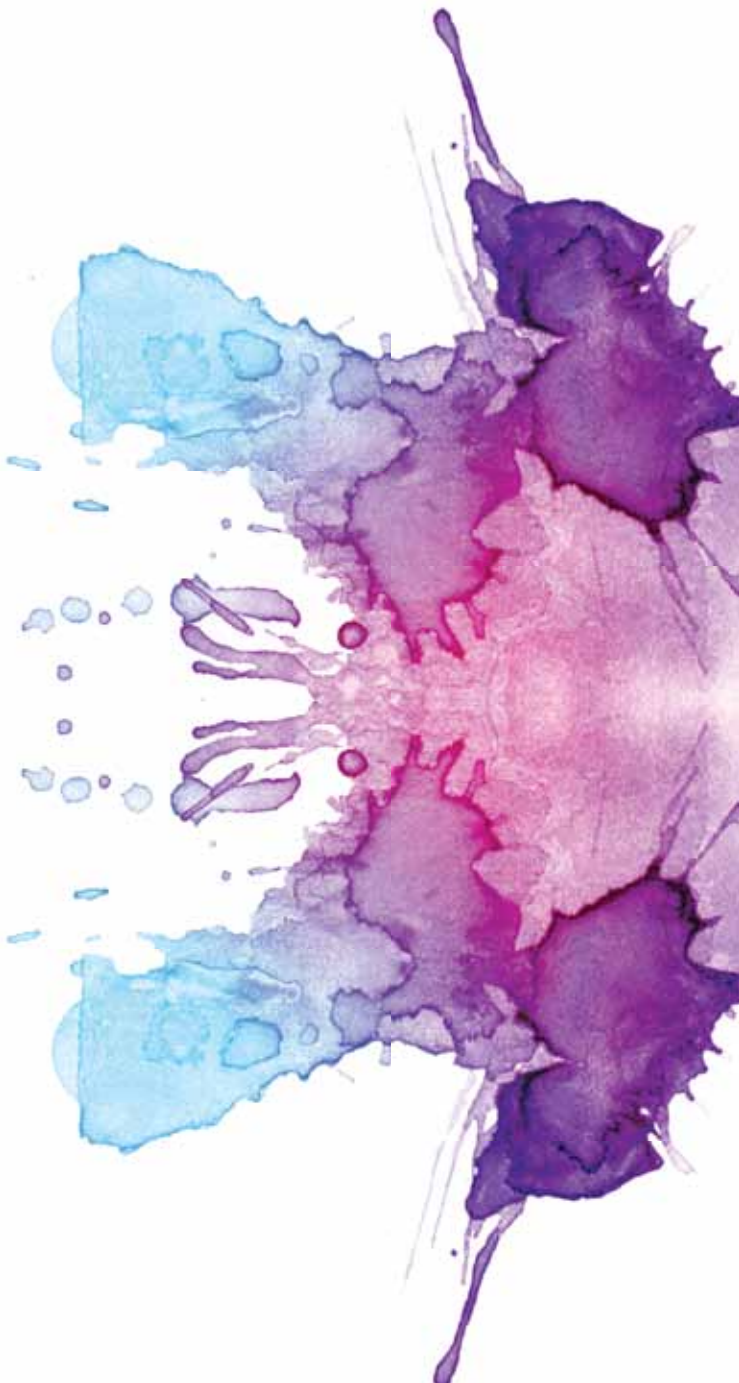




florida
surplus
lines
service
office



2009
ANNUAL REPORT



FSLSO 2009
ANNUAL REPORT

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Our Mission

To serve and protect our customers interests by facilitating compliance and providing assistance and information regarding the Florida surplus lines marketplace.

Our Values

The FLSO is a national leader in facilitating the placement and taxation of surplus lines insurance, utilizing leading edge technology to maximize efficiency and developing innovative customer solutions.

Our Vision

Efficiency: The ability to do something well or achieve a desired result without wasted energy or effort; productive use of resources; the degree to which something is done well or without wasted energy.

Effectiveness: Producing the desired or intended result; producing a favorable impression; successful, especially in producing a strong or favorable impression on people.

All of the words and phrases used throughout this document relative to the "I See..." theme were provided by the Service Office's customers and documented through surveys.



In its most basic sense, the Rorschach Inkblot Test is an assessment of perception. It is designed to evaluate how an individual interprets the environment and the people in it based on their own experiences. In other words, it asks the question, "How do you see the world around you, and how do you respond to what you see?"

As an organization, the Service Office perceives its customers as a diverse group of individuals, each with varying duties, needs and expectations. Therefore, the Service Office staff adopts a variety of roles and responsibilities aimed at providing quality service to each of its customers.

In order to provide service on an exemplary level, the organization must remain keenly aware of its customers, their needs, and how those needs can be met. And so, to gain perspective regarding how our organization fits into the day-to-day business practices of our customers, we asked the question:

"When you envision FLSO, what do you see?"



From the Chairman

With a continuing soft market and economic hardships, the 2009 year presented itself with much uncertainty and many challenges for all Americans. Despite these potential fiscal woes, I am proud that the Florida Surplus Lines Service Office was able to continually provide exceptional customer service and innovative enhancements.

The Service Office embraces technology as a foundation for many of its key services and products. The development of new offerings, as well as enhancements to existing ones, have led to progress within current internal operations, information accessibility and diversity in educational programs. As an industry, we are able to take full advantage of these innovations and have a responsibility to do so.

Through customer use and feedback, the Service Office continues to make improvements as a means to promote customer satisfaction. One of these improvements involved the migration from the Agent Submission Software to Surplus Lines Information Portal (SLIP) and FTP Submit Software. I would like to thank both the staff and Service Office customers for their patience and flexibility during this conversion.

Although the Service Office witnessed many accomplishments, one of the most notable included the legislative signing of House Bill 853 into law in June of 2009. We were also blessed with a safe and uneventful hurricane season, and I am hopeful that this year will prove the same for the Sunshine State.

These are just a few of the items that you will see documented in the 2009 Annual Report, which I ask that you take the time to review as I am sure you will realize that we are earnestly working to fulfill the obligations of Florida's surplus lines industry as set by its members. All of the services and products outlined in this report have come to fruition after having been initially mapped out in the Service Office's three-year strategic planning process. Members should also be aware that their feedback and input serve as key measurements in this planning process, as the Service Office continues to benchmark customer satisfaction with their operations' success.

I would like to take this time to commend R.C. Chaffin, who served as FSLSO's Chairman for the past two years and faced many of these challenges. His leadership and service has been an invaluable component to the success of the Service Office and I must extend my sincere appreciation to him for his guidance during his term as Chairman.

At this time, I would also like to recognize and thank Ron Gabor, who completed his eight-year tenure with the Board of Governors. Even though he will continue to represent the surplus lines industry through Gabor Insurance Services, Inc., his leadership and knowledge to the Board will be greatly missed. We would like to welcome Irvin "Skip" Wolf III of Regional Excess Underwriters, LLC to the Board of Governors and look forward to the proficiency and industry expertise he has to offer.

Undoubtedly, I feel very fortunate to have Executive Director Gary Pullen and the talented staff of FSLSO at the helm of our organization. Their unparalleled insight and dedication to the surplus lines marketplace is a true inspiration, and I am excited to see the valuable contributions they will make during the 2010 year.

I extend my thanks and appreciation to the Board for this privilege to serve as Chairman. I am grateful for this opportunity and eager to begin what I am sure will be a productive and promising year.

Sincerely,



David Holcombe
Chairman





From the Director

For an organization to grow, it must have a clear vision of its future and the foresight to see potential opportunities for improvement and advancement. For more than 10 years, the Service Office has positioned itself as an industry leader in the fields of technology, assistance and information sharing. As such, it stands to reason that our success is the reflection of a pursuit towards our vision, a vision of being a national leader in facilitating the placement and taxation of surplus lines insurance, utilizing leading edge technology to maximize efficiency and developing innovative customer solutions.

