



Florida Surplus Lines Service Office
Annual Report 2016

WELCOME

MISSION: FACILITATE COMPLIANCE

VISION: LEAD AND SERVE THROUGH INNOVATIVE SOLUTIONS



On behalf of the Florida Surplus Lines Service Office Board of Governors, I am pleased to present the 2016 Annual Report which outlines our organization's health and achievements during the past year. FLSO has as its vision to lead and serve the surplus lines community through innovative solutions. It is a privilege to chair an organization that pushes itself so hard in constant pursuit of excellence.

With Executive Director Gary Pullen at the helm, the team at the Service Office is steadfast when it comes to protecting the surplus lines industry in Florida and facilitating compliance. The results of these efforts to assist the agent community speak for themselves: out of nearly \$5 billion in

premium in 2016, 99% of agent premium was reported accurately, and 91% of agent policy transactions were submitted timely. This is an organization that is serious about fulfilling its mission.

This is an organization that is also serious about its customer. From the top down, an unparalleled thread of service permeates the organization. This conclusion is supported by the results from our Annual Customer Survey for 2016.

When asked about satisfaction with our office, members rated us 99% across each of the following categories: Level of knowledge, Professionalism, Responsiveness, and Ability to assist.

When asked about satisfaction with our proprietary filing software system, SLIP, members rated us 99% across each of the following categories: Ease of use, Reliability, Functionality, Performance, and Support.

Providing quality services and products to our customers is the very heart of this organization. As this report is being written, we are preparing again for our annual strategic planning session which will bring forth another new set of opportunities, ideas and innovative solutions for 2017.

I would like to extend my appreciation to the Board of Governors for the privilege to serve as Chairman. Finally, thank you for stopping by to take a look at our 2016 Annual Report. I appreciate your interest and encourage you to explore our website, www.fslso.com to learn more about our organization and our great industry.

Sincerely,
Keith Driggers

“Testimonials regarding our office included comments such as the following:

“You guys are a model for how other states should handle Surplus Lines.”

“Florida streamlines the whole process. SLIP makes it fast, easy, painless and significantly cuts down on errors while filing.”

“We are licensed in all 50 states and I continue to be impressed by FLSO's professionalism and dedication to efficiency.”

“Florida SLIP is superior in ease of use and response time compared to other platforms.”

“Florida Surplus Lines is the most helpful surplus lines I work with. I file in 20 states.”



2016 was an exciting and productive year for both the Surplus Lines industry in Florida, as well as the Service Office. Surplus lines premium written in Florida continued to grow, nearing almost \$5 billion in 2016. Since its inception, FLSO has been charged with protecting consumers, monitoring marketplace compliance and protecting state revenues. In fact, our Compliance Review and Premium Reconciliation programs discovered over \$85 million in unfiled premium in Florida, resulting in more than \$2 million in taxes, services fees, assessments and penalties recovered.

Over our 18 years of operations, we have learned a lot and have developed a deep appreciation for the customer perspective. As is our regular practice, in 2016, we visited with several agents and agencies, both small and large in order to gather a deeper understanding of how our users interact with our office and can benefit from our filing software. As usual, we gained a wealth of insight about how to improve our business processes and proprietary software products to assist the agent community with being compliant. This year our Surplus Lines Information Portal (SLIP) received several exciting enhancements, many of which were brought to us as a result of these visits with our members. Be sure to read more about these enhancements below in our Innovation section.

In our continual pursuit to innovate and improve products and services for our users, we also developed an interactive, online version of our Agent Procedures Manual. Now a highly interactive, web-based version complete with video tutorials and digital case-studies, the Manual allows our users to access the most important compliance information in a more friendly way. It is also now fully mobile responsive, so users are no longer constrained to a desktop or paper version.



“Since its inception, FLSO has been charged with protecting consumers, monitoring marketplace compliance and protecting state revenues.”

Speaking of increased accessibility, our most widely used product to date is our Tax Estimator. In 2016, we released an updated version of our Estimator Mobile App featuring more modern, up-to-date functionality. Then we also created an exciting Tax Estimator Web Service which now allows business-to-business integration of our Tax Estimator. Designed to provide immediate and accurate quoting for Florida surplus lines policies, be sure to read more about this product in our Achievements section below.

