



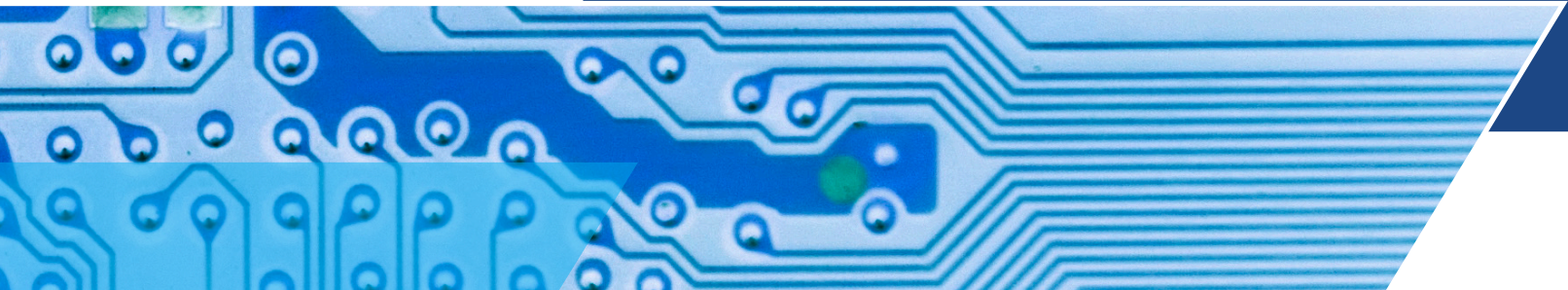
Florida Surplus Lines Service Office
2012 ANNUAL REPORT



FSLSO

TABLE OF CONTENTS

From the Director	2
From the Chair	4
Marketplace Monitoring	6
Assistance	8
Outreach	11
Information	12
Education	14
FLSO Board of Governors	16
FLSO Staff	17
Finance	18
Data and Statistics.....	19
Tid-Bits	26





FROM THE DIRECTOR

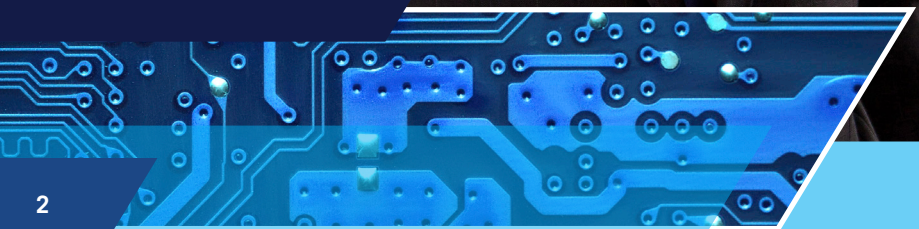
Lean times often present opportunities for organizations to evaluate, refine and improve their business processes. While the challenges of a recession can be difficult to overcome, one benefit can be found in the incentive for businesses to fine-tune their products and services. By turning a good product into a great product, an organization can create customer satisfaction while being efficient in time, cost and resource savings.

The Florida Surplus Lines Service Office operates under the core principles of its vision statement: to be a national leader in facilitating the placement and taxation of surplus lines insurance, utilizing cutting-edge technology to maximize efficiency and develop innovative customer solutions. We believe in the power of technology. It allows us to do more with less; to reach great distances in fewer steps.

Our first strides into being a “paperless” office began with the development of the Agent Submission Software in 1998. That led to the creation and launch of the Surplus Lines Automation Suite (SLAS) – a web-based tool that includes a filing component and a management system that work together to process surplus lines policies filed by agents and direct procurement filers.

As the originators of SLAS, our organization was the first to use the software platform to process surplus lines policy information. But other states have since seen the value in this type of technology. Currently, seven stand-alone states have adopted the SLAS platform as their filing and management platforms for the collection and oversight of surplus lines policy data.

With the formation of the Nonadmitted Insurance Multi-State Agreement (NIMA), SLAS also offered the first tangible step toward nationwide uniformity in the surplus lines industry. In April 2012, SLAS was named the filing platform of choice for the participating states of NIMA. As such, the Service Office established the Surplus Lines Clearinghouse, an independently operated service, for the collection and allocation of surplus lines premium taxes on multi-state policies for which a NIMA-participating state is deemed the “Home State.”



In addition to the establishment of the Surplus Lines Clearinghouse, Service Office staff continued to search for leading and innovative enhancements to improve many of its current products and services. These enhancements included a number of improvements this fiscal year to the Surplus Lines Information Portal (SLIP), including multi-browser capability, enhanced reports, and the addition of a tool to save and manage the Unique Market Reference number required when using Lloyd's of London. The batch submission process was also improved with the move to an XML-based system, which provides a higher level of compatibility and security for our customers who choose to file in bulk.

In addition to the improvements made to our filing methods, FLSO's Market Data Reports underwent a major remodel in 2012. Originally introduced in 2001, Market Data Reports received enhancements to streamline the user experience and make the online tool more customizable and user-friendly. It now provides five different reports, each of them offering a unique viewpoint of the Florida surplus lines market. The improved reports provide a more informative and educational look into Florida's surplus lines market for agents, insurers, regulators, consumers, and media contacts.

With the rise of the smartphone, business is conducted anywhere at any time, and the informational tools provided by the Service Office need to be reflective of this technology shift. In July 2012, our most popular website tool, the Tax/Fee/Assessment Estimator, went mobile. In late July, a mobile application version of the Estimator was released for free download on both Apple and Android smartphones and tablets. We are excited to offer this innovative product that can harness the power of mobile technology to best serve our customers' needs.

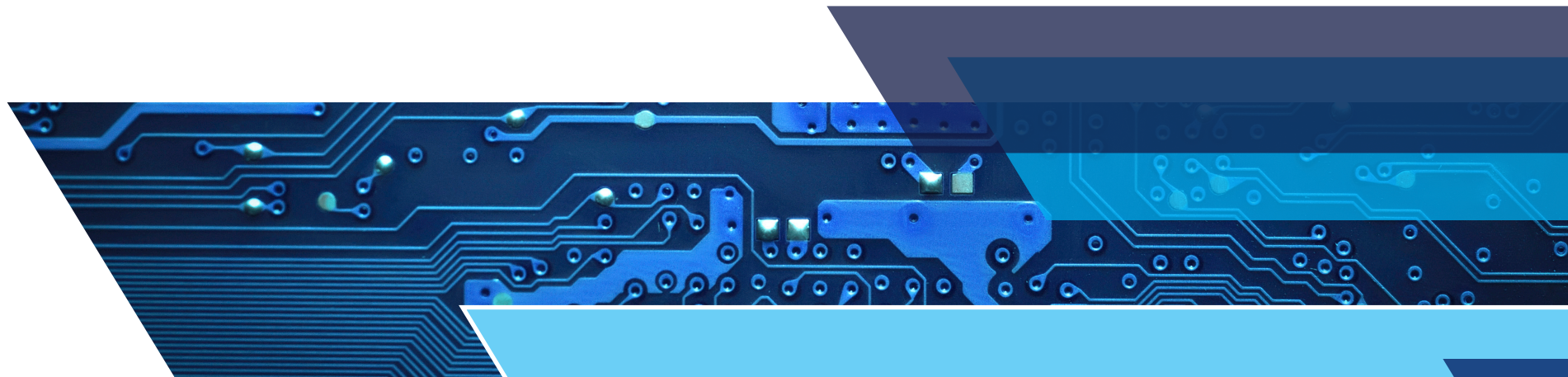
As we reflect on our accomplishments of the past year, I must thank the members of our 2012 Board of Governors who have given this organization their leadership and guidance. These individuals continue to be strong supporters of our office and its vision of technological leadership. Thanks to our Chair, David Holcombe, for the dedication of his time and talent as the leader of our Board and organization. I look forward to this new year working under the guidance of our Chair, Lorna Wirtz, whose industry experience and accomplishments will add great value to our operation.