For that reason, we continually look for ways to improve our current systems to make them more effective for our customers and more efficient in their intent. This can be seen in our approach to our development and usage of technology. In 2005, the Service Office released the Surplus Lines Information Portal (SLIP) and since that time, SLIP has come to serve as the premier filing system for Florida's surplus lines community. It is with this reasoning that the Service Office chose to retire its Agent and Insurer Submission Software in 2009, and transition its customers to the exclusive usage of SLIP and FLSO's File Transfer Protocol (FTP) Submission filing platforms.

To retain its position as the premier filing platform, SLIP underwent various enhancements throughout the year. One of the most significant was the introduction of electronic payment which provides agents with the ability to pay all taxes, fees and assessments through electronic ACH transfer. This serves as just one example of the Service Office's push to find efficient and effective means for our customers to conduct business, and it is that push that propels us in all facets of our organization.

These efforts have not gone unnoticed as filing platforms built from our system are being implemented by other states around the country. The Service Office provided assistance and expertise to the stamping offices of Mississippi and Washington to implement their versions of the SLIP filing platform for surplus lines filings. In addition, the states of California and Nevada have taken the first steps of developing a SLIP-based filing system for usage among their customers to make surplus lines policy filings.

With regards to Florida's surplus lines industry and pending changes that would have altered the premise of our marketplace, members of the surplus lines community worked together to ensure the 2009 Legislative Session was a year of success as HB 853 was signed into law on June 11, 2009.

HB 853 did much to resolve the ambiguity of whether provisions found in the Florida Statutes that regulated the admitted market, particularly with regards to the regulation and approval of forms, were applicable to Florida's surplus lines insurers. The passage and approval of HB 853 firmly reiterated the surplus lines industry's exemption from the provisions of Chapter 627, F.S. except where specially stated. The passage of HB 853 also brought about new requirements relative to policy information, payment of premium and attorney fees. In an effort to communicate these changes, the Service Office provided educational assistance through its electronic bulletin services, Frequently Asked Questions, education classes, seminars, and a sample policy face page for customers to download.

As is our annual practice, the Service Office dispersed its customer satisfaction survey in 2009 as a means to gather customer appraisals and suggestions of Service Office products and services. Survey results yielded a 95.3% satisfaction rate among surplus lines agents, agency support staff, IPC filers and surplus lines insurers regarding the Service Office's various programs and services. SLIP also earned high marks from customers for its ease of use, accessibility to previously submitted data and reports, receiving a 93.5% satisfaction rating. Since serving customer needs is at the heart of our organization, the input provided by our customers served as a leading dynamic in our annual strategic planning process.

Clear direction comes from the intuition of dedicated leadership and the Service Office remains grateful for the counsel and guidance provided throughout the year by our 2009 Board of Governors. They have continued to be strong supporters of our office and its vision of being a technological leader and an advocate for compliance. I also thank R.C. Chaffin, our 2009 Chairman who dedicated his time and talent as a leader for the Board and for our organization. I look forward to this new year working under the guidance of our Chairman, David Holcombe, whose experience and accomplishments within the industry will add a great value to our operation.

Lastly, I must commend my staff for their loyalty and commitment in serving our customers, as well as their continued enthusiasm for our business approach and advancement. Like a mirror, the level of success that an organization achieves is a direct reflection of its customer's knowledge and performance. It is for this reason that the Service Office staff has dedicated itself to the betterment of each and every customer because only through their accomplishments can we find our own success.

Sincerely,

A handwritten signature in blue ink that reads "Gary D. Pullen". The signature is written in a cursive style with a large, prominent "G" and "P".

Gary D. Pullen

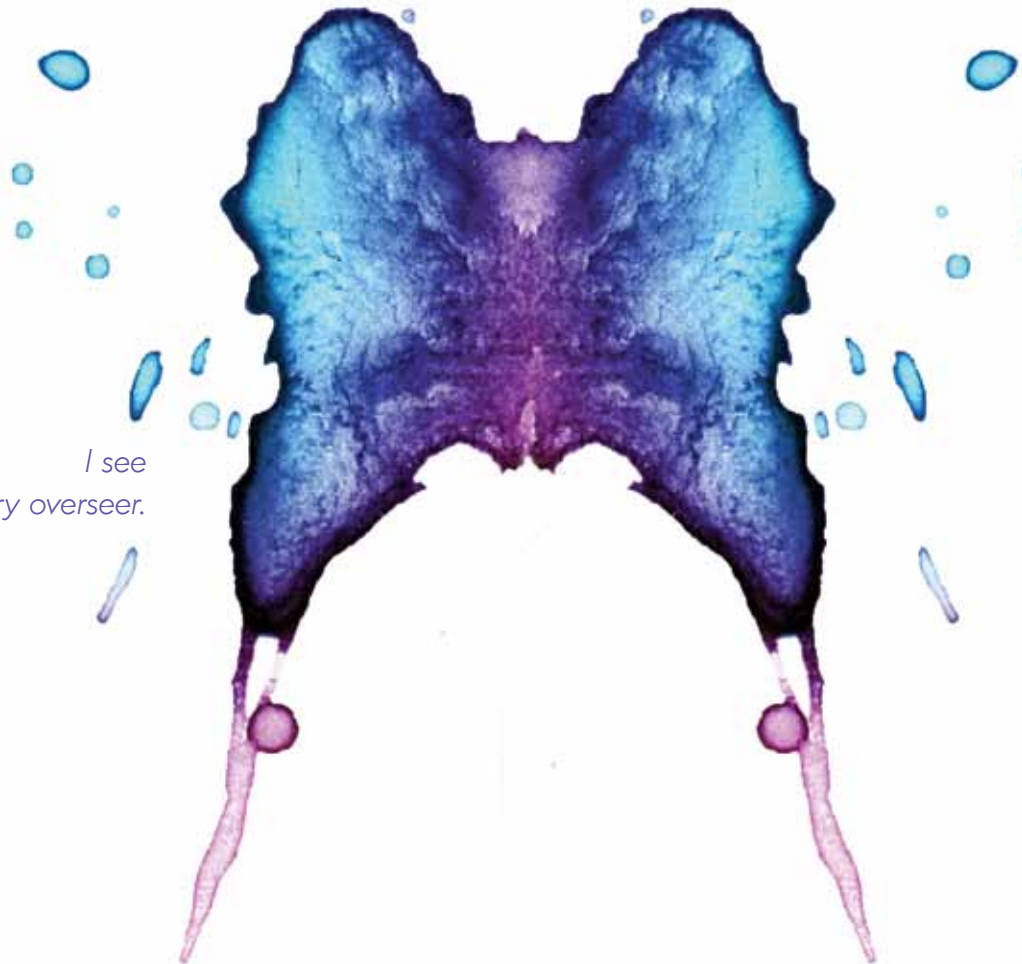
Executive Director

Marketplace Monitoring

As part of its statutory charge, the Service Office was created to oversee and provide order to Florida's surplus lines industry. As such, it utilizes its industry viewpoint to gain perspective on marketplace compliance among surplus lines agents, non-admitted insurers and Independently Procured Coverage (IPC) filers. Success in the areas of marketplace credibility and compliance are a direct reflection of the relationship that the Service Office maintains with its customers, and the efforts of those customers to uphold compliance with Florida's Surplus Lines Law.

For more than a decade, the Service Office has utilized the capabilities of two programs to ensure fairness and conformity with the law. The Variance Analysis Program and the Compliance Review Program were created to provide a watchful eye over the marketplace, observing and analyzing data submissions from surplus lines agents, surplus lines insurers and IPC filers in order to maintain information validity.

*I see
an industry overseer.*



The Service Office's internal data management system allows the Variance Analysis staff to examine substantial amounts of data for the purpose of matching surplus lines agent or IPC submissions to their corresponding insurer filings. If discrepancies are found in the data submissions, the Variance staff works to establish which filing was incorrect and which party is responsible for correcting the data and remitting the applicable taxes, fees, assessments, and interest penalties. In 2009, the Variance team collected on a total of 197 policies which resulted in the location of more than \$75 million in unreported premium and more than \$4 million in taxes, fees, assessments and penalties.