Additional achievements for 2016 included a relaunch of our 60 Hour Surplus Lines Pre-Licensing Course from our Education department. FLSO is currently the only provider in the state offering this online course. This year we performed a significant rewrite of the content as well as redeveloped the technology. We upgraded the platform so the course is now also mobile responsive and contains more dynamic and interactive e-learning modules.

Legislatively, we saw victory when the Florida House of Representatives passed a bill revising the quarterly affidavit filing requirements. The bill amended Florida Statute 626.931, relieving surplus lines agents who have not transacted business during a reporting time frame from having to file a quarterly affidavit. While the affidavit requirement still exists for surplus lines agents who have transacted business during the reporting time frame, we were pleased to see one portion of this antiquated requirement removed. This is a positive step in the right direction for modernizing the surplus lines regulatory framework.

I am confident that the Service Office will continue to promote and protect the surplus lines insurance market in Florida with excellence and remain strong in our commitment to service for many years to come. I would like to take a moment to thank Keith Driggers for his leadership as Chairman of the Board of Governors. Finally, let me commend the staff of the Service Office for their unwavering dedication and commitment to our mission, vision and ultimately our success year after year. I cannot wait to see what the future holds.

Sincerely,
Gary D. Pullen

2016 ACHIEVEMENTS

\$5 BILLION

Surplus lines premium in Florida continued to increase more than **\$26 million** in 2016, nearing the **\$5 billion** mark.

Compliance Review and Premium Reconciliation programs discovered over **\$85 million** in unfiled premium resulting in more than **\$2 million** in taxes, services fees, assessments and penalties recovered.

+\$85M | +\$2M

Compliance increased 91% to 94%

The accounting team used customer feedback to make an enhancement that cut down on duplicative emails and improved the invoicing and billing process. Payment compliance increased from **91% to 94%** after the implementation.

In an effort to facilitate agent compliance, FLSO redesigned the *Agent Procedures Manual* making it more interactive and user-friendly. The go-to reference guide for everything an agent needs to stay in compliance is now electronic and highly interactive. It was viewed more than **5,000 times** since its release in June 2016, compared to 46 views of the previous version of the manual.



Accessed over 5,000 times

FLSO expanded the **Tax Estimator** to include business-to-business integration via a secure web service. This free application allows customer access to the **FLSO Tax Estimator** from an internal agency management system or third party website providing immediate and accurate quoting for Florida surplus lines policies.



FLSO Service fee decreased from 0.175% to 0.15%

Florida Legislature passed a bill revising the **quarterly affidavit filing requirements** relieving surplus lines agents who have not transacted business during a reported quarter from having to file an affidavit.

As both the number of agents and the amount of premium increased from 2015, FLSO consistently expanded the efficiency of our organization while processing more volume with the same amount of staff.



+70K Estimates

FLSO's most widely used product to date, our **Tax Estimator** provided over **70k** estimates in 2016.

The Education team launched an updated **60 Hour Surplus Lines Pre-Licensing course**, including a significant rewrite of the content and redevelopment of the technology. The course is now mobile responsive, with more interactive e-learning modules. State exam pass rates for students taking our pre-licensing course has increased **11%**.



Pass rates increased 11%

GROWTH

TOTAL FLORIDA PREMIUM 2016

\$4.95
BILLION

Taxes \$221,762,583

Fees \$7,339,450

Assessments \$1,817,628

2016 POLICY INFO

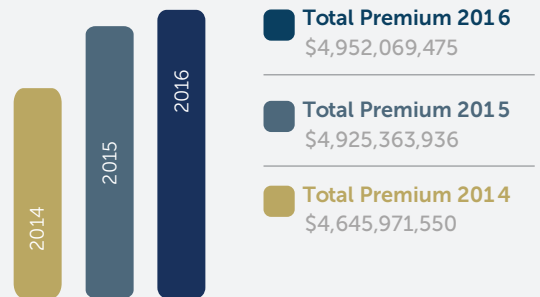
991,715
Policy Count

\$4,993
Avg. Cost Per Policy

↑ 6%

5% ↓

THREE YEAR GROWTH

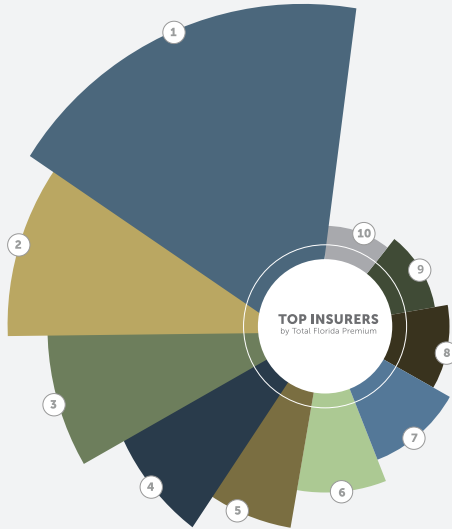


TOP COVERAGES BY TOTAL FLORIDA PREMIUM 2016



GROWTH (CONTINUED)