Without the skills and knowledge provided by the Service Office staff, our vision could not be a reality. Therefore, I would like to thank our dedicated and talented staff for their commitment to serving this industry and their customers. The Service Office is dedicated to the betterment of each customer, because only through their accomplishments have we found our own success.

Sincerely,



GARY D. PULLEN
Executive Director



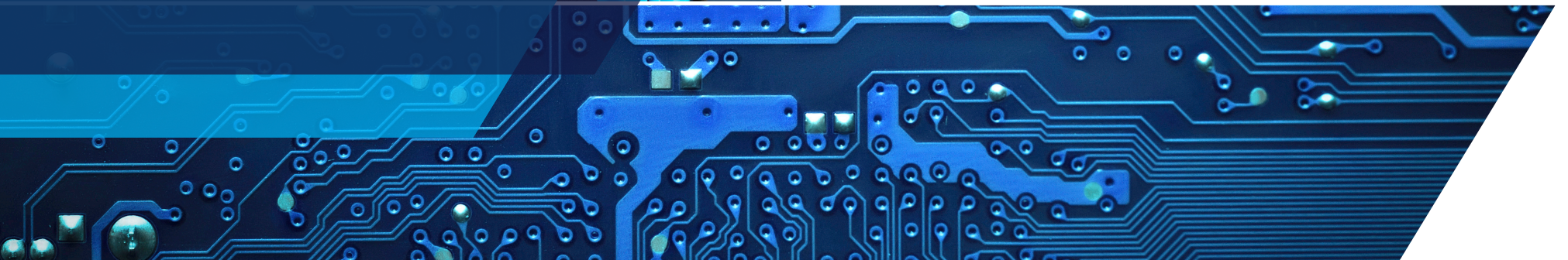


FROM THE CHAIR

Since its inception, the success of the Service Office has been based on two dynamics: harnessing leading-edge technology and providing world-class customer service. These two components go hand-in-hand, as technology provides a staff of only 22 individuals with the capacity to process more than \$4.2 billion in surplus lines premium in 2012 while facilitating various compliance efforts and delivering quality programs and products to customers across all 50 states.

The success of the FLSO's technology systems allowed the Service Office to hold staffing at current levels even while growing its customer base to include the member states of the Nonadmitted Insurance Multi-State Agreement (NIMA). Through a partnership with the members of NIMA, the Service Office was designated to serve as a central clearinghouse for the collection and allocation of surplus lines premium taxes on multi-state policies for which a NIMA participating state is deemed the "Home State."

The Surplus Lines Clearinghouse began accepting filings on July 1, 2012, and completed its first billing and payment cycle in mid-November without incident. As an organization, we are proud to extend the same level of technology and customer service which has served the Florida surplus lines market for the past 15 years to the broker community and state governments of the NIMA member states.



As we progress and increase our visibility in the surplus lines industry, monumental tasks no longer seem impossible. We have undertaken an enormous responsibility of providing leadership and service to our customers. These responsibilities offer the Service Office the opportunity to pursue new methods of disseminating information, providing assistance, delivering quality education programs, and maintaining a high level of customer service excellence. In this regard, we are so very proud of how our staff's initiative and actions lead to problem-solving ideas. Many of these are evident in our everyday operations.

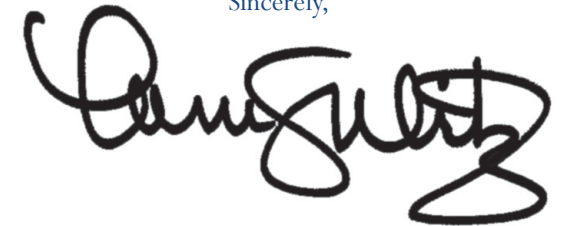
These are just a few of the items you will see documented in the 2012 Annual Report. As you take time to peruse these pages, I am sure you will appreciate the complexity of the Service Office's accomplishments this past year. The ability of the Service Office to maintain its excellence in work output comes from their diligence in goal setting, process management and strategic thinking.

While it has undoubtedly been a year of challenge and achievement, success would not have been possible without strong leadership. I would like to commend David Holcombe for his service as Chairman to the Board of Governors and the organization. His leadership has been an invaluable component to the success of the Service Office, and I wish to extend my sincere appreciation to him for his guidance during his term. Additionally, I want to welcome our newest Board member, Kevin Tromer of MacNeill Group, Inc. to the Board of Governors. We look forward to the knowledge and expertise he has to offer.

It is always a pleasure to recognize those who have shown success in their work. I want to congratulate FLSO Executive Director Gary Pullen and the Service Office staff for an exciting and prosperous 2012 year. Congratulations on a job well done, and we look forward to 2013.

I extend my thanks and appreciation to the Board for this privilege to serve as Chair. I am excited for the opportunity and look forward to beginning what I am sure will be a productive and promising year.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lorna Wirtz', written in a cursive style.

LORNA WIRTZ

Chair

MARKETPLACE MONITORING

Through the policy submissions made by surplus lines agents, insurers and Independently Procured Coverage filers, the Service Office is uniquely positioned to monitor Florida's surplus lines marketplace on many different levels. Through its Compliance Review and Variance Analysis Programs as well as Agent and Insurer Report Cards, Service Office staff monitor and evaluate the accuracy and timeliness of data submissions in an effort to maintain a credible Florida marketplace.

On the agent level, the Compliance Review program facilitates the statutory compliance of Florida's surplus lines agent community relative to the sale and reporting of surplus lines insurance. This program uses the expertise of contract analysts to review a sampling of the transactions reported to the Service Office with the records of the agent for discrepancies and inconsistencies. These errors may be due to a lack of training of agency staff or a lack of substantive quality controls during the submission process. When such errors are found, Compliance Review staff use the opportunity to provide additional targeted education.

The Compliance Review Program also acts as a means to collect the appropriate taxes and fees on unfiled policies found during the review process. In 2012, the Compliance Review Program uncovered a total of 1,156 unfiled policies totaling \$6,507,207 of unreported premium and \$191,826 in taxes, fees, assessments and penalties.

For insurers and agents, the Variance Analysis Program compares the submissions made by insurers against the data submitted by agents and Independently Procured Coverage (IPC) filers. Any discrepancies found are then further analyzed by a staff member to determine whether a true variance exists, its cause, and

any needed corrective action. The Service Office was the first stamping office with the technological platform to perform the high-volume comparison.

