	$ 235,307	18.5%	$ 1,270,249
Farmowners Multiple Peril	$ 56,629	95.5%			$ 2,660	4.5%	$ 59,289
Homeowners Multiple Peril	$ 2,404,110	98.8%			$ 29,807	1.2%	$ 2,433,917
Commercial Multiple Peril	$ 939,786	97.2%	$ 222	0.0%	$ 26,804	2.8%	$ 966,812
Mortgage Guaranty	$ 155,977	100.0%					$ 155,977
Ocean Marine	$ 127,028	89.4%			$ 15,019	10.6%	$ 142,047
Inland Marine	$ 447,725	92.4%	$ 25,590	5.3%	$ 11,159	2.3%	$ 484,474
Financial Guaranty	$ 36,156	100.0%					$ 36,156
Medical Malpractice	$ 276,381	90.7%			$ 28,381	9.3%	$ 304,762
Earthquake	$ 2,363	85.3%			$ 407	14.7%	$ 2,770
Group A&H	$ 196,255	76.5%			$ 60,240	23.5%	$ 256,495
All Other A&H	$ 100,679	98.0%			$ 2,041	2.0%	$ 102,720
Workers' Compensation	$ 1,686,115	100.0%					$ 1,686,115
Other Liability	$ 1,111,032	67.1%	$ 35	0.0%	$ 543,930	32.9%	$ 1,654,997
Products Liability	$ 92,465	75.8%			$ 29,596	24.2%	$ 122,061
Priv Pass Auto No Fault (PIP)	$ 298,610	81.2%	$ 69,270	18.8%			$ 367,880
Other Priv Pass Auto Liab	$ 3,731,999	74.1%	$ 1,304,675	25.9%	$ 47	0.0%	$ 5,036,721
Commercial Auto No Fault (PIP)	$ 17,701	85.2%	$ 3,071	14.8%			$ 20,772
Other Commercial Auto Liab	$ 715,959	75.6%	$ 188,451	19.9%	$ 42,767	4.5%	$ 947,177
Priv Pass Auto Phys Damage	$ 1,765,650	69.4%	$ 778,663	30.6%	$ 450	0.0%	$ 2,544,763
Commercial Auto Phys.Damage	$ 224,494	64.3%	$ 88,565	25.4%	$ 35,808	10.3%	$ 348,867
Aircraft	$ 105,342	93.2%			$ 7,651	6.8%	$ 112,993
Fidelity	$ 46,076	93.9%			$ 2,994	6.1%	$ 49,070
Surety	$ 198,236	99.6%			$ 708	0.4%	$ 198,944
Glass	$ 773	96.3%			$ 30	3.7%	$ 803
Burglary & Theft	$ 7,158	78.7%			$ 1,937	21.3%	$ 9,095
Boiler & Machinery	$ 48,860	99.9%			$ 33	0.1%	$ 48,893
Credit	$ 16,528	40.2%	$ 8,153	19.8%	$ 16,471	40.0%	$ 41,152
Aggregate/Other lines	$ 119,700	59.5%	$ 81,581	40.5%	$ 32	0.0%	$ 201,313
TOTAL	$ 15,934,674	81.3%	$ 2,578,331	13.1%	$ 1,094,279	5.6%	$ 19,607,284

Note: Rate regulated insurers include stock, mutual, reciprocal, and Texas Lloyds companies
Note: Figures may not total due to rounding

Sources: TDI Page 15 Annual Report; SLSOT Premiums Processed

PAST STAMPING OFFICE CHAIRMEN OF THE BOARD OF DIRECTORS

Joe Howse - Cravens Dargan & Co.	1987-1989
Bob Quirk -Quirk & Company/	1990
Fred Steves - Myron F. Steves & Co,	1991
Eugene Eisenmann - Heath Insurance Brokers, Inc	1992
Armin W. Blumberg, Jr.- Admiral Insurance Co.	1993
Donald W. Avera - Nations Bank	1994
Orville D. Jones - Crump Insurance Services, Inc.	1995
Ron McElyea - Western Surplus Lines Agcy, Inc.	1996
Marty Michell - Admiral Insurance Co.	1997

Batchman's Helpful Hints

Don't forget...the name and address of the procuring surplus lines agent must be shown on every new or renewal insurance contract, certificate, cover-note or other confirmation of insurance as prescribed by the Texas Insurance Code, Article 1.14-2 Section 7(a).

■ Make sure each Transmittal and Verification Slip has a separate total even when submitting a group of numbered batches.

■ For a great reference point, visit our web site at **www.slsot.org**. ■

Lone Star Lines
Surplus Lines Stamping Office of Texas
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Austin, Texas 78766-0906

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For Your Info

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 3/98	Premium through 3/97	Percent Change
1 Fire(incl. allied lines)	$52,020,961	$49,045,283	6.07%
2 Allied lines	$1,999,378	$2,021,343	-1.09%
3 Farmowners multiple peril	$420,165	$563,201	-25.40%
4 Homeowners multiple peril	$9,431,736	$8,110,304	16.29%
5 Commercial multiple peril	$4,769,043	$7,236,549	-34.10%
6 Mortgage guaranty	$0	$0	0.00%
8 Ocean marine	$2,978,536	$8,427,852	-64.66%
9 Inland marine	$4,544,512	$2,776,660	63.67%
10 Financial guaranty	$0	$0	0.00%
11 Medical malpractice	$3,372,318	$5,477,345	-38.43%
12 Earthquake	($844)	($5,850)	85.57%
13 Group accident & health	$20,932,681	$18,788,311	11.41%
14 Credit A&H(group & indiv)	$1,550	$0	0.00%
15 All other A&H	$25,349	$996,029	-97.46%
16 Workers' compensation	$0	$0	0.00%
17 Other liability	$121,799,768	$128,366,833	-5.12%
18 Products liability	$5,683,352	$6,412,038	-11.36%
19.1 Priv.pass auto no fault	$0	$0	0.00%
19.2 Other privpass auto lia	$33,444	$9,452	253.83%
19.3 Comm. auto no fault PIP	$0	$0	0.00%
19.4 Other comm. auto liab	$10,061,994	$9,456,356	6.40%
21.1 Priv.pass auto physical	$296,753	$281,046	5.59%
21.2 Comm auto phys.damage	$8,020,010	$9,268,617	-13.47%
22 Aircraft (all perils)	$696,529	$2,946,338	-76.36%
23 Fidelity	$431,475	$355,984	21.21%
24 Surety	$8,591	$15,779	-45.56%
25 Glass	$7,511	$7,348	2.22%
26 Burglary & theft	$154,838	$548,783	-71.79%
27 Boiler & machinery	$1,668	$241,050	-99.31%
28 Credit	$9,161,813	$6,085,571	50.55%
31 Aggregate/other business	$12,392	$95,508	-87.02%
TOTAL	$256,865,523	$267,527,727	-3.99%

Note: Figures may not total due to rounding

Volume 4, Spring 1998

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.

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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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