



O-0620-05  
eCase 25245

June 25, 2020

The Honorable Kent Sullivan  
Commissioner of Insurance  
Texas Department of Insurance  
MC 112-2A  
P.O. Box 149105  
Austin, Texas 78714-9105

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2020 JUN 29 AM 10:57  
TEXAS DEPT. OF INSURANCE  
SERVICE CENTER

Dear Commissioner Sullivan,

The Surplus Lines Stamping Office of Texas the Board of Directors held its Annual Meeting on June 25, 2020. Pursuant to the Surplus Lines Stamping Office of Texas Plan of Operation Sections (c)(7)(C) and (e)(3), the Board of Directors carefully considered an appropriate stamping fee to recommend to your office in order to decrease the Stamping Office's unrestricted fund balance. After careful deliberation and following a detailed analysis by the Stamping Office staff, the Board of Directors recommends lowering the stamping fee to .075% from the current .15% stamping fee. A copy of the staff's presentation is attached for your consideration.

The staff's analysis projects that the new stamping fee rate will lower the Stamping Office's projected reserves, excluding funds for asset replacement, to a level not to exceed two times the average of audited operating expenses for the five-year period immediately preceding the subject budget year. The Stamping Office staff projects this reduction will take place over the next 13.5 years. This stamping fee rate will be tied with Illinois for the third lowest stamping fee in the nation. The Board of Directors does not recommend a stamping fee rate of lower than .075% due to programming issues if accrued stamping fees per submission are calculated to less than half a cent per submission.

The Stamping Office staff can undertake the necessary programming changes within a few weeks. However, the Board of Directors respectfully recommends that your office seek recommendations and comments from industry stakeholders on the necessary time to reprogram their business systems and on the appropriate implementation date. These industry comments and recommendation may be received during the 20-day comment period specified in 28 Texas Administrative Code Section 15.201(e) or such other time as your office may direct.

Thank you for considering this recommendation. Please let me know if your office requires additional information or documentation concerning this matter.

Rosemarie Marshall  
SLTX Board Chair

cc:

Jamie Walker

Nicolas Souza

Moya McKenna

Greg Brandon

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2020 JUN 29 PM 3:06  
COMMISSIONER OF  
INSURANCE

