

SURPLUS LINES STAMPING OFFICE *of Texas*

2015 *Annual Report*



CHAIRMAN'S REPORT: *Monte Stringer*

2015 marked SLSOT's 28th year of operation and my first year serving as Chairman of the Board. Interestingly, the year had a number of significant changes, both from an internal and external perspective. From the latter part of 2014 to the beginning of 2015, the organization embarked on finding a new Executive Director to lead the Texas Surplus Lines Stamping Office. The Board selected a native Texan, Norma C. Essary, with a professional background in insurance and risk management. She has been a leader in her industry and understands the value and expertise that comes from the surplus lines market. Our expectation is that she serves this great State of Texas with a goal-oriented focus to increase efficiencies while instilling appropriate technology requirements that meet the legislative intent of the Plan of Operation. As Chairman of the SLSOT Board, we believe it is imperative that a change management philosophy is supported with a top to bottom approach to ensure this organization plans for the next wave of cultural, generational and technological progressions. Equally important is that we maintain broker compliance, inform and educate parties to support the protection and reputation of the excess and surplus (E&S) insurance market.

Overall, we are pleased with the 2015 E&S results. Liability insurance is still a major source of premium that drives the Texas market. And although the admitted market continues to remain relatively soft, the surplus lines growth has surged over the last five years, which points to the unique exposures and limits that consumers often times require. Still holding strong, Texas is the 2nd largest surplus lines market in the US with annual premiums of approximately \$5B+. The ability to meet the needs of consumers who require such coverage is paramount, as is the ability to achieve the Plan of Operation by the adoption of consistent measures that support the value of E&S insurance to Texas.

As always, it has been my pleasure and honor to serve as Chairman and Board of Director, Surplus Lines Stamping Office of Texas. It is a fact that the leadership of this Board is committed to providing a service for the unique needs of the insurance consumer and for maintaining compliance standards that continue to allow surplus lines insurance to thrive.

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EXECUTIVE DIRECTOR'S REPORT: *Norma Carabajal Essary*

This past year has been a pleasure serving at the helm of the Surplus Lines Stamping Office (SLSOT). The fact remains that we are a committed organization in meeting the business needs of agencies and industry professionals to ensure transparency, compliance, and value to the various stakeholders. Our mission is to meet the Plan of Operation with goals of oversight, collection, compliance, education and reporting capabilities that speak to the volumes (and value) the excess and surplus lines (E&S) insurance market brings to Texas consumers.

In 2015, we recorded more than \$5 billion in surplus lines premium, with touch points of approximately one million transactional business policy and informational filings. Texas continues to represent one of the largest markets in the world and continues to ensure that surplus lines insurance serves for the intended markets and unique consumer risks.

Even with such event volatility, the Texas market remained a robust state in light of significant mergers and acquisitions across the State, US, and globally. The energy market sustained highs and lows without major premium loss to Texas. Nationwide, the ride share industry had a turbulent start, but eventually legislation was written directly to meet the concerns of citizens, industry stakeholders, and municipality requirements. And, while the nation's catastrophic losses during the first half of 2015 were only slightly lower than the year prior, our State of Texas quickly recovered from flood, tornadoes, power outages, and blizzard-like conditions that displaced homeowners, damaged infrastructure, and unfortunately, lost lives.

Given those occurrences, it is imperative that we meet regulatory requirements, and message the value of E&S as an effective solution for Texas consumers who have unique and none-standard risks. Equally important is that we also validate that the surplus lines market is financially secure and dominated by insurers who often times have ratings significantly higher than the overall market. All of which is good for the State of Texas, and provides the end result of creating a competitive and healthy surplus lines marketplace for all.

“Texas
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EXECUTIVE SUMMARY

The Surplus Lines Stamping Office of Texas (“Stamping Office”) was created by the 70th Legislature in 1987 to provide oversight with statutory regulation, research, and reporting for the surplus lines market. The Stamping Office encourages and enhances compliance by agents and insurers, and performs functions enumerated in the Texas Insurance Code to assist the Texas Department of Insurance (“TDI”) with functional compliance with the surplus lines insurance laws of the State of Texas.