Another method of monitoring the surplus lines marketplace is the Compliance Review Program, a program which takes a sampling of a surplus lines agent's policies and compares the data with the transaction information filed with the Service Office. One of the main goals of the Compliance Review Program is to provide assistance and information to agents and their support staff to ensure the timely and accurate filing of policy information with the Service Office. This program performed 379 reviews during 2009, uncovering 399 unfiled policies which represented more than \$5.8 million in unfiled premium and \$258,092 in taxes, fees, assessments, and penalties.

Although the main objective of the Compliance Review Program is to educate and assist customers with filing standards, the referral of agents to the Florida Department of Financial Services can occur in extreme cases of gross non-compliance. Since the Compliance Review Program works to avoid agent referrals, educating agents and their staff remains a key priority. An Industry Comparison Report is issued to the agent at the conclusion of a review, which provides scores in fields such as data validation, regulatory requirements, and financial elements, comparing currently evaluated market conduct with that of prior reviews. In 2009, the overall score for agents that sustained reviews was 91.5%.

Credibility in the marketplace is often times an echo of an agent's awareness of his or her compliance requirements as well as the knowledge of their support staff relevant to the Surplus Lines Law and agent requirements. To ensure that agents understand their strengths and foresee potential weaknesses regarding filing procedures, the Service Office also provides an Agent Report Card as a way for agents to visualize their individual filing performance. The Agent Report Card offers improvement opportunities in four areas including: percentage of transactions with no outstanding Transactions-in-Question (TIQs); percentage of submissions accepted versus total number of submissions; percentage of transactions submitted timely; and percentage of affidavits filed timely. The overall industry score for 2009 for the Agent Report Card was 88.05%.

Through these programs and its other core services, the Service Office provides a constant vigil over Florida's surplus lines industry for the purpose of sustaining an open and honest marketplace.

Assistance

While advancement is often attributed to achievements in technology, one cannot forgo that real and enduring progress is possible only through the aspirations of people. In its role as a leader and support system, the Service Office staff works daily to help customers excel at their business because they know when you invest in people, you will always have a high rate of return.

Knowing that each customer is different, the Service Office engaged various means of communication in order to assist its customers, including filing platform enhancements, email, internet, telecommunications and face-to-face meetings. This interlinking of various technologies allowed the Service Office staff to deliver information and support concerning industry changes and internal filing platform conversions throughout 2009.

Through a continued relationship with Infinity Software Development, Inc., the Service Office worked extensively throughout 2009 to modify and enhance the Surplus Lines Information Portal (SLIP) in an effort to make it the quintessential filing platform for Florida's surplus lines filers. As such, 2009 marked the final year of usage for the Agent and Insurer Submission Software as the Service Office transitioned all customers to SLIP and the FTP Submit Software. Internally, the Service Office staff fielded numerous phone calls and emails regarding the conversion, and provided assistance and training.

Throughout 2009, a total of 121 "New Agent Packets" were sent to each newly licensed



I see a coach.

and appointed surplus lines agent. The packets contained a copy of the *Agent Procedures Manual*, *Agency Disaster and Recovery Planning Guide*, *Users Guide to Agent SLIP*, a 2008 FLSO Annual Report, accounting tips and various brochures. This preliminary communication served as a key step to acquaint new agents with important educational information and to introduce the Service Office as a resource for guidance and support.

As a statutory requirement, all surplus lines insurers who seek eligibility to market their products in Florida must submit their applications through the Service Office. As such, 10 insurers submitted eligibility requests in 2009. The Service Office completed reviews of 13 applications from 2008 and 2009, forwarding the applications to the Department of Financial Services/Office of Insurance Regulation (DFS/OIR) with a letter requesting eligibility. As of December 31, 2009, 12 insurer applications had been approved.

In mid-summer, the Service Office dispersed its annual customer survey to its main customer groups, which included surplus lines agents, surplus lines insurers, surplus lines agent submission contacts, agency accounting contacts, variance contacts and Independently Procured Coverage (IPC) filers. The surveys provided the Service Office with a means to gather customer feedback on its existing products, programs and services, as well as suggestions for potential new offerings. Respondents answered with differing degrees of agreement or disagreement pertaining to current and proposed programs, enhancements and new services.

Participants were also given the opportunity to offer suggestions or elaborate on their survey responses; feedback gathered from these surveys was integrated into the Service Office's annual strategic planning process, propelling many of the staff's objectives for 2010. The combined satisfaction ratings for office's current services and programs were more than 95% satisfaction over all six customer groups.

The Service Office staff takes pride in their work to serve the surplus lines industry of Florida and works to be both a leader and coach for their customers. The dedication of staff to assist their customers into technologies that pave the way in industry standards is just one of the reasons for FLSO's success. Likewise, the feedback and cooperation of customers served as a driving force behind much of its evolution and progress throughout 2009. Without their participation and feedback, the Service Office could not have achieved the quality support and assistance our customers have come to expect.

Outreach

In its capacity as ambassador for the Florida surplus lines industry, the Service Office holds a variety of roles from being an educator to a resource of information and assistance. One of its more underscored but equally important roles is its position as a counselor; a position that allows the organization to serve as a source of advice and guidance for member agents, industry members and state government. As such, its various efforts to reach out to its customers are developed to fuel awareness, stimulate compliance and facilitate customers' needs.

As the Service Office's Compliance Review Program places an emphasis on strengthening an agent's knowledge of Florida's Surplus Lines Law, the staff developed and delivered informational outreach packets to all agents subject to an upcoming compliance review. The outreach packets included copies of the *Users Guide to Agent SLIP*, a Directory of Services, accounting information, and an education schedule with applicable dates and times for classroom courses, online classes and webinars. These packets served as another means for the Service Office to promote information relative to its various services and programs.

I see...

...a guiding hand.

Piggy-backing off the success of the “Do You Know?” communications campaign from 2006-2008, the Service Office launched a new public relations drive centered around its customers need for information. The 2009 “Ask Us” campaign urged customers to do just that. An interactive banner was included on the Service Office website that allowed web-users the ability to send questions to Service Office staff. This strengthened the perception of the Service Office as a provider of advice and direction, allowing staff to point customers to the various services and programs available to them on the Service Office website.

The Service Office employed numerous promotional efforts through the “Ask Us” campaign including rotating web banners and graphic icons on the FLSO website, industry advertisements and promotional email signatures. Additionally, the Service Office began distributing quarterly “eBlast” promotions via email which were engineered to encourage awareness of various informational and educational services including Market Data Reports, Insurer Financial Data Reports, Frequently-Asked-Questions, the Tax/Fee/Assessment Calculator and much more.

The “Ask Us” campaign was also parlayed into the Service Office’s tradeshow booth which received a new look that promoted the office’s numerous informational services and programs. As attending tradeshow and industry conferences affords the Service Office the opportunity to meet and greet its customers as well as to fuel awareness of the industry, office staffers attended a host of industry conventions and meetings in 2009. These included the National Association of Professional Surplus Lines Offices (NAPSLO), the National Association of Insurance Commissioners (NAIC), the Florida Association of Insurance Agents (FAIA) and the Surplus Lines Law Group. Additionally, the Service Office monitored the various developments of the Essex versus Zota case and was present for legislative meetings relating to its impact on Florida’s surplus lines law.

In its capacity as a speaker and subject matter expert, the Service Office delivered industry presentations to a variety of organizations in 2009 including the Florida Surplus Lines Association (FSLA), the American Association of Managing General Agents (AAMGA), LIG Marine Managers, America Wholesale Insurance Group (AmWINS), Oswald Trippe and Company, Inc. and Regional Excess Underwriters, LLC. Additionally, the Service Office lent its expertise to the Department of Financial Services by providing office representatives to participate on the Florida Surplus Lines Law Licensing Examination Committee during its annual test review.

Reaching out to Florida’s surplus lines insurance market for the purpose of spreading industry knowledge exists on several different levels, and many times it intertwines with the services of education and information. In its various capacities and traditional roles, the Service Office continues to invest its efforts into opportunities that will allow the organization to interact with others, exchange ideas and promote the continued success of the market.

Information

Information sharing plays an integral role in the Service Office's execution of its duties and responsibilities. The incoming and outgoing flow of information, its accuracy and resourcefulness, carries crucial weight for how the organization conducts business. For this reason, the ability to envision and execute a best practices approach to information marketing remains a high priority.