Surplus Lines Stamping Office of Texas



STAMPING OFFICE OF TEXAS

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# Finance & Audit Committee

June 24, 2020



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# STAMPING FEE ANALYSIS

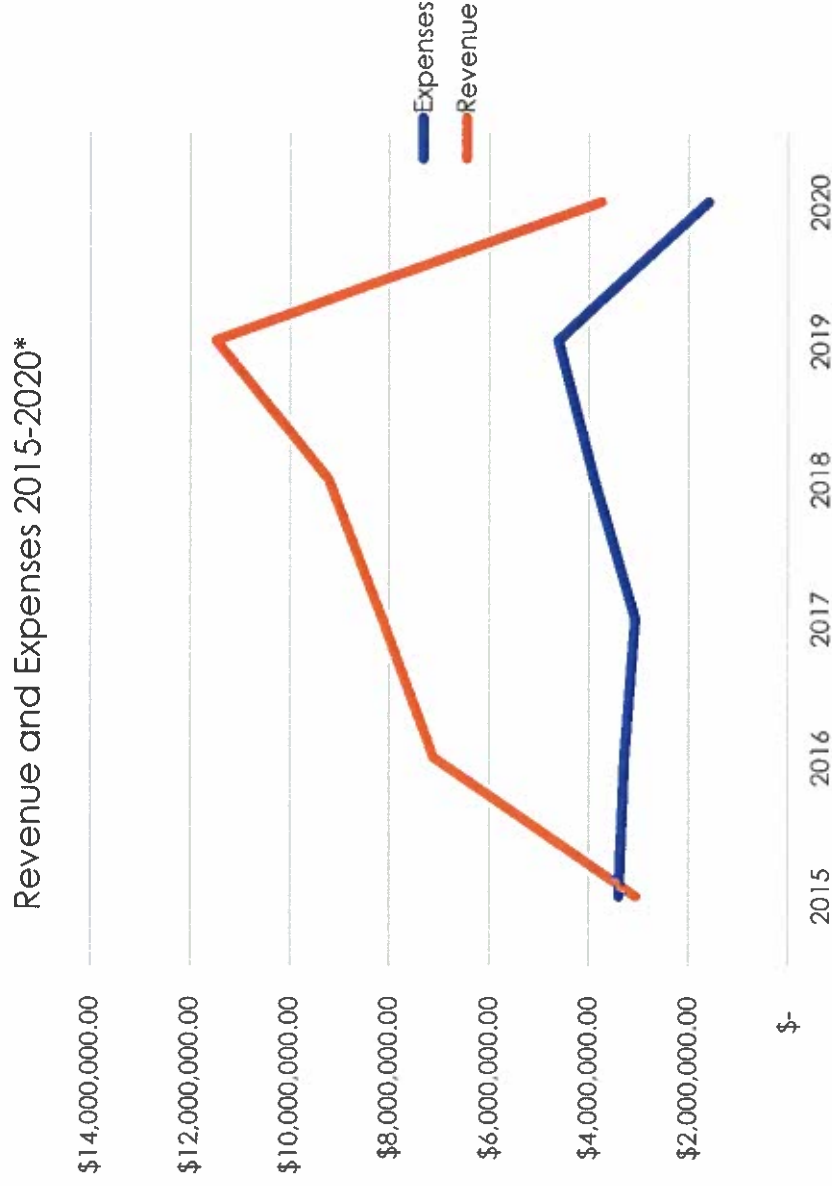
# Stamping Fee Analysis- Background

## Background

- Stamping fee raised in July 2016 from .06% to .15% due to technology project
- In 2017 and 2018, \$10.5M was designated for Real Estate purchase; \$10.0M of which was re-appropriated to undesignated fund in 2019

## Current Dilemma

- From 2016-2019, SLTX revenue has exceeded expenses (\$35.9M to \$14.8M)
- Undesignated fund balance is \$22.0M (\$14.7M above maximum fund balance of \$7.3M)