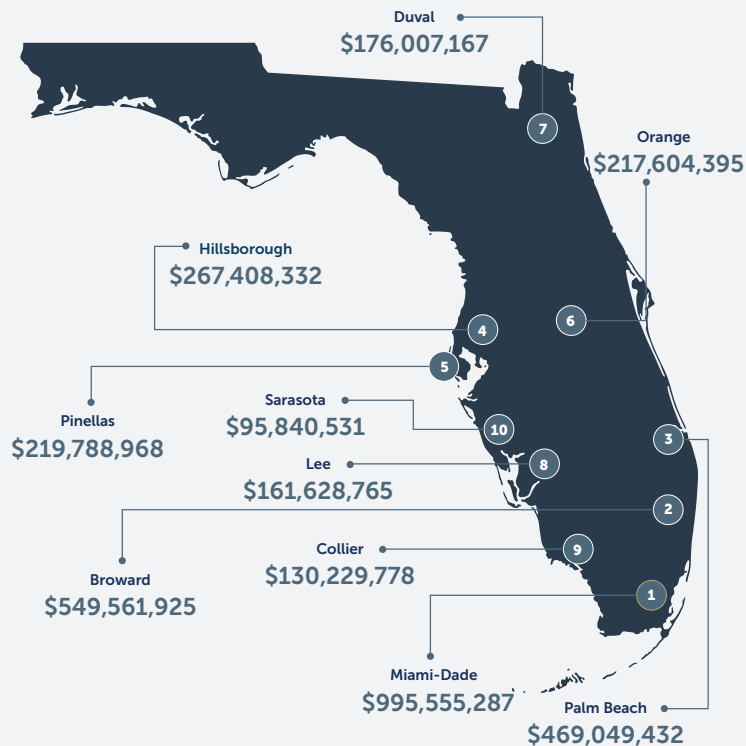
TOP INSURERS BY TOTAL FLORIDA PREMIUM



Insurer Name and Premium

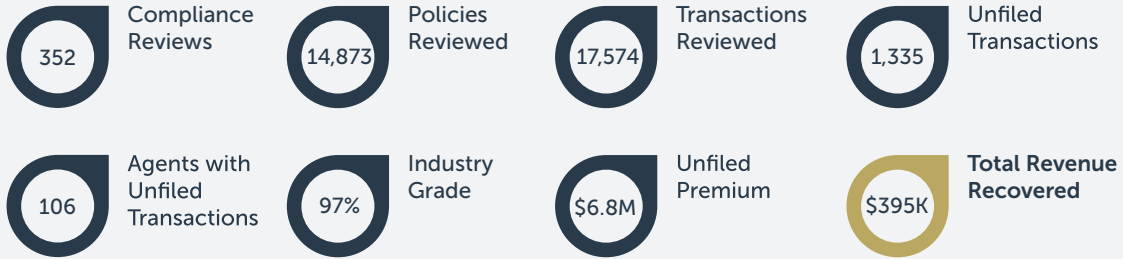
1. Lloyd's Underwriters At, London \$1,340,537,007	2. Lexington Insurance Company \$412,845,789	3. Scottsdale Insurance Company \$192,530,408
4. Westchester Surplus Lines Insurance Company \$117,151,056	5. QBE Specialty Insurance Company \$108,868,647	6. Arch Specialty Insurance Company \$102,275,488
7. Evanston Insurance Company \$102,033,619	8. Ironshore Specialty Insurance Company \$93,375,372	9. National Fire and Marine Insurance Company \$92,048,197
		10. Voyager Indemnity Insurance Company \$87,712,152