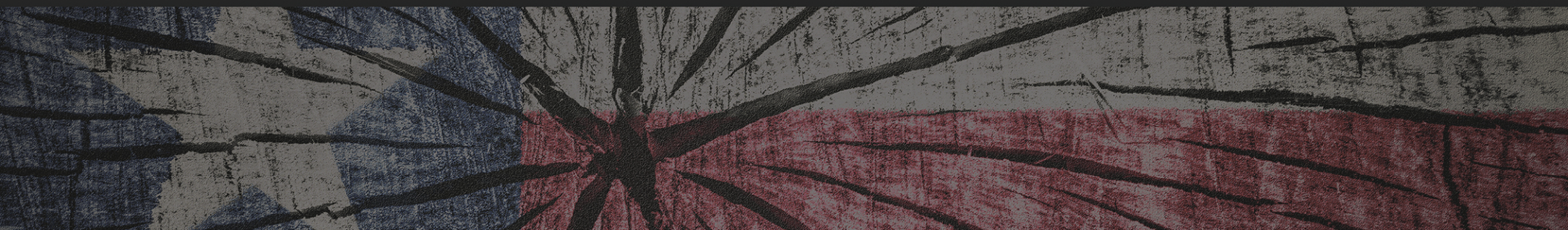
This report is made pursuant to the Stamping Office Plan of Operation, which requires that an annual summary of operations containing information on transactions, conditions, operations, and investments during the preceding year be made to the Commissioner of Insurance [28 TAC §15.101(e)(6)(C)].

GOALS

- Effectively meet Plan of Operation to enhance compliance with Texas surplus lines laws
- Foster a reputable, efficient, and financially strong Texas surplus lines market
- Maintain excellent working and customer service relationships with key stakeholders

STAMPING OFFICE HIGHLIGHTS

- \$5 billion in Texas surplus lines premium
- 926,389 surplus lines insurance filings
- More than 97% of all filings processed through Stamping Office’s Electronic Filing System (EFS)
- Audited 6,366 policies reported by 686 surplus lines agents under the Policy Analysis Program
- Evaluated eligibility evidence for 227 unlicensed insurers