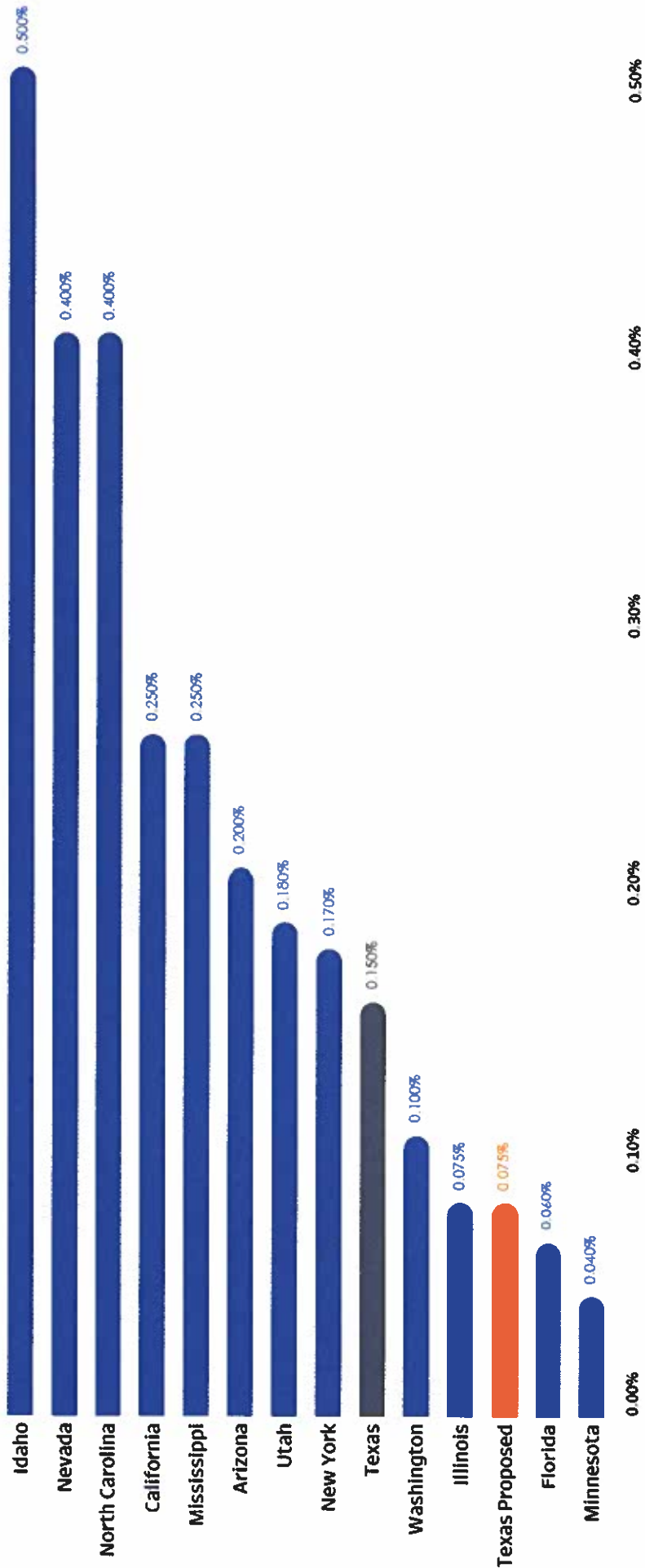


\* Fund Balance data as of 4/30/2020

## Stamping Fee Analysis- Current Picture

Revenues	<ul style="list-style-type: none"><li>• \$43.9 billion projected Premium filed over next 5 years ('21-'25)</li><li>• Under current Stamp Fee, this equates to <b>\$65.8 million</b> in SF Revenue</li></ul>	Expenses	<ul style="list-style-type: none"><li>• <b>\$31.7 million</b> projected Expenses over next 5 years ('21-'25)</li></ul>	Fund Balance	<ul style="list-style-type: none"><li>• <b>Current-</b> \$22.0 million</li><li>• Projected Fund Balance at December 31, 2025- <b>\$60.2 million</b> with current Stamping Fee</li></ul>	Maximum Fund Balance	<ul style="list-style-type: none"><li>• <b>Current-</b> \$7.3 million</li><li>• Projected Maximum Fund Balance at December 31, 2025- <b>\$12.0 million</b></li></ul>
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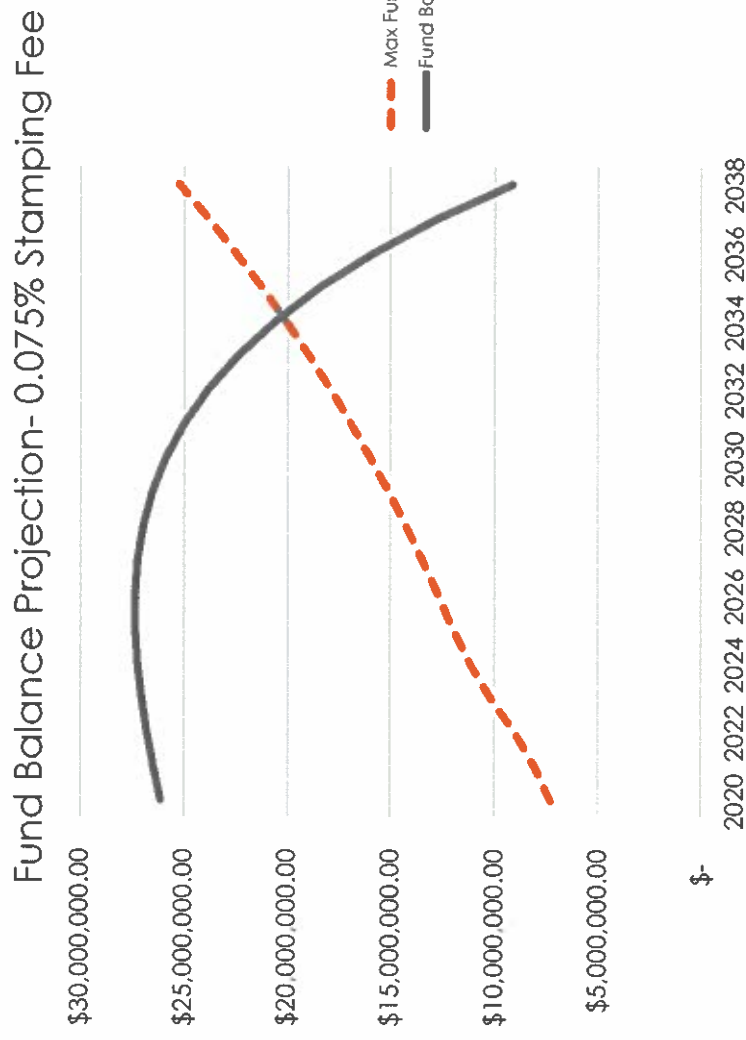
# Stamping Fee Analysis- Stamping Fee by State



\*Note: Oregon and Pennsylvania's fees are \$10 and \$20 per policy, respectively

# Stamping Fee Analysis- Recommendation and Projections

- **Recommendation- 0.075%**
- Half of current stamping fee rate
- Current projection shows the Fund Balance will reach its maximum in 2034
- Recommended rate is most prudent approach given uncertainties of impact of COVID-19 on E&S market



## Stamping Fee Analysis- Considerations

- Uncertainty of impact of COVID-19 on Surplus Lines market
  - Possible impacts on market:
    - Further hardening of E&S market leading to price increases
    - Decrease in risk appetite for insurers
    - Increase in cancellations, non-payments
  - Through May 31, 2020, SLIX has experienced a 14.3% increase in premium and 5.9% decrease in filings over 2019
- Expenses
  - Uncertainty of impact on possible new employees, new location, etc.
  - Can be controlled more easily than revenues