In 2012, the Variance Analysis Program uncovered 1,011 unfiled policies representing \$41,390,714 in unreported premium and the collection of more than \$1,852,236 in taxes, fees, assessments, and penalties. The 2012 year marked a new milestone for the Variance Analysis Program, as it hit a half a billion dollars in recovered unfiled premiums since the program's inception in 2000.

Another program the Service Office uses to monitor the performance of the agent community is the Agent Report Card. The Agent Report Card serves as an educational tool to inform Florida licensed surplus lines agents of their strengths and weaknesses relative to the compliance requirements placed upon them by their licensure. Each quarter, agents receive a number of "grades" relaying their level of compliance with Florida's surplus lines filing procedures as dictated through the following four criteria: percentage of transactions without Transactions-in-Questions; percentage of timely submissions versus total number of submissions; percentage of affidavits filed timely; and percentage of transactions submitted timely. The industry average for 2012 was 92.8 percent, or an "A."

Eligible Florida surplus lines insurers are also subject to a "report card review" in a similar manner as the Agent Report Card. With measures in three performance categories, insurers are graded on accepted vs. rejected submissions, accuracy, and timeliness. The overall industry score for eligible surplus lines insurers in 2012 was 88.4 percent.

Said Assistant Director Tom Terfinko: "As a service organization, we are proud to see the remarkable compliance levels of our industry members. We believe that in working with our customers, assisting them with their compliance requirements, and educating them of market regulations, we are able to contribute to a strong, credible marketplace."



ASSISTANCE

Since its inception, the Service Office has continuously worked to provide exceptional customer service to its diversified customer groups while pushing its technology programs to be a best practices solution at the forefront of innovation and usability. The 2012 year was one of challenge, expansion and success for the Service Office. Its staff developed enhancements to its current filing platforms, while lending its service and expertise to assist the member states of the Nonadmitted Insurance Multi-State Agreement (NIMA) in the creation of a national surplus lines clearinghouse.

On the home front, the Service Office staff bookended the year by releasing modifications and enhancements to the agent and IPC versions of the Surplus Lines Information Portal (SLIP) in the 1st and 4th quarters. These improvements included technical upgrades that enhanced SLIP to be multi-compatible with the most popular Internet browsers including Chrome, Firefox and Internet Explorer. Additional changes streamlined the filing process for renewal policies.

In addition to SLIP improvements, the Service Office worked to modernize the submission platform for policy data submissions through its batch filing application. Data submissions were traditionally made via File Transfer Protocol (FTP), which required customers to download specialized software. A 2012 conversion to eXtensible Markup Language (XML) provided the Service Office's batch filing process with increased flexibility, customization and cross-platform compatibility through the usage of an industry standard programming language.

As Florida's surplus lines community continued to expand, the Service Office welcomed 42 resident and 95 non-resident Florida surplus lines agents as members. Each new agent was provided with a New Agent Packet which contained useful information to aid members in their transition to the surplus lines market. The packet includes an Agent's Procedures Manual, copies of the current Annual Report, *The Advisor* newsletter, SLIP username and password, as well as various brochures.

The assistance of the Service Office was also extended to any surplus lines insurer seeking eligibility to market its products in Florida. As required by statute, these insurers must first submit an application to the Service Office for review and completion. In 2012, five insurers submitted eligibility requests. Each application was reviewed and forwarded to the Florida Department of Financial Services/Office of Insurance Regulation (DFS/OIR). Four insurer applications were approved as of December 31, 2012, and the insurers were added to Florida's Eligibility List.

On the national front, the Service Office took a major step to affirm its vision as a national leader in the facilitation of placement and taxation of surplus lines insurance, officially launching the Surplus Lines Clearinghouse on July 1, 2012.

Through contracts with the states of NIMA, the Service Office created the Surplus Lines Clearinghouse, an independently operated service, to serve as the central clearinghouse for the collection and allocation of surplus lines premium taxes on multi-state policies in which a NIMA participating state is deemed the Home State under the provisions of the Nonadmitted and Reinsurance Reform Act of 2010. Throughout the first half of 2012, Service Office staff and local technological provider Infinity Software Development, Inc. worked to program, test and deploy a newly configured version of its nationally recognized filing platform, the Surplus Lines Automation Suite (SLAS). The Clearinghouse's adaptation of the SLAS filing platform was shaped to serve the varied needs of both the surplus lines broker community and the regulators of the NIMA participating states. The Surplus Lines Clearinghouse began accepting filings on July 1, 2012 and completed its first billing and payment cycle in October.

As the surplus lines market continues to evolve at state and national levels, the Service Office remains committed to its initiatives of providing quality customer service through staff assistance and technology platforms.







OUTREACH

The surplus lines market is oftentimes a misunderstood component of the insurance industry, yet it remains a vital part of the distribution system. As such, the Service Office utilizes its resources to advocate the viability and credibility of Florida's insurance community while promoting its various programs and services to fuel customer compliance.

Attendance of industry trade shows offers staff the opportunity to interact with a wide variety of industry members. The Service Office once again participated in the Florida Association of Insurance Agents' (FAIA) annual convention with a trade show booth and provided industry information to attending retail and surplus lines agents.

Additionally, the Service Office delivered industry presentations to various organizations throughout 2012. Speaking engagements included the State of Florida's Insurance Market Summit, the Florida Surplus Lines Association (FSLA) annual conference, as well as a presentation on the benefits of increasing voluntary statutory compliance through automation and technology at the American Association of Managing General Agents Annual Automation and Technical Management Conference. Staff also lent their industry expertise to the Department of Financial Services, as subject matter experts for the Florida Surplus Lines Examination Committee in its annual test question review.

In addition to trade shows and speaking engagements, the Service Office attended industry conferences and roundtable discussions in order to remain on the forefront of developments in the state and national surplus lines

marketplace. These included the National Association of Insurance Commissioners (NAIC) National and Zone Meeting, the National Conference of Insurance Legislators Spring Meeting, the Florida Insurance Council Summer Insurance Symposium, the National Association of Professional Surplus Lines Offices (NAPSLO) Annual Convention, and meetings of the Surplus Lines Law Group.

The establishment of the Surplus Lines Clearinghouse in 2012 added an increased focus on the educational outreach efforts of the Service Office. As a means to provide system demonstrations and facilitate question/answer sessions to brokers around the country, staff attended the Securities and Insurance Licensing Association (SILA) National Education Conference, the Louisiana Insurer's Conference, and the Florida Surplus Lines Association (FSLA) Annual Convention. These sessions served to educate and inform brokers on the policies and filing procedures of the Surplus Lines Clearinghouse.

Reaching out to all facets of its customer groups, in Florida and nationwide, to share industry knowledge remains one of the core charges of the Service Office. The Service Office continues to invest time and effort into opportunities that allow the organization to exchange ideas and promote the continued success of the marketplace.

INFORMATION

In this century, mobile technologies remain one of the fastest-growing industries in the world. As the need to move faster, go further and have infinite access demands better tools, it becomes necessary for businesses to look for new ways to promote information sharing.

With a focus on smartphone technology, Service Office staff spotted an opportunity to provide its most popular web-based tool, the Tax/Fee/Assessment Estimator, as a mobile application. The mobile version of the Tax/Fee/Assessment Estimator was released for free download on Apple and Android smartphones in July of 2012 at the Florida Surplus Lines Association Annual Convention.