For more than a decade, the Service Office website at www.fslso.com has stood as the office's main conduit for communication and information marketing. As the website provides quick and easy access 24/7, it has been a major means of pushing late-breaking industry related news stories and marketplace information out to the Service Office's various customer groups. In keeping with this purpose, the Service Office posted 77 news items to its main page, apprising visitors of industry issues and information throughout 2009. Additionally, the main page received several minor enhancements that included the introduction of rotating web banners and graphical icons that promoted various Service Office programs and services.

As the website functions as the Service Office's main industry information source, staff created a central depository for items relative to the 2009 Legislative Session. The creation of a page that was solely devoted to items pertinent to Florida's insurance industry gave website visitors easy access to bill copies, summaries, amendments and staff analyses. This section afforded users a clear overview of updates and actions taken by the Florida Legislature and was particularly useful for staff to distribute information relative to House Bill 853.

The passage of House Bill 853 did much to relieve the ambiguity created by the Essex versus Zota case relative to the applicability of certain provisions found in Florida Statute 627 on Florida's Surplus Lines Law. The bill also included the addition of new verbiage that was to be placed on the face page of policies in specific font size and typeface by October 1, 2009. While these new requirements were primarily the responsibility of the carrier, the Service Office created a Sample Face Page for its members to download and use as a template. This effort was done in alignment with the Service Office's mission of aiding its members in their compliance with the Surplus Lines Law.

The website also continued to host a variety of practical tools, including the Market Data Reports and the Insurer Financials Data Program, which merge large amounts of diversified information into manageable formats for easy use and accessibility.

Online resources allowed the Service Office to distribute valuable information in a timelier manner through its eNews and eAlert bulletin services. Staffers distributed 16 eNews and five eAlert bulletins during 2009, announcing various industry related information including: the discontinuance of the

Agent and Insurer Submission Software and the migration to the Surplus Lines Information Portal (SLIP), the annual education schedule, Legislative Session updates, customer satisfaction survey reminders, the monitoring of Tropical Storm Ida, webinar offerings, the availability of electronic payments and more.

The Service Office's quarterly newsletter, *The Advisor*, also functioned as an important information medium for communicating service updates, product creation and improvement, prevailing issues and industry changes four times a year. As part of the Service Office's continual effort to become more environmentally-friendly, the 3rd and 4th quarter editions of *The Advisor* were delivered electronically via email to surplus lines agents and their support staff. As an electronic option for a quarterly newsletter was specified as the preferred method of receipt by customers, the Service Office will continue to distribute this information electronically in 2010.

Throughout 2009, the Service Office engaged various mediums to distribute information to customers timely and accurately. Aligned with its mission to serve as a source of information and assistance, the organization continues to look for new methods of connecting with customers, communicating effectively and pushing information with ever-greater efficiency.

I see a data bank.





Education

Education plays a vital role in the establishment and sustainability of a strong and credible marketplace, and as such, the Service Office has a fixed focus on providing quality educational opportunities to Florida's surplus lines community. While the Service Office may not always be looked upon as a teacher, its statutory charge to provide education to its members continues to push the organization to create quality training programs and learning opportunities.

With the impending departure of both the Agent and Insurer Submission Software applications and the transition to the Surplus Lines Information Portal (SLIP) approaching in December, staff concentrated much of its efforts on the development of training tools and seminars centered on the usage of the SLIP filing platform. Through a combination of classroom taught courses and online training sessions, the staff worked diligently throughout 2009 to provide learning opportunities regarding SLIP usage to non-SLIP users, as well as veteran SLIP filers.

As SLIP training remained a key component to ease customers into using the preferred platform, the Service Office staff developed and launched SLIP Training Tutorials for both surplus lines agents and insurers. These tutorials were designed to enhance the use and understanding of the SLIP filing platform and featured 15-minute video presentations that included step-by-step instructions for performing basic SLIP functions.

Additionally, staff retired the "Certification of Online Agent Software Training" program from the education roster, and replaced it with a newly developed certification program for SLIP users. Coupled with the Agent SLIP Tutorial, the Certification of Online Agent SLIP Training (COAST II) debuted in October, and provided a means for agent SLIP users to test their "SLIP IQ" against an online 50-question quiz following their tutorial training. By the end of 2009, more than 80 students had earned their certificate by scoring 80% or higher on the COAST II exam.

Furthering its efforts to provide SLIP training cross-country, the Service Office expanded its webinar offerings to include basic and advanced SLIP training to surplus lines agents and insurers. Live webinar sessions were hosted throughout the year and recorded presentations were posted to the Service Office's website in a Webinar Archive directory available for around-the-clock viewing.

In addition to SLIP-focused webinars, the Service Office delivered several compliance-centered presentations to various industry groups including new agents, nonresident agents and accounting contacts. "Welcome New Agent," "Understanding FLSO's Compliance Procedures" and "Don't Be a Liability: Understanding FLSO's Accounting Procedures" were all aimed at strengthening participants' understanding of their compliance procedures relative to the Surplus Lines Law and FLSO's internal policies and procedures. Delivering presentations through online seminars proved to be a cost-effective and efficient means of delivery as more than 330 students attended webinar sessions in 2009.

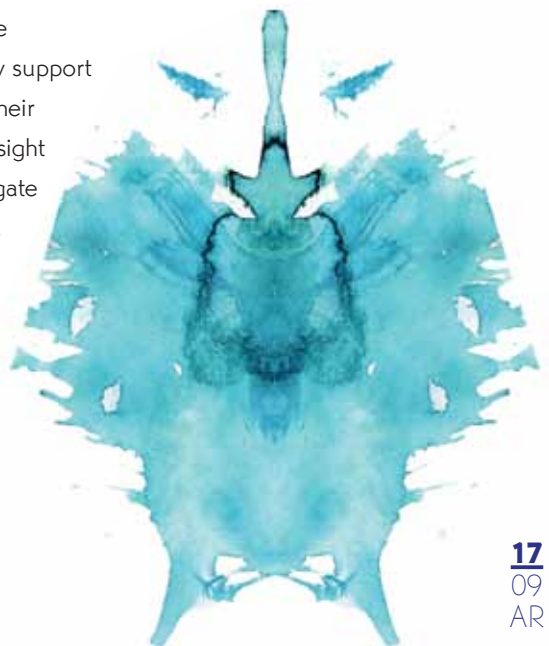
As online training remained a key method for student learning, the Service Office also hosted three online continuing education courses geared at helping Florida's surplus lines community stay informed and compliant of the laws and regulations that make up the Florida's Surplus Lines Law. These offerings included: "Florida's Surplus Lines Rules and Regulations," a three-hour course covering the Surplus Lines Law; "Illegal Insurance Entities: Knowing the Difference," a two-hour course exploring the differences between the terms unauthorized insurers and illegal insurance entities; and "The Retail Agents Role in the Surplus Lines Marketplace," a two-hour course on the responsibilities of the producing agent in the placement of risks within the surplus lines market.

Also on the frontline of online education, the Service Office remained Florida's only provider of an online option for a 60-Hour Surplus Lines Pre-Qualification Course. This course was utilized by 29 students to fulfill their 60-hour requirement as means of qualification for the State's surplus lines licensing exam.

Not to be underscored was the Service Office's traveling classroom, which featured a newly created continuing education course entitled "SLIP Into Agent Compliance: Filing Through SLIP and the Laws of Surplus Lines Insurance." This four-hour course was designed to provide the student with a clearer understanding of Florida's surplus lines law through the exploration of applicable Florida Statutes and compliance requirements for those individuals who hold a 1-20 surplus lines license. In an effort to ease members' transition from Agent Software to SLIP, this course featured a live filing demonstration and discussed SLIP filing procedures. The course was taught in four locations across the state including Tampa, Sunrise, Altamonte Springs, and Miami to more than 150 students.

The Service Office also held a classroom edition of its course, "The Retail Agents Role in the Surplus Lines Marketplace" to a group of 21 retail agents seeking information on Florida's surplus lines industry, retail agent responsibilities when accessing the market, and the distribution system.