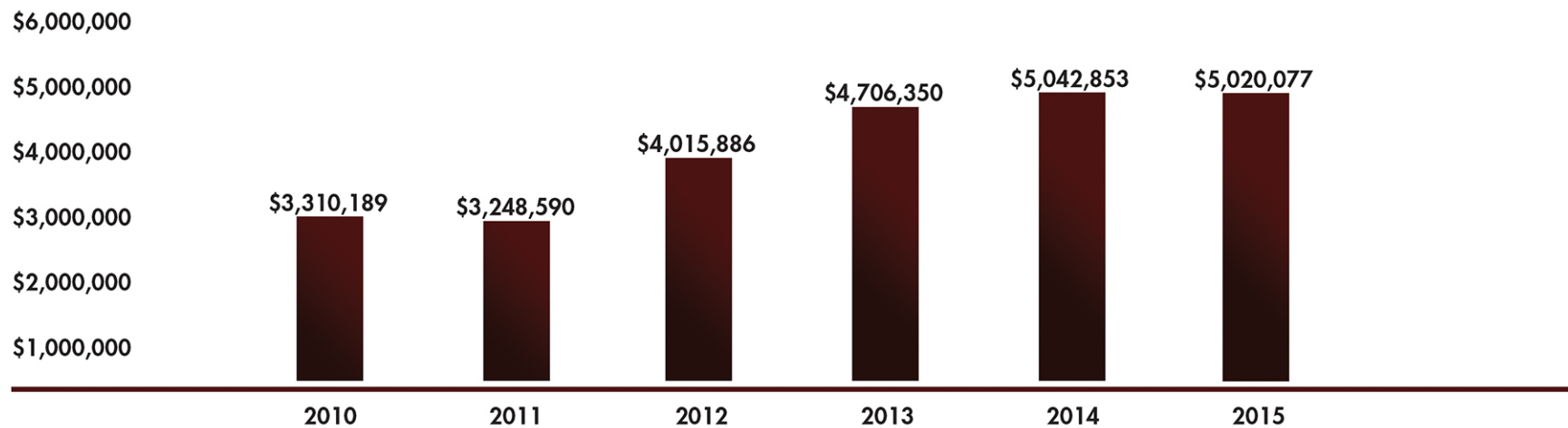


OPERATIONAL

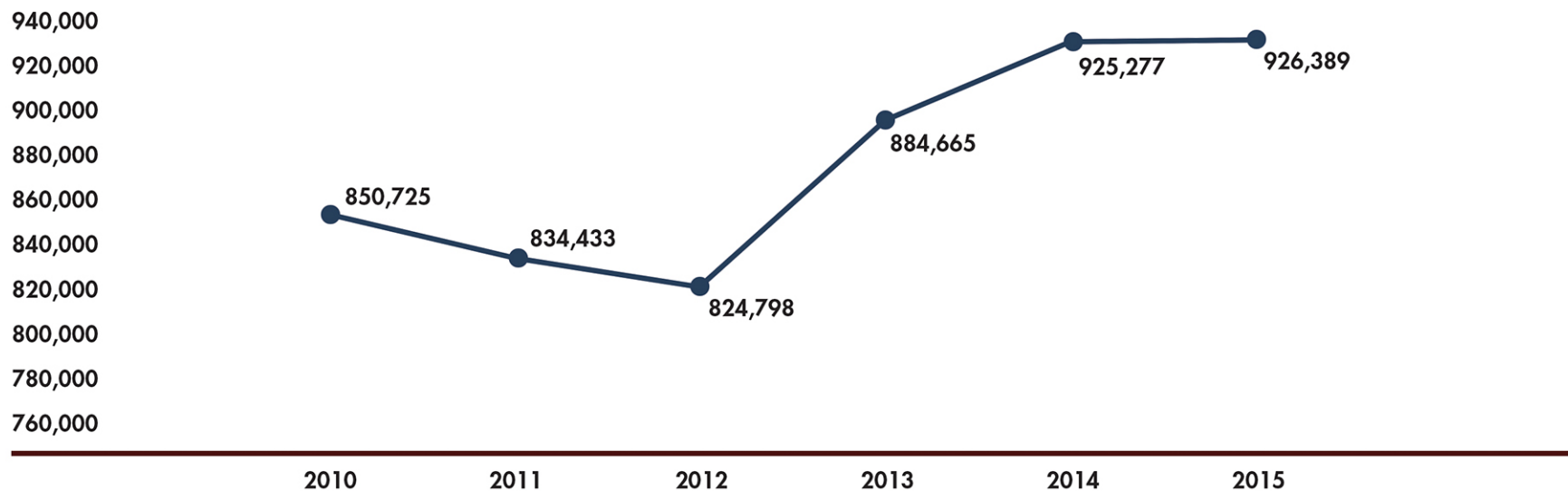
PREMIUM & FILINGS

The Stamping Office processed 926,389 surplus lines insurance filings and \$5,020,077,714 in Texas surplus lines premium, comparable to 2014.

ANNUAL TEXAS S/L PREMIUM



ANNUAL TEXAS S/L FILINGS



OPERATIONAL

TEXAS PREMIUM BY COVERAGE 2015

General Liability	2,348,570,105	47%
Group Accident & Health	1,418,515,459	28%
Commercial Multiple Peril	279,744,160	6%
Homeowners Multiple Peril	161,770,878	3%
Credit	158,788,733	3%
Commercial Auto Physical Damage	129,965,517	3%
Allied Lines	116,397,312	2%
Inland Marine	99,830,088	2%
Other Commercial Auto Liability	69,261,954	1%
Group Accident & Health	67,519,767	1%
SUBTOTAL	4,850,363,973	97%
ALL OTHERS	169,713,741.42	3%
TOTAL	5,020,077,714	100%

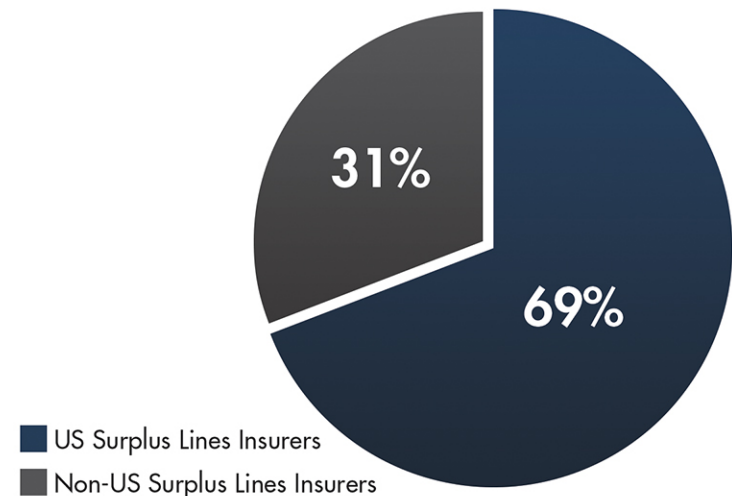


SURPLUS LINES PREMIUM TAX

The Stamping Office identified \$243,382,171 in surplus lines premium tax, which was reported to the Comptroller of Public Accounts for collecting the appropriate amount of tax from surplus lines agents.