TOP COUNTIES BY FLORIDA PREMIUM



COMPLIANCE

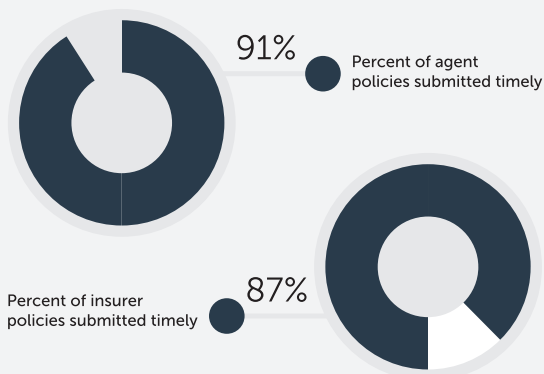
COMPLIANCE REVIEW



PREMIUM RECONCILIATION



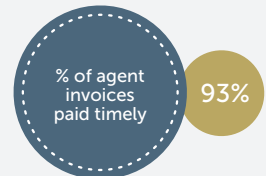
FILING COMPLIANCE



REPORTING COMPLIANCE

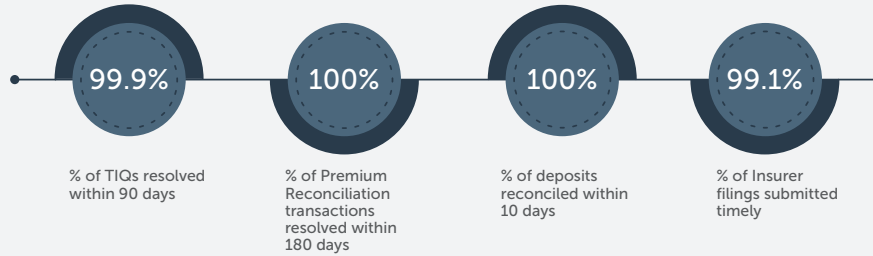


PAYMENT COMPLIANCE



COMPLIANCE (CONTINUED)

COMPLIANCE FACILITATION



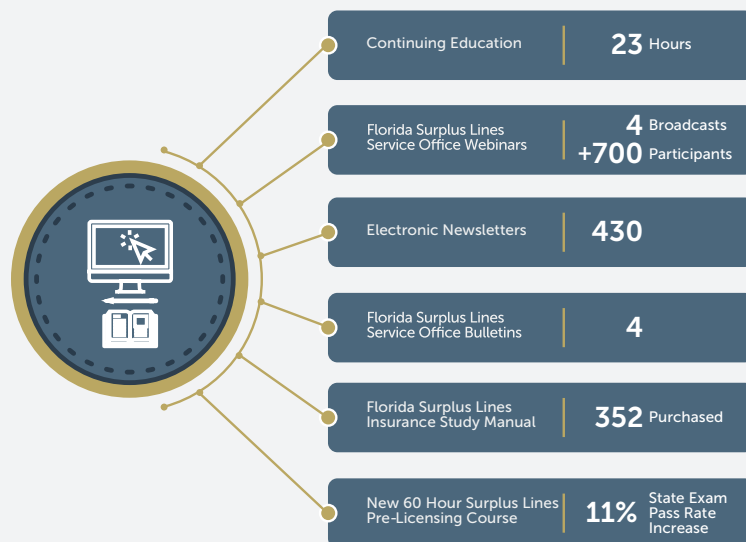
REGULATORY PLACEMENT COMPLIANCE

Data Requirements	99%
Regulatory Placement Requirements	95%
Financial Requirements	98%

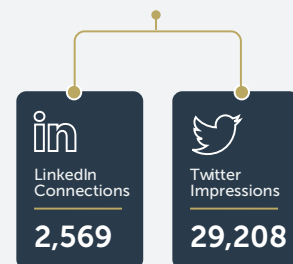
FILING COMPLIANCE

For every **\$1.00** in operating expenses, **\$1.76** was generated in Compliance Revenue.