In 2009, the Service Office provided classroom and online opportunities to surplus lines agents, retail agents, agency support staff and surplus lines insurers in an effort to strengthen their knowledge of Florida's surplus lines industry, providing insight to its laws and regulations, and help students clearly navigate FLSO's premier filing platforms. At the close of the year, staff had reported more than 2,300 education hours to the Department of Financial Services, stemming from its online and classroom-taught students.





I see a valuable resource.



Finance

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSO management. This was reiterated within the satisfactory audit opinion received on the Florida Surplus Lines Service Office's financial statements for the fiscal years ending December 31, 2009 and December 31, 2008. Effective strategic planning, prudent budgeting and spending coupled with good internal controls are definite reasons for this success.

In 2009, the Service Office reported a decrease in premium of more than \$258 million. As Florida has continued to experience a softening of the market in 2009, in both the admitted and non-admitted markets, Florida's surplus lines industry experienced premium declines of only 6.01% in 2009 compared to a decline of 9.1% in 2008. The Service Office billed on the premium subject to taxes and fees, as submitted by agents and IPC filers, in the amounts of \$180,784,308 and \$3,673,838 respectively. These billed amounts represent a \$13,886,556 decrease in surplus lines taxes to the state of Florida and a decrease of \$390,570 in charges for services.

During the year ending December 31, 2009, the Service Office generated \$3,690,903 in revenues, a decrease of \$402,144 from the previous year. With respect to the operating expenses, the Service Office spent \$5,036,457 during the year ending December 31, 2009, an increase of \$145,117 from year 2008.

Revenues and expenditures created a decrease in total net assets to \$29,681,481 from \$30,800,417 representing a decrease \$1,118,936 over the prior year. A decrease in the surplus lines premiums in 2009 fiscal year resulted in a significant decrease in the operating revenues and in a decrease in the net assets of the Service Office.

The Statement of Financial Position is in conformity with generally accepted accounting principles (GAAP) used in the United States. FLSO retains independent accountants to audit its financial statements. The independent auditors provided a clean and unqualified opinion with regards to these financial statements. The annual independent audit of the FLSO's books and records are available upon request for members to review.

Financial Statements

as of December 31, 2009

STATEMENT OF NET ASSETS

ASSETS

Current assets:

Cash and cash equivalents	\$18,346,547
Accounts receivable	8,139
Accrued interest income	33,119
Investments	<u>190,000</u>
Total current assets	18,577,805
Long-term investments	6,514,300
Property and equipment, net	4,709,984
Deposits	<u>11,810</u>
Total assets	<u>29,813,899</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$121,790
Amounts held for the account of others	<u>10,628</u>
Total current liabilities	132,418

Net assets:

Invested in capital assets, net of related debt	4,709,984
Unrestricted	24,971,497
Total net assets	<u>29,681,481</u>

TOTAL LIABILITIES AND NET ASSETS

\$29,813,899

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OPERATING REVENUES:

Charges for services	\$3,656,592
Interest and finance charges on service fees	10,065
Other income	<u>24,246</u>
Total operating revenues	<u>3,690,903</u>

OPERATING EXPENSES:

Administration and support	2,261,672
Education and outreach	880,755
Agent and insurer relations	1,515,812
Depreciation and amortization	<u>378,218</u>
Total operating expenses	<u>5,036,457</u>
Operating loss	(1,345,554)

NONOPERATING REVENUES (EXPENSES):

Investment interest	134,194
Rental income	129,554
Rental expenses	<u>(37,130)</u>
Total nonoperating revenues (expenses)	<u>226,618</u>

DECREASE IN NET ASSETS

Net assets at beginning of year	<u>30,800,417</u>
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NET ASSETS AT END OF YEAR

\$29,681,481

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES

Operating loss	(\$1,345,554)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	378,218
Changes in operating assets and liabilities:	
Accounts receivable	33,780
Accounts payable and accrued expenses	(190,858)
Amounts held for the account of others	<u>(1,187)</u>
Net cash provided by operating activities	<u>(1,125,601)</u>

FINANCING ACTIVITIES

Purchase of property and equipment	(300,549)
Other receipts	<u>92,424</u>
Net cash used in capital and related financing activities	<u>(208,125)</u>

INVESTING ACTIVITIES

Interest income	154,237
Purchases of investments	(8,735,000)
Sales of investments	<u>6,153,846</u>
Net cash used in investing activities	<u>(2,426,917)</u>

Net increase in cash and cash equivalents	(3,760,643)
Cash and cash equivalents at beginning of year	<u>22,107,190</u>

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$18,346,547

Generated Taxes and Fees

2007-2009

GENERATED DFS TAXES

YEAR	Q1	Q2	Q3	Q4	TOTAL
2009	\$41,449,507	\$59,548,259	\$44,636,962	\$35,149,580	\$180,784,308
2008	\$49,601,605	\$63,392,258	\$45,129,206	\$36,547,795	\$194,670,864
2007	\$55,074,139	\$64,226,632	\$50,876,212	\$41,108,754	\$211,285,737

GENERATED SERVICE OFFICE FEES

YEAR	Q1	Q2	Q3	Q4	TOTAL
2009	\$840,561	\$1,198,053	\$920,674	\$714,549	\$3,673,838
2008	\$1,034,536	\$1,324,940	\$933,581	\$771,351	\$4,064,408
2007	\$2,292,446	\$1,639,520	\$1,080,905	\$853,177	\$5,866,048

Premium Comparisons

2009	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$789,236,905	\$112,933,834	\$902,170,739
Q2	\$1,215,515,204	\$175,931,938	\$1,391,447,142
Q3	\$788,984,126	\$200,926,064	\$989,910,190
Q4	\$651,207,274	\$101,614,613	\$752,821,888
TOTAL	\$3,444,943,509	\$591,406,449	\$4,036,349,959

2008	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$850,863,647	\$197,928,056	\$1,048,791,703
Q2	\$1,193,414,290	\$267,976,367	\$1,461,390,657
Q3	\$830,932,486	\$174,039,808	\$1,004,972,294
Q4	\$646,120,910	\$133,213,628	\$779,334,538
TOTAL	\$3,521,331,333	\$773,157,859	\$4,294,489,192

2007	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$1,007,207,299	\$183,158,440	\$1,190,365,739
Q2	\$1,305,470,332	\$209,793,897	\$1,515,264,229
Q3	\$893,112,059	\$204,100,383	\$1,097,212,442
Q4	\$757,576,870	\$154,717,631	\$912,294,501
TOTAL	\$3,963,366,560	\$751,770,351	\$4,715,136,911

For all submission comparisons, the transaction information in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The transaction information is based upon the submission date of policy transactions submitted as of 5/29/10. All figures have been rounded to the nearest dollar amount.

Agent Transaction Submissions

2009	Q1	261,169
	Q2	282,636
	Q3	270,168
	Q4	243,748
	YTD	1,057,721
2008	Q1	276,171
	Q2	302,758
	Q3	289,019
	Q4	257,584
	YTD	1,125,532
2007	Q1	299,399
	Q2	319,028
	Q3	305,528
	Q4	276,472
	YTD	1,200,427



DISKETTE, INTERNET AND IPC SUBMISSIONS

2009	Diskette	Internet	IPC
Q1	0	44,013	3,579
Q2	0	54,250	5,022
Q3	0	56,205	5,158
Q4	0	51,573	3,773
YTD	0	206,041	17,532
2008			
	Diskette	Internet	IPC
Q1	0	23,974	4,358
Q2	0	26,973	5,650
Q3	0	26,711	4,878
Q4	0	24,318	4,643
YTD	0	101,976	19,529
2007			
	Diskette	Internet	IPC
Q1	1	19,295	4,072
Q2	0	22,178	4,720
Q3	0	24,978	4,672
Q4	0	22,510	4,444
YTD	1	88,961	17,908

The transaction information in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The transaction information is based upon the submission date of policy transactions submitted as of 5/29/10.