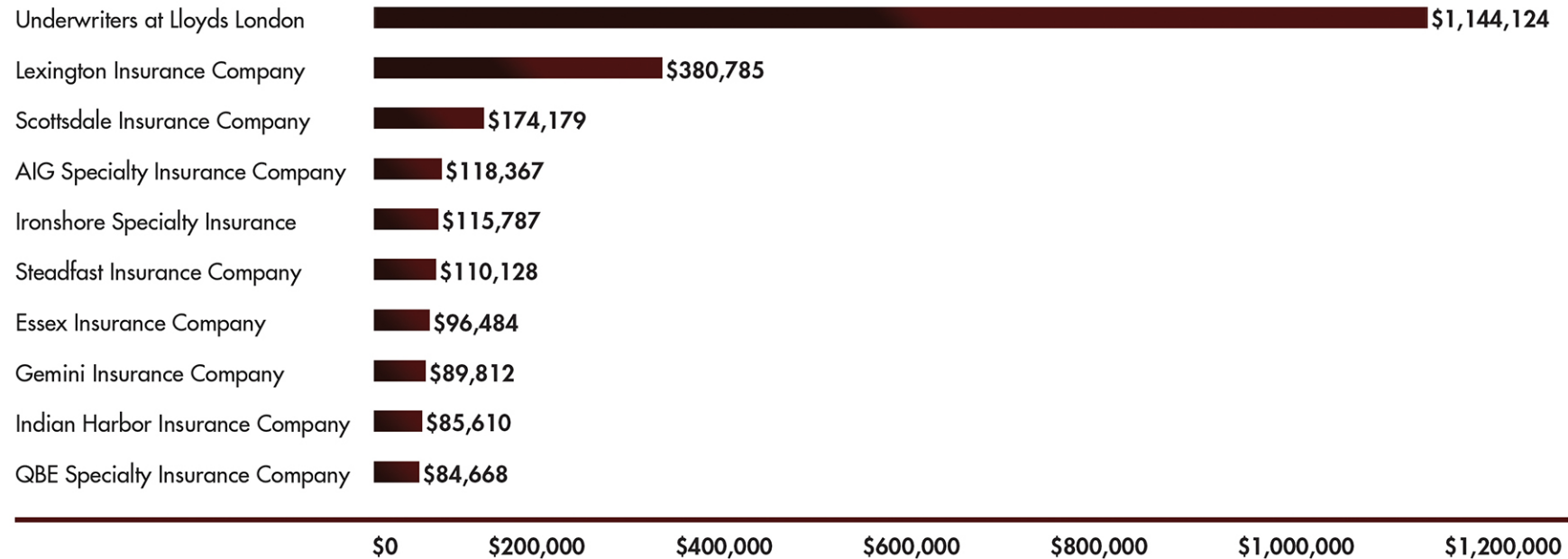
US VS. NON-US S/L INSURERS

In 2015, US surplus lines insurers wrote 69% of total Texas surplus lines premium, with non-US insurers writing 31%. The largest single writer, Underwriters at Lloyd's, London, had a volume of \$1,144 billion, representing 23% of the total Texas premium.



OPERATIONAL

2015 TEXAS TOP 10 S/L INSURERS



EDUCATION PROGRAMS

The Stamping Office website (www.slsot.org) is a valuable resource for information regarding surplus lines insurance. Features include:

- Texas market data
- On-demand web seminars
- Surplus lines laws and regulations
- Press releases
- E-news
- Lone Star Lines newsletter



LEGAL & REGULATORY



INSURER ELIGIBILITY EVALUATIONS & RECOMMENDATIONS

- Evaluated eligibility evidence and provided recommendations to TDI on 19 unlicensed insurers
- Evaluated eligibility evidence for 227 unlicensed insurers
- Evaluated six (6) non-admitted insurers who became newly eligible Texas insurers

NONADMITTED & REINSURANCE REFORM ACT

In July 2011, federal standards were imposed on the national surplus lines market as the Nonadmitted and Reinsurance Reform Act (NRRA) became effective. Key aspects of the NRRA included:

- Regulation and taxation of a multi-state procurement solely by the home state of the insured
- Authorization for the states to join an interstate agreement for the sharing of premium taxes
- Restrictions on the criteria used by states to determine insurer surplus lines eligibility
- Preemption of state diligent effort requirements for Exempt Commercial Purchasers (ECPs)

In passing the NRRA, the Stamping Office has observed the following results:

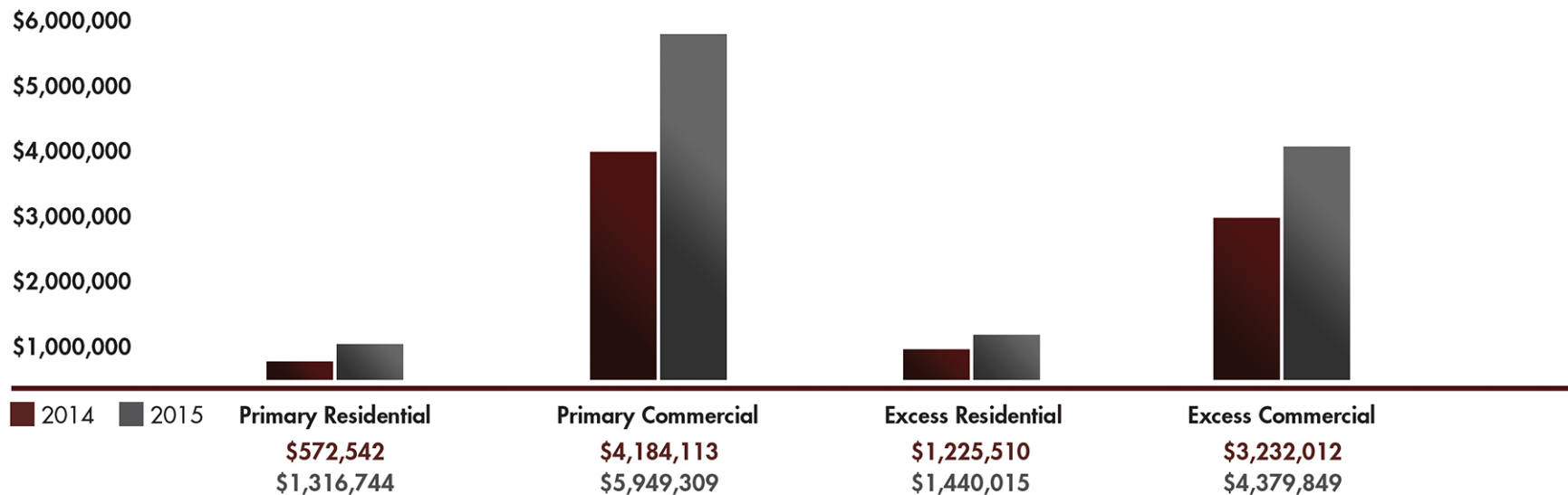
- In 2015, 2,899 multi-state policies were reported to the Stamping Office, insuring more than \$389 million in premium on risks located outside Texas. As Texas chose not to participate in an interstate tax-sharing agreement, this amount was treated as Texas premium and reported to the Comptroller as taxable by the state. Premium tax on these non-Texas exposures was \$18.9 million.
- The NAIC's IID Quarterly Listing of Alien Insurers became the default national eligibility list for non-US carriers, therefore virtually all evaluations conducted by the Stamping Office were for US insurers.
- The Stamping Office revised its insurer evaluation procedures in recognition of the NRRA's restrictions on permissible requirements to determine insurer eligibility, publishing a five-year financial summary for each eligible insurer, whether foreign or alien, to assist agents in their "due diligence" statutory responsibility to only place insurance with financially sound carriers.
- At the direction of TDI, effective January 1, 2014 agents began identifying those policies filed with the Stamping Office that were ECP procurements. There were a total of 1,218 ECP policies reported for the year, representing 0.13% of total policies filed.

LEGAL & REGULATORY

TEXAS WINDSTORM INSURANCE ASSOCIATION

Pursuant to the Plan of Operation [28 TAC §15.101(e)(10)(E)(vi)], the Stamping Office prepared an annual report to the Texas Windstorm Insurance Association (TWIA) reflecting the extended coverage property premiums written in Texas by all surplus lines insurers. In the event excessive losses from a future hurricane forced TWIA to impose windstorm participation assessments, adjustments could also be made to the assessments of any admitted affiliates of surplus lines carriers.