EDUCATION & PUBLIC INFORMATION

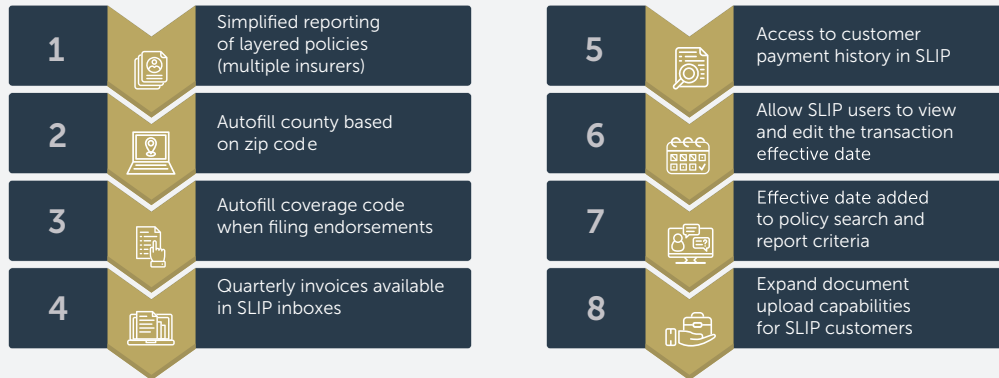


SOCIAL MEDIA

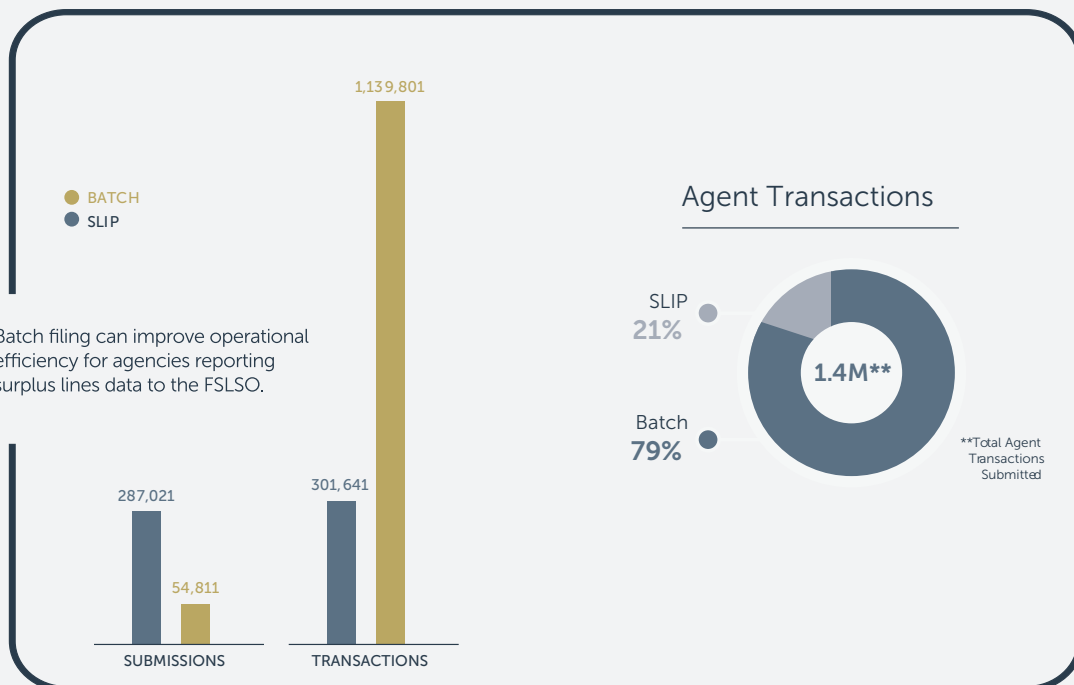


INNOVATION

SLIP ENHANCEMENTS



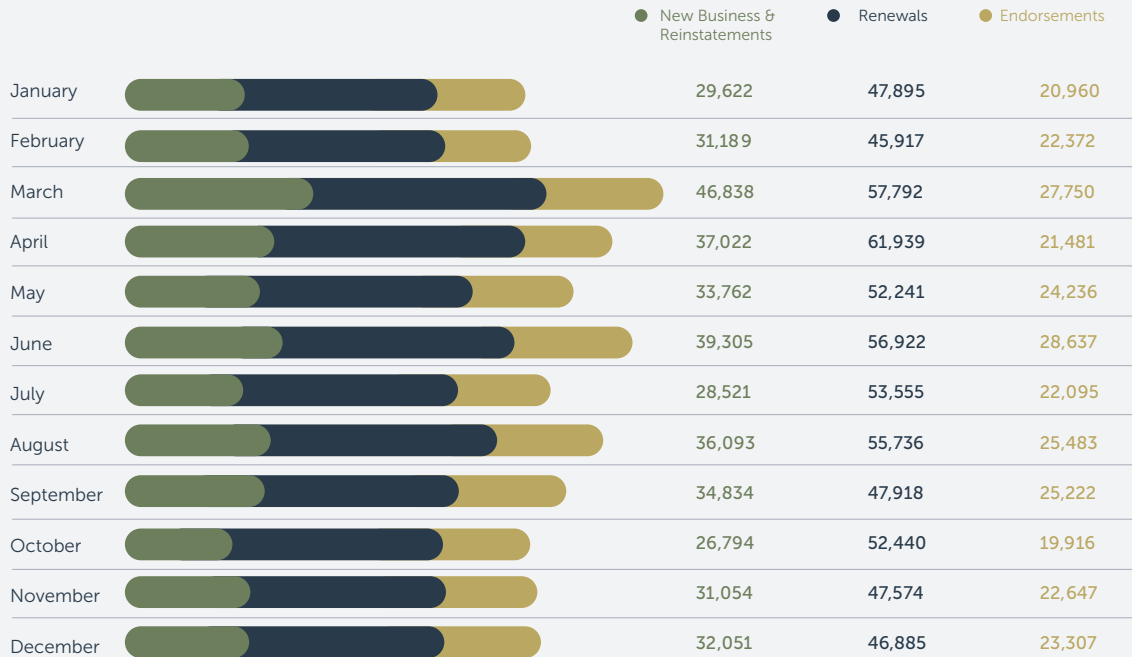
TOTAL AGENT SUBMISSIONS AND TRANSACTIONS RECEIVED VIA SLIP VS. BATCH*



*XML Batch allows a user to submit multiple transactions in a single batch file upload. The graphs above depict the number of transactions submitted via batch and SLIP versus the number of submissions (file uploads) via batch and SLIP.

INNOVATION (CONTINUED)

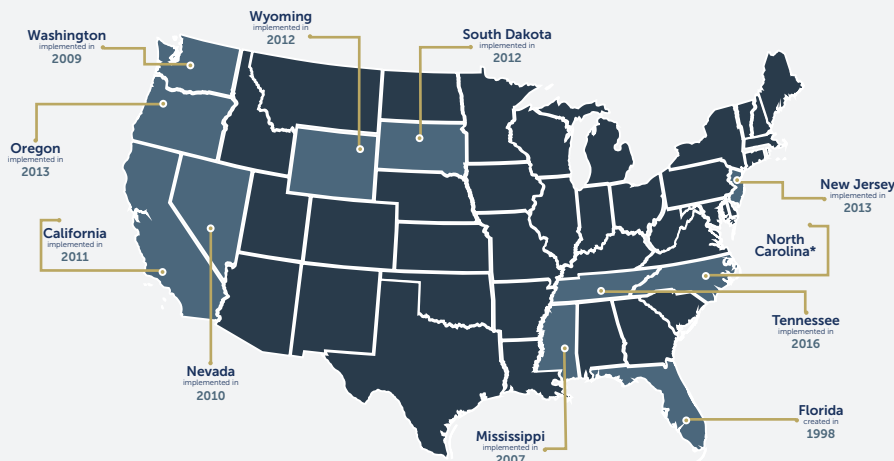
AGENT TRANSACTIONS SUBMITTED BY MONTH*



*These figures do not include backed out transactions.

SURPLUS LINES AUTOMATION SUITE (SLAS)

The Surplus Lines Automation Suite is comprised of the Surplus Lines Information Portal (SLIP) and the Regulatory Administration Platform for Insurance Data (RAPID).



SLAS BENEFITS

\$634,019,849

Premium Recovered from Invalid Credits

COMPLIANCE STATISTICS

Increased Accuracy	99%
Timely Filings	91%
Timely Payments	94%

FLSO negotiated an agreement with the North Carolina Surplus Lines Association for the use of the *Surplus Lines Automation Suite (SLAS)*

*The system was implemented January 1, 2017.

On October 1, 2016, Tennessee became the 10th state to implement the Surplus Lines Automation Suite for the reporting and payment of surplus lines taxes.