Said Executive Director Gary Pullen: “The Service Office is an advocate of technology as a means to better business through efficiency and effectiveness. We are excited to offer this product to our customers in the hopes that it will streamline their quoting process and provide information at their fingertips.”

Another longtime website informational tool, the Market Data Reports, was targeted for improvement in 2012. Originally released in 2001, Market Data Reports underwent a major facelift with a focus on streamlined data mining and a more user-friendly experience. Based on submission data received from Florida surplus lines agents and Independently Procured Coverage (IPC) filers, the Market Data Reports provide a simplified approach to industry research. The online stats relay key informational components for Florida’s surplus lines marketplace including premium volume, policy counts, insurer activity, commonly written coverages and more.

With a wide range of informational stats available, visitors to fslso.com/market/marketdata have access to five industry reports: Looking for Coverage, Insurers by Premium, Coverages by Premium, Coverages by Location, and Fast Facts.

“Our focus was to provide our customers with a simplified approach to marketplace research,” noted FLSO Public Information Manager Ashlee Weber. “It’s our hope that these reports will serve to educate and inform agents, insurers, consumers, and the media on the presence and capacity of surplus lines insurance in our state.”

Throughout 2012, the FLSO website, www.fslso.com, served as the major conduit for all of the informational tools and resources including Market Data Reports, the web-based Tax/Fee/Assessment Estimator, Florida statutes, news releases, manuals, forms, and online publications. During 2012, the Service Office posted 24 news items to its main page, supplying visitors with updates on industry issues and marketplace information.

In addition to posting items to the main page, the Service Office used its electronic news bulletin services, eNews and eAlerts, to distribute informational updates to industry members. The eNews service sends information to subscribers, while the eAlert service relays important news items to all Florida surplus lines agents regardless of subscription status. During the year, 26 electronic bulletins were distributed, delivering information relative to products, services, legislation, and education offerings.

In keeping with the focus on technology for information delivery, the Service Office’s quarterly newsletter, *The Advisor*, was delivered electronically via email to surplus lines agents, accounting contacts, agency submitters, insurers, and other interested subscribers. *The Advisor* delivered articles providing assistance on prevailing compliance and filing issues, new products and program releases, as well as industry updates and news.

With the establishment of the Surplus Lines Clearinghouse as an offering of the Service Office, new channels of information distribution were created to provide Clearinghouse-specific information to its customers. Staff created a fully featured Clearinghouse website, www.slclearinghouse.com. The Clearinghouse website contains a number of informational resources for policy filers and state regulators, including educational materials such as manuals, video tutorials and Frequently Asked Questions (FAQs). The site also houses informational resources including bulletins, a Clearinghouse news feed, press releases, and a blog.

Building on past successes, Service Office staff also created a Tax/Fee/Assessment Estimator for use by Clearinghouse customers to estimate the taxes, fees and assessments applicable to multi-state policies in which a Nonadmitted Multi-State Insurance Agreement (NIMA) participating state is considered the Home State.

“By developing the tools that can keep up with the constant changes in the market, we are able to provide our customers with powerful and convenient methods of finding the information they need when they need it,” said Tiffany Maruniak, Clearinghouse Manager.

Staff established a Clearinghouse version of the longtime Service Office informational distribution system, eNews. During 2012, four eNews were delivered to subscribers detailing information relative to the launch of the Clearinghouse, SLIP, filing and invoicing procedures, and the release of educational tools and webinars.

In 2012, the Service Office continued to build on its history of success in information sharing. Through advancements in technology and adaptations of current tools for new purposes, the Service Office worked to serve its expanded customer base as a national leader in the facilitation and placement of surplus lines insurance.



EDUCATION

To promote and maintain a credible marketplace, the Service Office embraces the belief that providing quality education to its members is the path to a statutorily compliant market and consumer protection. Using in-person and online methods, the Service Office offered a variety of educational opportunities, programs and materials to both the Florida surplus lines community and the customers of the Surplus Lines Clearinghouse throughout 2012.

In 2012, Service Office staff developed and delivered a new three-hour classroom-based education course entitled “Building Florida’s Property Insurance Industry: A Solid Foundation in the Admitted and Nonadmitted Markets.” This course was built on the concept of the three “building blocks” that form the foundation for Florida’s property insurance market: the admitted market, the regulation of rates and forms, and the surplus lines industry.

This course was taught in five locations across the state including Boca Raton, Jacksonville, Miami, Orlando, and Tampa. In addition, a one-hour version of this course was taught in conjunction with the annual Florida Surplus Lines Association (FSLA) conference in St. Petersburg. Altogether, both versions of the 2012 classroom offering were taught to a total of 143 students, resulting in 401 education hours.

Outside the classroom, the Service Office continued to support its online education efforts with online continuing education and pre-licensing classes. During 2012, the Service Office offered a variety of online courses including Florida’s only online option for surplus lines pre-qualification credit, the “Surplus Lines 60-Hour Pre-Licensing Qualification Course.” Together with the three other online education options, “Surplus Lines Rules and Regulations,” “The Retail Agent’s Role in the Surplus Lines Market,” and “Illegal Insurance Entities: Knowing the Difference,” online education opportunities were used by 52 students during the year.

Continuing the use of online technology, webinars served as a helpful tool in providing education to the Florida surplus lines community.

A variety of topics were discussed via webcasts including “LET US Streamline Your Filing: FTP to XML,” “Did You Know: Licensing Responsibilities, Legislative Changes and SLIP Enhancements,” as well as the longtime Compliance Corner series aimed at providing specific information on the statutory compliance requirements of Florida surplus lines licensees. A total of 154 students attended FLSO webinars throughout 2012.

With the establishment of the Surplus Lines Clearinghouse, an independently operated service of the Service Office, staff was challenged to look for innovative solutions that would be time and cost efficient for training on a national scale. The creation of a video library hosted on the Surplus Lines Clearinghouse website served as a major milestone for training customers on the SLAS filing platform, Clearinghouse policies and procedures, and the invoicing and billing process.

In addition, staff developed a procedure manual for all reporting entities which detailed the usage of the Surplus Lines Information Portal, the tax payment and remittance process, and general information relative to the Clearinghouse. Several in-person training seminars were offered including the breakout sessions at the Louisiana Insurer’s Conference, the Securities & Insurance Licensing Association (SILA) Annual Convention, and the FSLA Annual Conference.

Webinars continued to serve as an effective means of communication and training for the country’s brokers, as staff hosted several filing webinars in the weeks leading up to the Clearinghouse deployment. Staff delivered training to more than 250 customers, reaching agencies and brokerages from coast to coast.

The Service Office pooled its time and talents to provide educational opportunities through a variety of formats in order to reach as many students as possible. During 2012, the Service Office was pleased to report more than 3,000 education hours to the Florida Department of Financial Services as a result of its online and classroom-based students.