Compliance Reviews

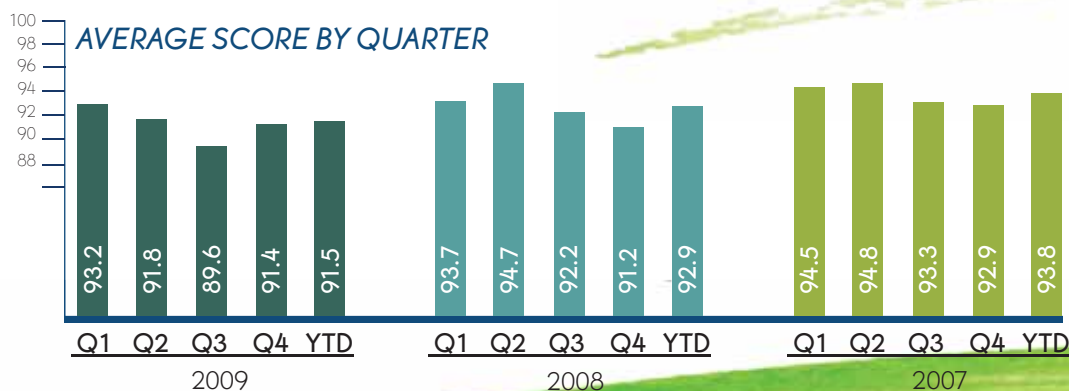
	Reviews Done	# of Policies Reviewed	# of Transactions Reviewed
1Q	90	2,150	2,535
2Q	98	2,335	2,576
3Q	97	2,195	2,503
4Q	94	2,219	2,564
TOTAL	379	8,899	10,178

Variance

	No. of Unfiled Policies
1Q	27
2Q	54
3Q	83
4Q	33
TOTAL	197

COMPLIANCE REVIEW UNFILED POLICIES

	# of Agents	# of Unfiled Policies	Total Premium Collected On	Taxes	Tax Penalties	Service Fee	Service Fee Penalties
1Q	18	49	\$397,916	\$19,146	\$2,819	\$644	\$111
2Q	26	156	\$917,093	\$42,927	\$6,434	\$1,282	\$232
3Q	23	161	\$2,845,753	\$52,728	\$8,743	\$3,630	\$669
4Q	14	33	\$1,687,369	\$31,981	\$6,135	\$1,009	\$212
TOTAL	81	399	\$5,848,131	\$146,782	\$24,131	\$6,565	\$1,224



Beginning in the second quarter of 2009, results relative to the Compliance Review Program were calculated based on re-defined criteria and a new reporting system. Due to this, aggregated calculations in several areas may reflect discrepancies from prior published information.

Statistics

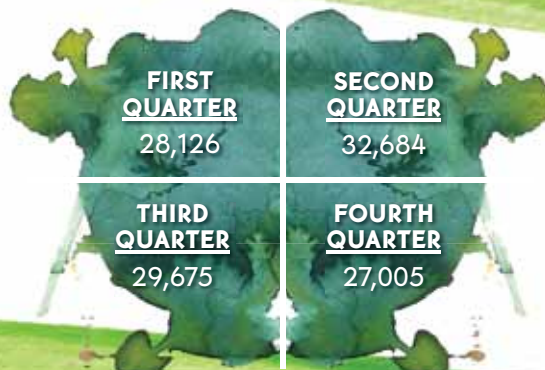
Premium Amount	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
\$7,911,603	\$318,226	\$17,268	\$7,130	\$506	\$89,767	\$7,125
\$20,775,210	\$844,262	\$37,050	\$18,368	\$1,379	\$153,012	\$8,491
\$36,517,792	\$1,418,856	\$84,195	\$33,475	\$3,398	\$512,536	\$32,125
\$9,850,326	\$386,384	\$19,566	\$12,791	\$794	\$145,339	\$9,299
\$75,054,931	\$2,967,728	\$158,079	\$71,764	\$6,077	\$900,654	\$57,040

Assessments	Assessment Penalties
\$2,700	\$282
\$9,804	\$1,533
\$43,367	\$8,340
\$11,315	\$2,049
\$67,186	\$12,204

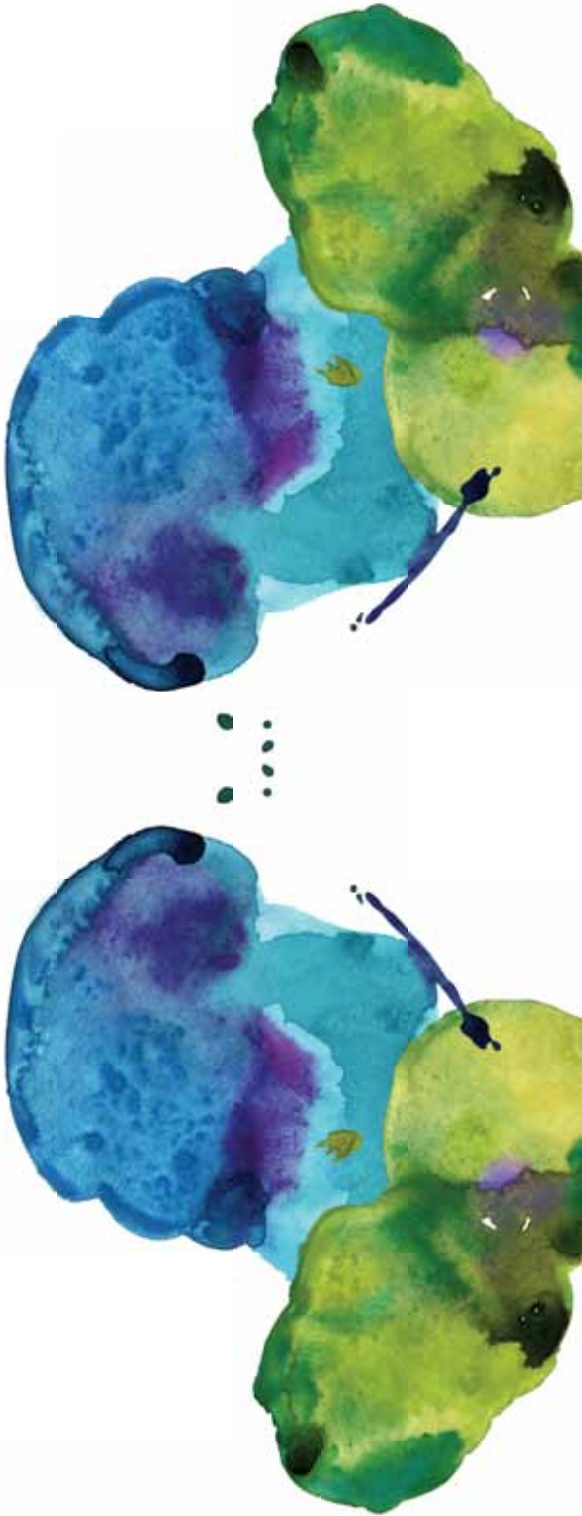
VARIANCE STATISTICS SUMMARY

	Policy Count	Premium	Fees/Taxes/ Assessments/ Penalties
2009	197	\$75,054,931	\$4,161,342
2008	247	\$87,658,669	\$4,055,467
2007	261	\$98,320,389	\$4,113,084