FINANCIALS

STATEMENT OF NET POSITION

	Year end December 31, 2016
Assets	
Current assets:	
Cash and cash equivalents	\$ 2,837,206
Accrued interest income	31,650
Investments	7,102,824
Total current assets	9,971,680
Long-term investments	21,459,530
Property and equipment, net	3,620,879
Deposits	7,859
Total assets	<u>\$ 35,059,948</u>
Liabilities and net position	
Current liabilities:	
Accounts payable and accrued expenses	\$ 172,258
Total current liabilities	172,258
Deferred compensation:	
Deferred compensation payable	214,628
Investments designated for deferred compensation	(214,628)
Total liabilities	<u>172,258</u>
Net position:	
Investment in capital assets	3,620,879
Unrestricted	31,266,811
Total net position	<u>34,887,690</u>
Total liabilities and net position	<u>\$ 35,059,948</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

	Year end December 31, 2016
Charges in unrestricted net position:	
Revenues and other support:	
Charges for services	\$ 7,849,343
Interest and finance charges on service fees	1,978
Other income	28,447
Total revenues and other support	<u>7,879,768</u>
Operating expenses:	
Administration and support	\$ 3,059,497
Education and outreach	1,014,248
Agent and insurer services	1,625,990
Clearinghouse	351,514
Total operating expenses	<u>6,051,249</u>
Operating income	1,828,519
Nonoperating revenues:	
Investment income	1,178,416
Rental income	113,524
Rental expense	(83,354)
Gain (loss) on sale of assets	12,300
Total nonoperating revenues	<u>1,219,886</u>
Change in net position	3,048,405
Net position at beginning of year	<u>31,839,285</u>
Net position at end of year	<u>34,887,690</u>

STATEMENT OF CASH FLOWS

	Year end December 31, 2016
Operating activities	
Receipts from agents	\$ 6,714,274
Receipts from Clearinghouse	1,135,069
Payments to employees for service	(2,777,827)
Payment for Clearinghouse	(151,659)
Payment to vendors	(2,777,034)
Other cash receipts	30,425
Net cash provided by operating activities	2,173,248
Investing activities	
Investment income	643,734
Purchases of investments	(14,300,809)
Sales of investments	10,226,944
Net cash used in investing activities	(3,430,131)
Capital and related financing activities	
Purchases of property and equipment	(48,580)
Other receipts	29,177
Net cash used in capital and related financing activities	(19,403)
Net change in cash and cash equivalents	(1,276,286)
Cash and cash equivalents at beginning of year	4,113,492
Cash and cash equivalents at end of year	\$ 2,837,206
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,828,519
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	339,419
Changes in operating assets and liabilities:	
Accounts payable and accrued expenses	5,310
Net cash provided by operating activities	\$ 2,173,248

2016 FLSO STAFF

Gary D. Pullen, Executive Director | Georgie Barrett, Deputy Director of Operations | Bryan Young, Assistant Director of Agent and Insurer Services | Sheila Pearson, Controller | Tiffany Maruniak, Product and Business Development Manager | Trevor Flanagan, Information Technology Manager | PJ Parker-Comer, Public Information Manager | Barry Lanier, Compliance Manager | Jesse Barrett, Technical Support Analyst | Brian Bogner, Insurance Analyst | Corey Capps, Staff Accountant | Jim Day, Database Administrator | James Farmer, Senior Information Architect | John Felder, Senior Technical Support Analyst | Jean Ferrer, Premium Reconciliation Coordinator | Lisa French, Insurance Analyst | Kristen Gray, Insurance Analyst | Bobbi Harter, Operations Specialist | Rachel Hoffman, Business Specialist | Tracy Ingle, Premium Reconciliation Specialist | Felicia Meredith, Compliance Review Analyst | Jennifer Mills, Business Specialist | Kelli Moser, Business Analyst | Tracy Pafford, Public Information Specialist | Amber Pullen, Accounting Specialist

2016 BOARD OF GOVERNORS

Gary D. Pullen, Executive Director

Florida Surplus Lines Service Office

Keith M. Driggers, Chair

ClearView Risk

Roy V. Fabry, Vice-Chair

Kahn-Carlin Insurance
A Risk Strategies Company

Irvin "Skip" Wolf III, Secretary/Treasurer

Burns & Wilcox

Steve Finver

Gabor Insurance Services, Inc.

Michael J. Franzese

RT Specialty, LLC

David Holcombe

International Speedway Corp.

D. Conor O'Leary

Shelly, Middlebrooks, and O'Leary, Inc

Lorna Wirtz

Johnson & Johnson

C. Sha'Ron James

Insurance Consumer Advocate
Florida Department of Financial Services