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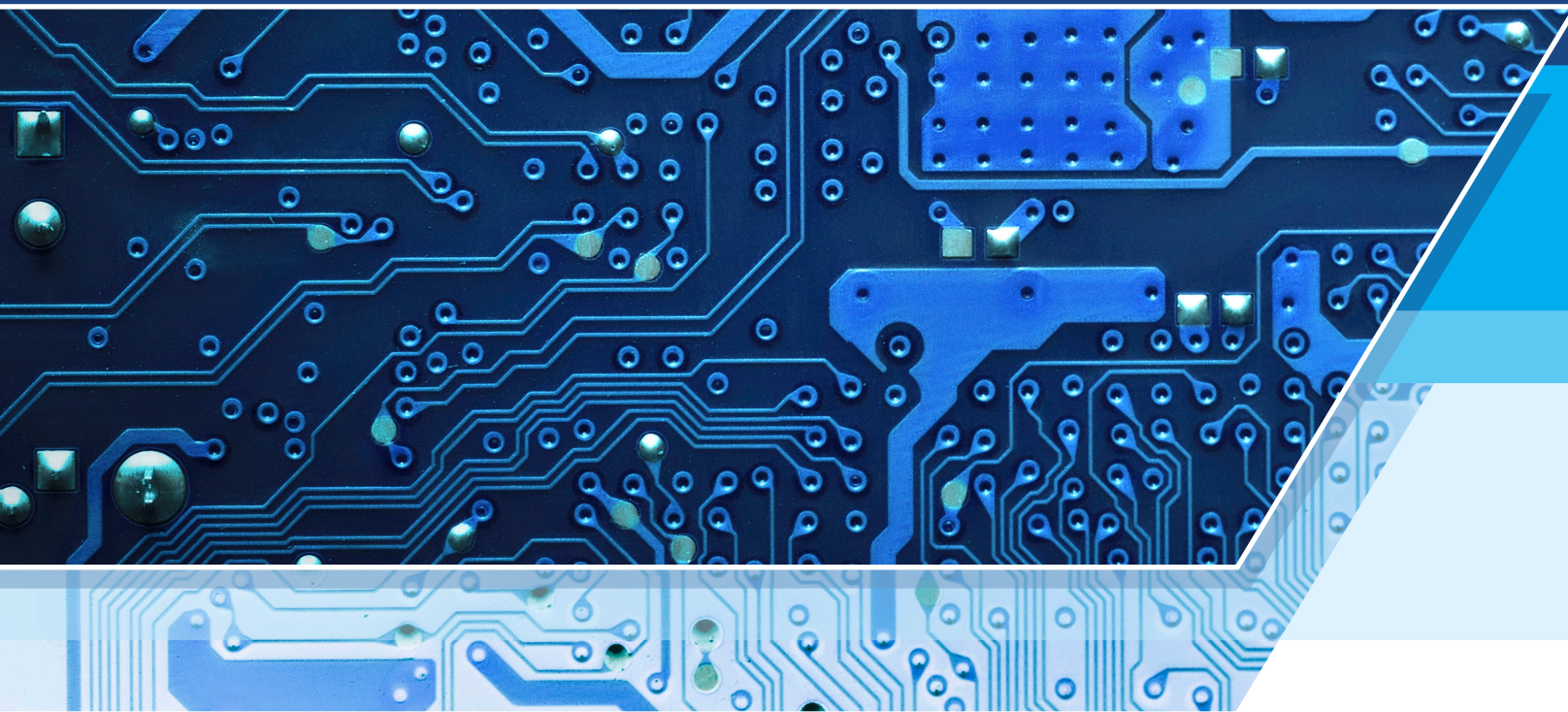
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Florida Department of Financial Services
Tallahassee, FL



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Executive Director

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Deputy Director of Operations

TOM TERFINKO
Assistant Director of Agent and Insurer Services

BRIAN BOGNER
Insurance Analyst

JIM DAY
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BOBBI HARTER
Variance Specialist

RACHEL HOFFMAN
Variance Specialist II

TIFFANY MARUNIAK
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SHEILA PEARSON
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Operations Specialist

ASHLEE WEBER
Public Information Manager

BRYAN YOUNG
*Compliance Outreach
Coordinator*

FINANCE

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSLO 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, 2012, and December 31, 2011. Effective strategic planning, prudent budgeting and spending – coupled with good internal controls – are behind this success.

During the current year, the Service Office began administering the Clearinghouse. The Clearinghouse directly serves NIMA member states by accounting for all payments, calculating the totals due to each state, and detailing the necessary transfers among states to accurately distribute surplus lines taxes and fees. The current-year costs incurred as a result of these services was \$655,782.

Since 2004, the fee rate has been decreased three times (from 0.3 percent to 0.1 percent), and has remained constant at 0.1 percent since 2007. The annual premium in 2011 was approximately \$1 billion less than the premium reported during 2007 when the service fee was initially reduced to 0.1 percent. This reduction in premium has resulted in a \$1 million decrease in service fee revenue. Through revenue projection efforts, FLSLO has taken an appropriate approach to the revenue projection process. These projections, combined with the fee rate referenced above, have resulted in projected fees to FLSLO in an amount less than necessary to cover operating expenditures.

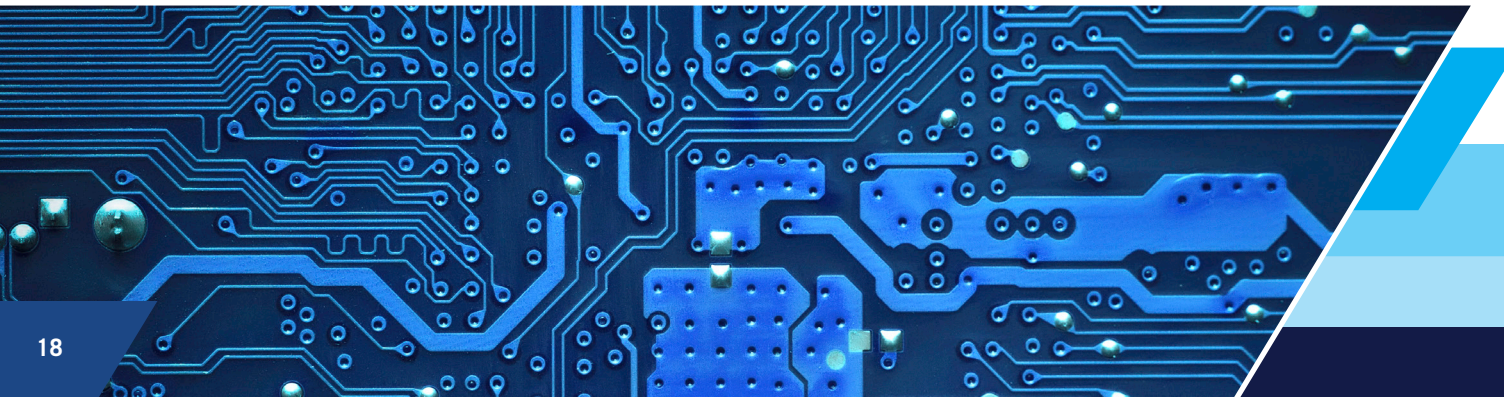
Over the last several years, the Board of Governors of FLSLO has voted to leave the fee rate at 0.1 percent, and agreed that the deficit amount be funded from investment income generated on existing assets or investments as needed. During 2012, \$2.3 million of investments were utilized to balance the budget. To safeguard against underestimation of projected revenue, FLSLO also maintains two years of operating expenditures in reserve to cover any lapses in necessary operating revenue.