2009 WEBSITE VISITOR SESSIONS

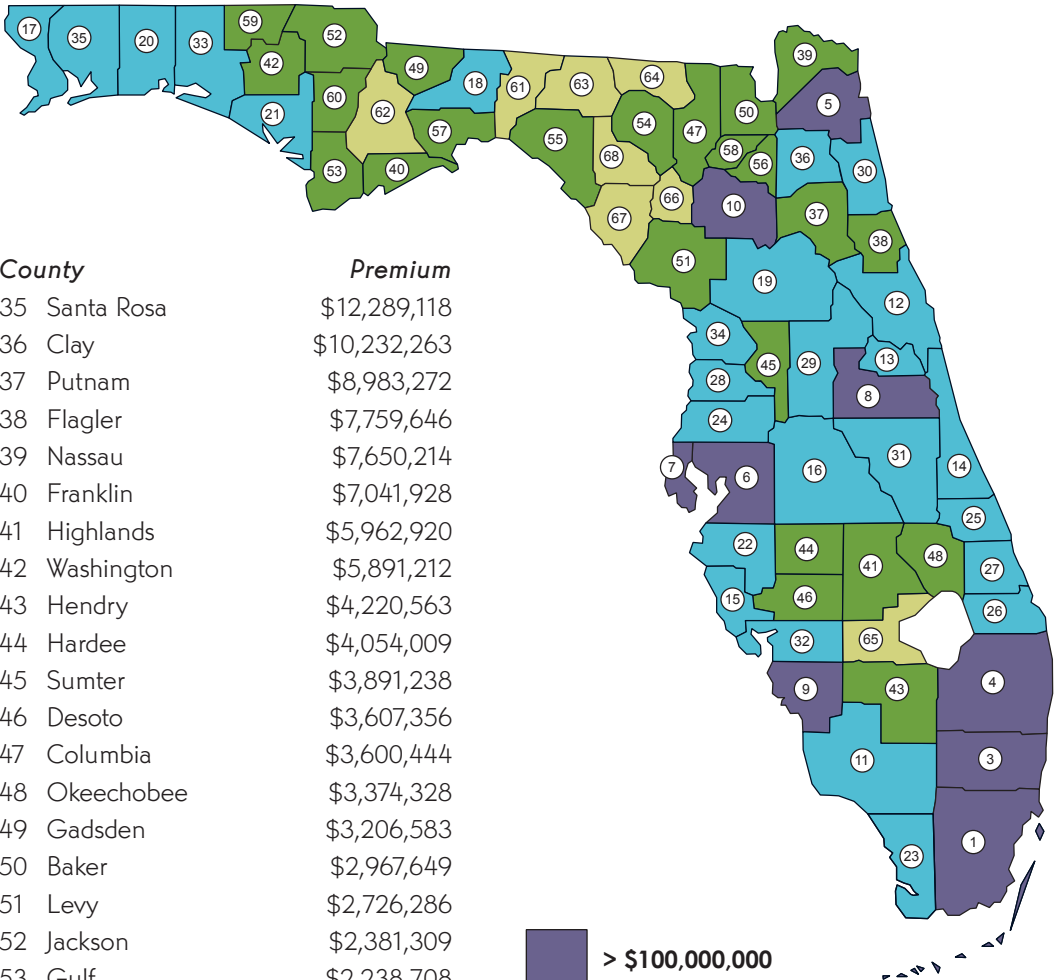


YEARLY TOTAL 117,490

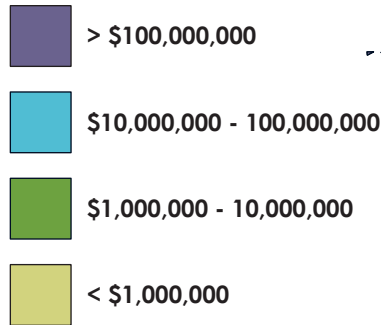


Premiums by County

	<i>County</i>	<i>Premium</i>
1	Miami-Dade	\$678,335,334
2	Multiple Counties	\$464,555,245
3	Broward	\$378,475,976
4	Palm Beach	\$313,954,629
5	Duval	\$307,400,531
6	Hillsborough	\$214,557,012
7	Pinellas	\$200,072,130
8	Orange	\$156,697,211
9	Lee	\$118,771,844
10	Alachua	\$112,312,824
11	Collier	\$78,009,303
12	Volusia	\$70,026,572
13	Seminole	\$68,105,653
14	Brevard	\$63,790,893
15	Sarasota	\$61,371,810
16	Polk	\$58,726,687
17	Escambia	\$45,771,626
18	Leon	\$44,185,130
19	Marion	\$43,567,932
20	Okaloosa	\$41,475,793
21	Bay	\$41,209,576
22	Manatee	\$41,066,097
23	Monroe	\$38,723,166
24	Pasco	\$38,485,996
25	Indian River	\$36,983,862
26	Martin	\$36,408,551
27	St. Lucie	\$28,787,155
28	Hernando	\$28,062,793
29	Lake	\$26,448,507
30	St. Johns	\$19,997,618
31	Osceola	\$19,278,992
32	Charlotte	\$15,215,285
33	Walton	\$15,214,514
34	Citrus	\$12,339,881



County	Premium
35 Santa Rosa	\$12,289,118
36 Clay	\$10,232,263
37 Putnam	\$8,983,272
38 Flagler	\$7,759,646
39 Nassau	\$7,650,214
40 Franklin	\$7,041,928
41 Highlands	\$5,962,920
42 Washington	\$5,891,212
43 Hendry	\$4,220,563
44 Hardee	\$4,054,009
45 Sumter	\$3,891,238
46 Desoto	\$3,607,356
47 Columbia	\$3,600,444
48 Okeechobee	\$3,374,328
49 Gadsden	\$3,206,583
50 Baker	\$2,967,649
51 Levy	\$2,726,286
52 Jackson	\$2,381,309
53 Gulf	\$2,238,708
54 Suwannee	\$2,011,804
55 Taylor	\$1,730,524
56 Bradford	\$1,592,471
57 Wakulla	\$1,569,584
58 Union	\$1,128,413
59 Holmes	\$1,125,189
60 Calhoun	\$1,045,725
61 Jefferson	\$978,164
62 Liberty	\$858,569
63 Madison	\$846,680
64 Hamilton	\$722,322
65 Glades	\$701,602
66 Gilchrist	\$618,605
67 Dixie	\$536,087
68 Lafayette	\$419,046
TOTAL	\$4,036,349,959



The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The policy premium information is based upon the submission date of policy transactions submitted. This information was current as of 5/29/10. All figures have been rounded to the nearest dollar amount. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Top 25 Coverages by Premium Reported

Coverage	Premium	Policy Count
1000 - Commercial Property	\$1,990,500,500	105,884
5000 - Commercial General Liability	\$482,824,090	137,282
1005 - Commercial Package (Property & Casualty)	\$253,274,613	70,252
2002 - Homeowners-HO-3	\$125,482,515	53,442
7003 - Miscellaneous E&O Liability	\$76,962,421	6,353
6001 - Miscellaneous Medical Professionals	\$73,388,224	3,022
5006 - Excess Commercial General Liability (Not Umbrella)	\$65,329,570	4,368
5001 - Commercial Umbrella Liability	\$59,501,619	3,170
2012 - Windstorm	\$49,177,851	140
1013 - Windstorm &/Or Hail	\$47,386,738	1,373
1006 - Condominium Package (Commercial)	\$37,213,659	1,116
2009 - Dwelling Property	\$37,108,488	17,321
2008 - Dwelling Flood	\$32,654,685	23
5012 - Pollution & Environment Liability	\$32,488,187	1,785
1001 - Builders Risk	\$29,202,521	2,891
3006 - Personal & Pleasure Boats & Yachts	\$25,724,172	6,135
2005 - Condo Unit-Owners HO-6	\$24,866,683	23,012
6000 - Hospital Professional Liability	\$24,651,970	124
6003 - Physician/Surgeon	\$24,617,286	453
7000 - Architects & Engineers Liability	\$23,546,627	1,079
4001 - Inland Marine (Personal)	\$22,497,058	176,825
7002 - Lawyers Professional Liability	\$21,572,414	641
4000 - Inland Marine (Commercial)	\$21,365,171	4,747
1008 - Difference In Conditions	\$21,207,986	4,232
1010 - Flood	\$20,458,176	1,311
TOTAL	\$3,623,003,224	626,981

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The policy premium information is based upon the effective date of policy transactions submitted. All other policy premium amounted to \$413,346,735. All figures have been rounded to the nearest dollar amount. This information was current as of 6/18/10. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Top 25 Insurers by Premium Reported