TWIA DATA FLOOD PREMIUM

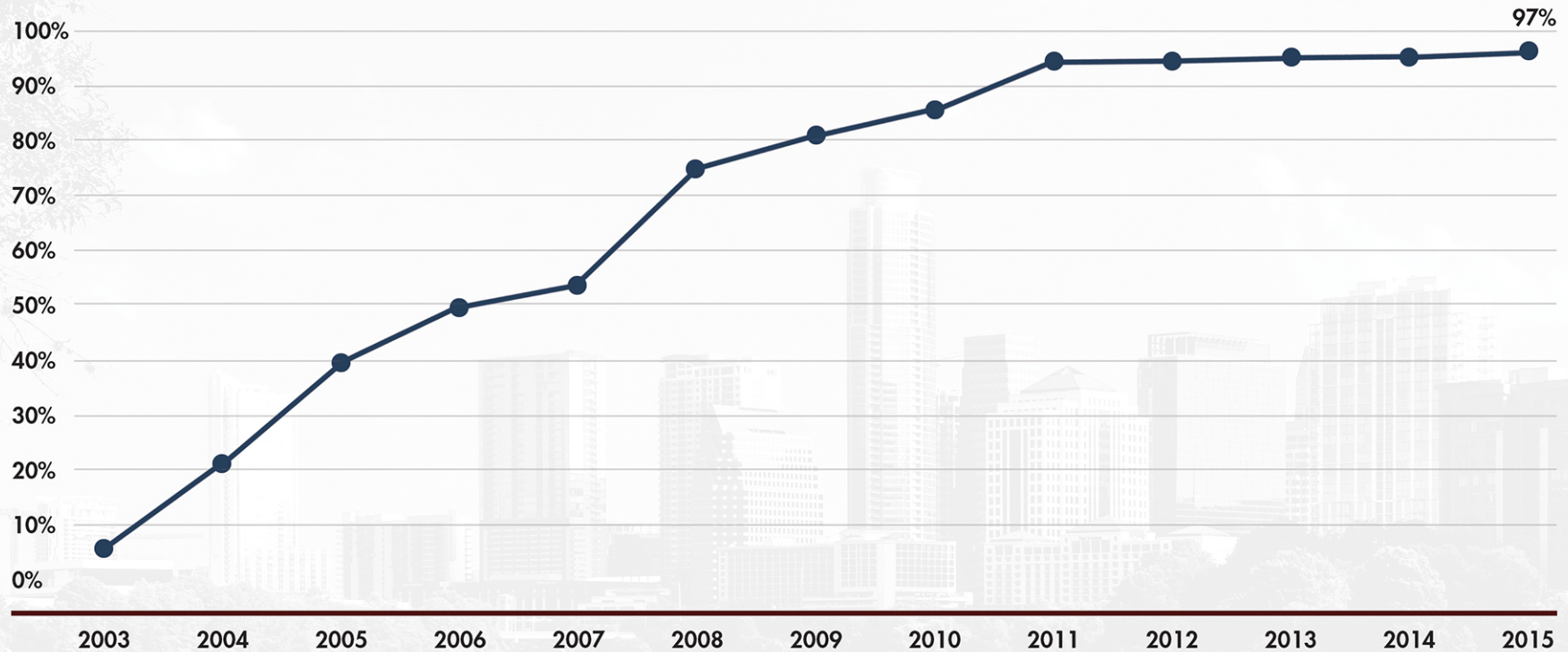


TECHNOLOGY

The majority of surplus lines information is collected through automated means. In 2015, 687 brokers/agents reported approximately 897,211 transactions, which equated to a 97% automation rate.

The Stamping Office employs its Policy Analysis Program as a method for auditing the accuracy of policy information. During 2015, Stamping Office staff audited 6,366 policies reported by 686 surplus lines agents under this program.