In an effort to maintain the success of FLSLO and its programs, the Board in 2012 approved a request to increase the service fee rate back to the 2006 rate of 0.2 percent for policies issued or renewed on or after April 1, 2013. This will allow FLSLO to continue providing the services and programs it currently provides to its customers, and to effectively protect the revenues collected, without diminishing customer compliance.

The Service Office collected on the premium subject to taxes and fees, as submitted by agents and IPC filers, in the amounts of \$174,061,110 and \$3,641,375, respectively. These collected amounts represent a \$5,559,326 increase in surplus lines taxes to the State of Florida and an increase of \$701,047 in the fee revenue.

During the year ending December 31, 2012, the Service Office generated \$3,667,691 in revenues, an increase of \$695,392 from the previous year. With respect to the operating expenses, the Service Office spent \$6,277,865 during the year ending December 31, 2012, an increase of \$1,027,229 from year 2011. Revenues and expenditures created a decrease in total net assets to \$23,246,712 from \$25,696,971, representing a decrease of \$2,450,259 over the prior year.

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



DATA AND STATISTICS

STATEMENT OF NET ASSETS

ASSETS	
<i>Current assets</i>	
Cash and cash equivalents	\$9,566,337
Accrued interest income	21,553
Investments	475,000
Total current assets	10,062,890
Long-term investments	8,348,000
Property and equipment, net	5,056,708
Deposits	7,859
Total assets	23,475,457
LIABILITIES AND NET ASSETS	
<i>Current liabilities:</i>	
Accounts payable and accrued expenses	204,117
Amounts held for the account of others	24,628
Total current liabilities	228,745
<i>Net assets</i>	
Invested in capital assets, net of related debt	5,056,708
Unrestricted	18,190,004
Total net assets	23,246,712
Total liabilities and net assets	\$23,475,457

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

CHANGES IN UNRESTRICTED NET ASSETS	
<i>Revenues and other support</i>	
Charges for services	\$3,641,375
Interest and finance charges on service fees	2,247
Other income	24,069
Total revenues and other support	3,667,691
OPERATING EXPENSES	
Administrations and support	2,901,994
Education and outreach	865,651
Agent and insurer services	1,854,438
Clearinghouse	655,782
Total operating expenses	6,277,865
Operating loss	(2,610,174)
NONOPERATING REVENUES (EXPENSES)	
Investment interest	141,851
Rental income	62,423
Rental expenses	(39,751)
Loss on disposal/sale of assets	(4,608)
Total nonoperating revenues (expenses)	159,915
Change in net assets	(2,450,259)
Net assets at beginning of year	25,696,971
Net assets at end of year	\$23,246,712

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES	
<i>Operating loss</i>	\$(2,610,174)
<i>Adjustments to reconcile operating loss to net cash used in operating activities:</i>	
Depreciation and amortization	933,642
<i>Changes in operating assets and liabilities:</i>	
Accounts receivable	0
Deposits	3,951
Accounts payable and accrued expenses	(177,265)
Amounts held for the account of others	13,922
Net cash provided by operating activities	(1,835,924)
INVESTING ACTIVITIES	
Investment income	151,881
Purchases of investments	(7,609,830)
Sales of investments	7,820,000
Net cash provided by (used in) investing activities	362,051
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of property and equipment	(836,879)
Other receipts	22,672
Net cash used in capital and related financing activities	(814,207)
Net change in cash and cash equivalents	(2,288,080)
Cash and cash equivalents at beginning of year	11,854,417
Cash and cash equivalents at end of year	\$9,566,337

TOP 25 COVERAGES BY TOTAL FLORIDA PREMIUM

Rank	Coverage Code	Premium
1	Commercial Property	\$2,059,209,741
2	Commercial General Liability	\$505,351,624
3	Commercial Package (Property & Casualty)	\$266,632,581
4	Homeowners-HO-3	\$158,852,034
5	Excess Commercial General Liability (Not Umbrella)	\$85,371,764
6	Miscellaneous E&O Liability	\$82,314,665
7	Miscellaneous Medical Professionals	\$72,248,026
8	Windstorm &/or Hail	\$67,244,527
9	Condominium Package (Commercial)	\$59,145,627
10	Commercial Umbrella Liability	\$49,246,477
11	Lawyers Professional Liability	\$47,663,055
12	Pollution & Environment Liability	\$41,535,827
13	Dwelling Property	\$40,706,851
14	Windstorm	\$35,098,707
15	Builders Risk	\$33,949,299
16	Miscellaneous Liability	\$30,459,158
17	Condo Unit-Owners HO-6	\$30,240,395
18	Hospital Professional Liability	\$22,901,682
19	Directors & Officers Liability (Profit)	\$22,435,584
20	Personal & Pleasure Boats & Yachts	\$21,822,293
21	Garage Liability	\$21,743,292
22	Difference In Conditions	\$19,436,175
23	Homeowners-HO-8	\$18,198,702
24	Excess Flood - Residential	\$18,122,163
25	Inland Marine (Commercial)	\$17,698,662
TOTAL		\$3,827,628,911

TOP 25 INSURERS BY TOTAL FLORIDA PREMIUM

Rank	Insurer Name	Premium
1	Lloyd's Underwriters At, London	\$890,967,509
2	QBE Specialty Insurance Company	\$413,316,567
3	Lexington Insurance Company	\$343,448,585
4	Scottsdale Insurance Company	\$164,362,219
5	Landmark American Insurance Company	\$152,847,603
6	Westchester Surplus Lines Insurance Company	\$107,631,416
7	Arch Specialty Insurance Company	\$104,606,200
8	Steadfast Insurance Company	\$83,894,732
9	Ironshore Specialty Insurance Company	\$68,716,597
10	Voyager Indemnity Insurance Company	\$65,193,911
11	Rockhill Insurance Company	\$64,013,954
12	Chubb Custom Insurance Company	\$55,066,309
13	Empire Indemnity Insurance Company	\$54,939,053
14	Chartis Specialty Insurance Company	\$54,566,382
15	Columbia Casualty Company	\$50,541,871
16	Geovera Specialty Insurance Company	\$50,154,925
17	Century Surety Company	\$46,618,321
18	Colony Insurance Company	\$46,204,213
19	Nautilus Insurance Company	\$45,902,474
20	Essex Insurance Company	\$45,152,595
21	Mt. Hawley Insurance Company	\$42,985,167
22	Aspen Specialty Insurance Company	\$42,189,405
23	Alterra Excess & Surplus Insurance Company	\$41,422,259
24	Liberty Surplus Insurance Corporation	\$41,344,571
25	Princeton Excess And Surplus Lines Insurance Company	\$40,080,349
TOTAL		\$3,827,628,911

The data included in this report for the purposes of premium comparisons, transactions counts and submission methods includes all single-state Florida policy filings as well as multi-state Florida policy filings for which Florida is considered the "home state" of the policy in accordance with the Nonadmitted and Reinsurance Reform Act (NRRRA). This data is representative of policy transactions effective from January 1, 2012 through December 31, 2012 as reported by Florida surplus lines licensed agents and Independently Procured Coverage (IPC) filers through the Florida Surplus Lines Service Office and the Surplus Lines Clearinghouse. This data was current as of 06/20/2013. 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. It has been rounded to the nearest dollar amount.