Insurer Name	Premium	Policy Count
Lloyd's Underwriters At, London	\$836,302,842	318,045
Lexington Insurance Company	\$551,233,226	18,230
Qbe Specialty Insurance Company	\$167,633,367	4,169
Scottsdale Insurance Company	\$159,092,096	48,994
Landmark American Insurance Company	\$140,959,639	9,336
Empire Indemnity Insurance Company	\$123,160,923	1,007
Axis Surplus Insurance Company	\$92,835,544	11,163
Westchester Surplus Lines Insurance Company	\$87,050,853	939
Steadfast Insurance Company	\$80,357,093	2,744
Arch Specialty Insurance Company	\$77,615,462	1,667
Colony Insurance Company	\$56,045,338	15,316
Columbia Casualty Company	\$54,226,428	5,137
GeoVera Specialty Insurance Company F/K/A USF&G	\$53,348,762	32,905
Lantana Insurance Ltd	\$50,847,769	9,756
Chubb Custom Insurance Company	\$49,476,311	3,129
Mt. Hawley Insurance Company	\$46,769,181	1,767
Century Surety Company	\$44,590,080	12,780
Chartis Specialty Insurance Company	\$43,949,555	1,174
Max Specialty Insurance Company	\$43,744,680	4,669
Everest Indemnity Insurance Company	\$40,412,802	1,132
Princeton Excess And Surplus Lines Insurance Co.	\$40,008,101	1,253
Mount Vernon Fire Insurance Company	\$39,359,930	22,621
Great Lakes Reinsurance (U.K.) Plc	\$38,339,420	4,917
Nautilus Insurance Company	\$36,950,555	16,860
Evanston Insurance Company	\$34,034,362	3,859
TOTAL	\$2,988,344,319	553,569

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The policy premium information is based upon the effective date of policy transactions submitted. All other policy premium amounted to \$1,048,005,640. All figures have been rounded to the nearest dollar amount. This information was current as of 6/18/10. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.



Tid-Bits:

- 】 In 2009, there were 172 eligible insurers in Florida: 38 were alien and 134 were foreign insurers. Five insurers were removed from the eligibility list by consent order and 12 surplus lines insurers were added.
- 】 There were a total of 1,215 surplus lines agents that were listed as active during the year 2009. As of December 31, 2009, there were 1,100 active surplus lines agents, of which 749 were submitting agents.
- 】 There were 121 newly licensed surplus lines agents and FLSO members in 2009. Of those 43 were resident agents and 78 were nonresident agents.
- 】 Total reported premium by member agents: \$3,444,943,509.
- 】 Total reported taxes by member agents: \$151,213,972
- 】 Permanent office location in Tallahassee, Florida.
- 】 FLSO was established by the Florida Legislature in 1997, under the "Dana Roehrig Act."
- 】 Toll-free assistance: 1-800-562-4496.
- 】 Our Internet address is: www.fslso.com.
- 】 Offered five continuing education classroom courses in 2009.
- 】 FLSO has 21 employees with more than 250 combined years of insurance experience.
- 】 The FLSO participated in three community service events during 2009, which included the Dale Pullen Scholarship Fund Golf Tournament, Second Harvest of the Big Bend and the Big Bend Hospice Annual Holiday Drive.
- 】 The FLSO newsletter is called *The Advisor*.

Website Features:

- » 117,490 visitor sessions to FLSLO website
- » Offers free online resources (news releases, bulletins, forms, market and trend reports, Florida Statutes, etc.)
- » Frequently Asked Questions section
- » Market Data Reports
- » Florida Eligible Surplus Lines Insurer Financial Data
- » Online Agent and Insurer SLIP Tutorials

Variance Analysis:

- » 2009: Collected on 197 policies with more than \$75 million in unreported premium and more than \$4.1 million in taxes, fees, assessments and penalties.
- » 2008: Collected on 247 policies with more than \$87.6 million in unreported premium and more than \$4 million in taxes, fees, assessments and penalties.
- » 2007: Collected on 261 policies with more than \$98.3 million in unreported premium and more than \$4.1 million in taxes, fees, assessments and penalties.

Compliance Review Program:

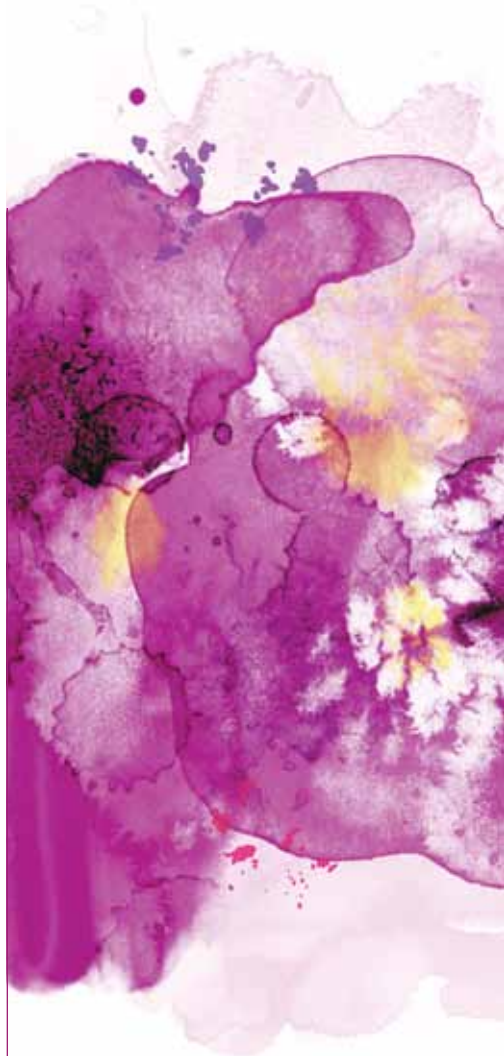
- » 2009: Collected on 399 policies with more than \$5.8 million in unreported premium and \$258,092 in taxes, fees, assessments and penalties.
- » 2008: Collected on 354 policies with more than \$4.9 million in unreported premium and \$162,082 in taxes, fees, assessments and penalties.
- » 2007: Collected on 321 policies with more than \$4.7 million in unreported premium and \$185,833 million in taxes, fees, assessments and penalties.

IPC Data:

- » Total reported premium: \$591,406,449
- » Total reported taxes: \$29,570,336
- » Total number of policies processed: 17,845

Recognition:

- » Received a First Place in the 2009 AAMGA Marketing and Advertising Award in the Surplus Lines Website/Electronic Category for the release of its newly revised website in 2008.



2009-2010 board of governors

David Holcombe
Chairman, 2009-2010
International Speedway Corp.
Daytona Beach
(Vice Chairman 2008-2009)

R.C. Chaffin
Vice Chairman, 2009-2010
SeaCoast Underwriters
Coral Gables
(Chairman 2008-2009)

Lorna W. Palmer
Secretary/Treasurer, 2009-2010
John Handel & Associates, Inc.
St. Petersburg

Bruce E. Bowers
Hull & Company
Ft. Lauderdale

Roy V. Fabry
Kahn Carlin & Co. Inc.
Miami

Steven Finver
Gabor Insurance Services
Miami

Daniel C. O'Leary III
Shelly, Middlebrooks and O'Leary
Jacksonville

Sean Shaw
Florida's Insurance Consumer Advocate
Florida Department of Financial Services
Tallahassee

Irvin "Skip" Wolf III
Regional Excess Underwriters, LLC
Jacksonville

florida surplus lines service office staff

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Executive Director

Carolyn Daniels
*Assistant Director of Agent
& Insurer Services*

Georgie Barrett
Deputy Director of Operations

Jim Godfrey
Chief Financial Officer

Kristen Bertagnolli
Compliance Review Analyst

Brian Bogner
Insurance Analyst

Jessica Brown
Administrative Assistant

Jim Day
Database/Network Administrator

James Farmer
Senior Information Architect

Lisa French
Senior Insurance Analyst

Holly Grissom
IPC Collections Specialist

Bobbi Harter
Variance Specialist

Rachel Hoffman
Variance Specialist II

Felicia Meredith
Compliance Outreach Coordinator

Jennifer Mills
Accounting Specialist

Sheila Pearson
Accounting Supervisor

Brian Sadler
Information Systems Support/Developer

Kara Steele
Variance Specialist

Tiffany Varn
IPC Collections Coordinator

Ashlee Weber
Public Information Manager

Bryan Young
Insurance Analyst

For more information, visit
www.fslso.com or call
toll-free 800.562.4496.

Use this valuable resource
to expand your knowledge
and awareness of Florida's
surplus lines insurance
marketplace.





Florida Surplus Lines Service Office
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