PERCENTAGE OF ONLINE SUBMISSIONS



FINANCIAL

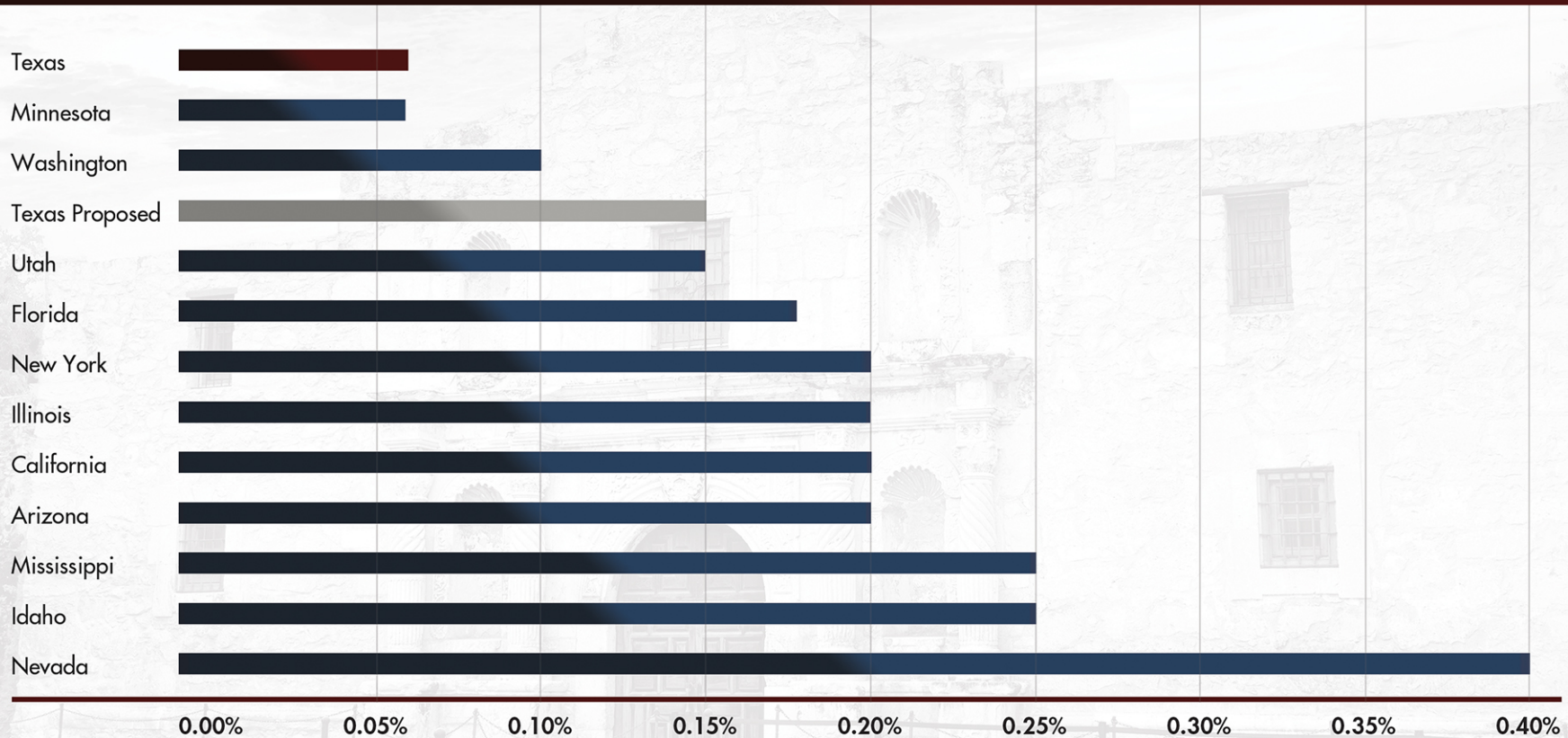
FINANCIAL STATEMENT / INVESTMENTS

For the year 2015, the Stamping Office expenses exceeded revenues by \$334,524, lowering the reserve fund balance by that amount. At December 31, 2015, the Stamping Office's unrestricted, undesignated reserve fund balance was \$3,555,565, an amount \$2,649,410 under the maximum permitted in the Plan of Operation. Consistent with the conservative Stamping Office Investment Policy adopted by the Board, invested funds are comprised entirely of a series of laddered Certificates of Deposit issued by various US banks, each for an amount equal to or less than the FDIC-insured threshold of \$250,000.

STAMPING FEE RATE INCREASE

June 2015, the Stamping Office Board of Directors voted to recommend to TDI an increase in the stamping fee rate from .06% (.0006) to .15% (.0015). The Commissioner of Insurance approved the rate increase, effective January 1, 2016.

STAMPING FEE - BENCHMARK SURVEY



2015 BOARD OF DIRECTORS

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