TOTAL FLORIDA PREMIUM

2012	Agent Premium	IPC Premium	Total Premium
Q1	\$902,316,722	\$76,636,599	\$978,953,321
Q2	\$1,339,502,518	\$125,888,293	\$1,465,390,811
Q3	\$816,230,010	\$45,081,509	\$861,311,519
Q4	\$826,894,340	\$67,442,695	\$894,337,034
Total	\$3,884,943,589	\$315,049,096	\$4,199,992,685

2011	Agent Premium	IPC Premium	Total Premium
Q1	\$817,794,901	\$146,118,018	\$963,912,918
Q2	\$1,166,795,767	\$184,870,751	\$1,351,666,518
Q3	\$633,480,666	\$122,483,422	\$755,964,087
Q4	\$665,727,250	\$138,227,472	\$803,954,722
Total	\$3,283,798,584	\$591,699,662	\$3,875,498,246

2010	Agent Premium	IPC Premium	Total Premium
Q1	\$805,784,236	\$124,404,667	\$930,188,903
Q2	\$1,153,940,036	\$169,178,304	\$1,323,118,339
Q3	\$651,509,030	\$73,506,105	\$725,015,135
Q4	\$664,027,105	\$91,380,056	\$755,407,160
Total	\$3,275,260,406	\$458,469,131	\$3,733,729,537

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TOTAL FLORIDA PREMIUM FOR COMMERCIAL LINES

2012	Premium	Policy Count	Average Cost
Agent	\$3,461,214,374	450,448	\$7,683.94
IPC	\$295,110,933	7,763	\$38,015.06

2011	Premium	Policy Count	Average Cost
Agent	\$2,925,221,321	426,630	\$6,856.58
IPC	\$429,023,256	9,887	\$43,392.66

2010	Premium	Policy Count	Average Cost
Agent	\$2,964,514,246	408,330	\$7,260.09
IPC	\$559,000,957	13,876	\$40,285.45

TOTAL FLORIDA PREMIUM FOR RESIDENTIAL LINES

2012	Premium	Policy Count	Average Cost
Agent	\$319,684,601	141,191	\$2,264.20
IPC	\$5,489,151	675	\$8,132.07

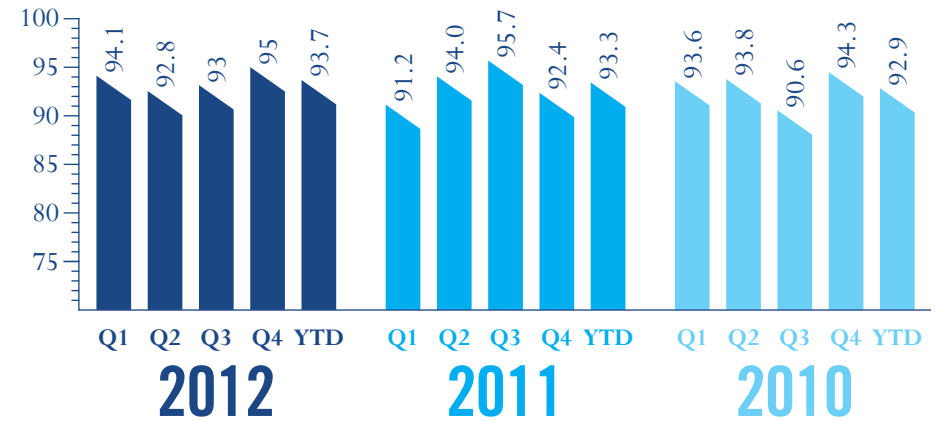
2011	Premium	Policy Count	Average Cost
Agent	\$268,939,082	122,918	\$2,187.96
IPC	\$12,231,060	656	\$18,644.91

2010	Premium	Policy Count	Average Cost
Agent	\$246,216,829	118,567	\$2,076.61
IPC	\$19,453,326	1,055	\$18,439.17

COMPLIANCE REVIEW ACTIVITIES

2012	Reviews Done	# Policies Reviewed	# of Transactions Reviewed
Q1	106	2,670	2,987
Q2	104	2,015	2,338
Q3	103	2,118	2,374
Q4	100	2,171	2,452
Total	413	8,974	10,151

COMPLIANCE REVIEW AVERAGE SCORE BY QUARTER



COMPLIANCE REVIEW - UNFILED POLICIES

2012	# of Agents	# of Unfiled Policies	Total Premium Collected On	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	20	115	\$647,017	\$13,146	\$2,213	\$350	\$61	\$4,615	\$551
Q2	24	166	\$718,133	\$22,118	\$5,552	\$677	\$190	\$8,466	\$2,280
Q3	25	712	\$511,125	\$20,447	\$4,196	\$467	\$91	\$8,579	\$1,375
Q4	22	163	\$4,630,932	\$30,332	\$5,375	\$4,615	\$884	\$48,207	\$7,039
Total	91	1,156	\$6,507,207	\$86,043	\$17,336	\$6,109	\$1,226	\$69,867	\$11,245

VARIANCE ANALYSIS ACTIVITIES

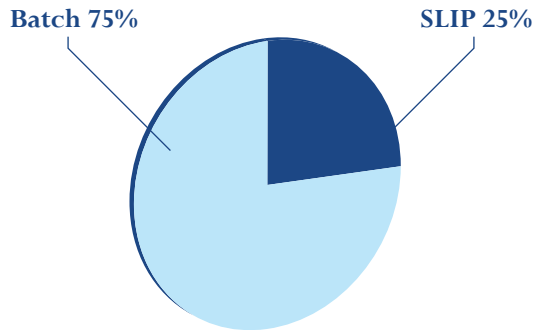
2012	# of Unfiled Policies	Premium Amount	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	55	\$9,497,017	\$201,457	\$5,253	\$6,213	\$391	\$149,157	\$6,053
Q2	670	\$8,592,654	\$285,612	\$2,615	\$7,160	\$90	\$135,139	\$955
Q3	57	\$7,289,672	\$268,707	\$3,567	\$5,647	\$106	\$131,419	\$1,446
Q4	229	\$16,011,371	\$426,867	\$3,343	\$19,284	\$91	\$189,564	\$2,100
Total	1,011	\$41,390,714	\$1,182,643	\$14,778	\$38,304	\$678	\$605,279	\$10,554

The data included in these charts has been rounded to the nearest dollar amount.

TOTAL FLORIDA TRANSACTIONS BY SUBMISSION METHOD

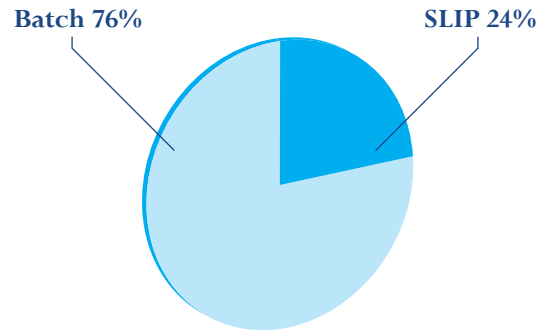
2012

	SLIP	Batch
Agent	269,763	832,836
IPC	15,192	351
Total	284,955	833,187



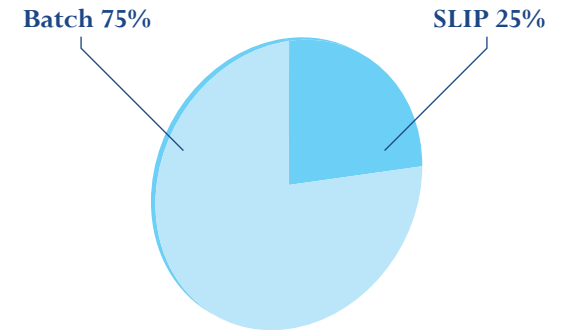
2011

	SLIP	Batch
Agent	247,446	824,412
IPC	18,516	-
Total	265,962	824,412



2010

	SLIP	Batch
Agent	255,355	784,091
IPC	2,013	-
Total	257,368	784,091



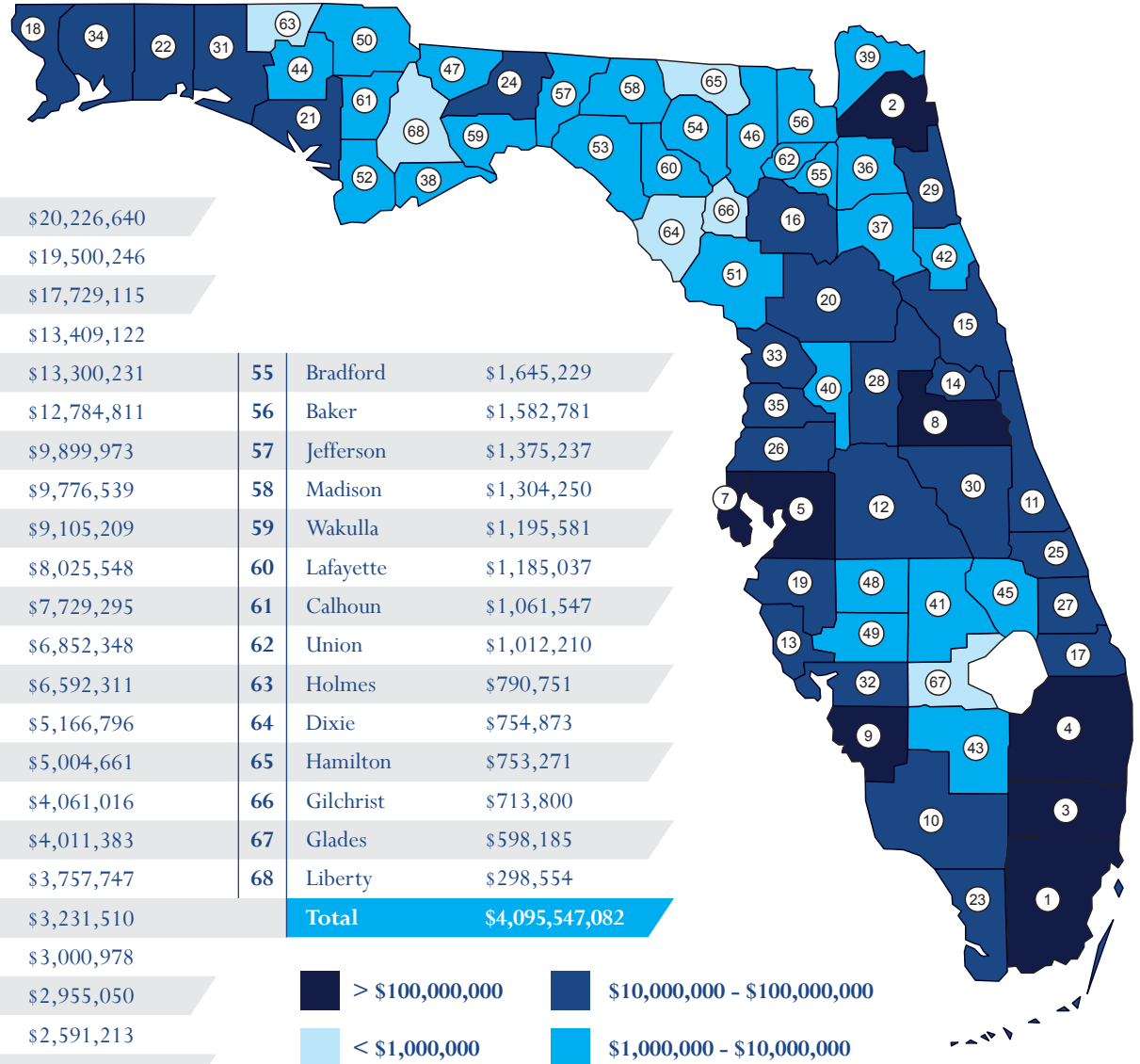
AGENT REPORT CARD

Transactions without TIQs	99.93	99.9	99.91	99.88	99.91	98.39	98.51	99.93	99.91	99.19	99.51	98.08	97.3	98.64	98.38
Transactions Submitted Timely	81.84	83.05	81.21	82.42	82.13	86.75	86.26	81.55	81.96	84.13	69.81	71.7	80.21	86.98	77.18
Accepted Submissions	99.68	99.68	99.99	100	99.84	99.34	99.41	99.4	99.43	99.40	99.35	99.41	99.39	99.41	99.39
Affidavits Submitted Timely	89.26	90.6	89.71	88.24	89.45	89.53	87.96	88.92	84.17	87.65	76.36	77.93	77.94	75.31	76.89
	Q1	Q2	Q3	Q4	AVG.	Q1	Q2	Q3	Q4	AVG.	Q1	Q2	Q3	Q4	AVG.
	2012					2011					2010				

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2012 PREMIUMS BY COUNTY

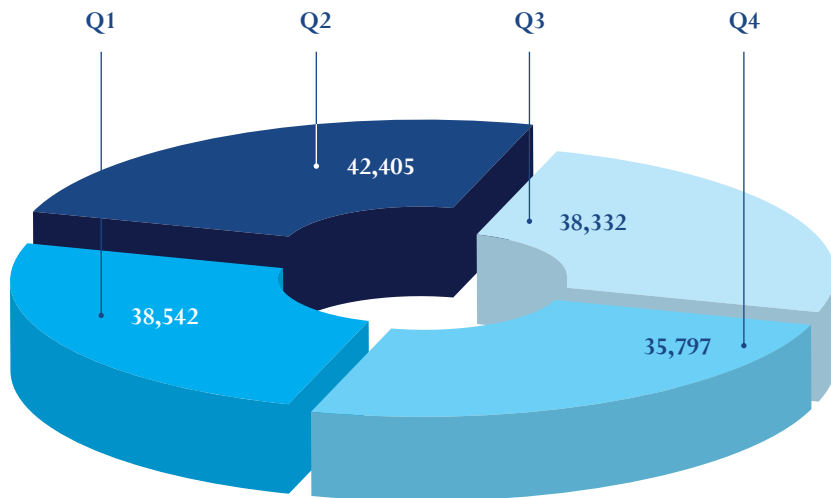
County	Premium
1 Miami-Dade	\$790,713,710
2 Duval	\$426,327,342
3 Broward	\$401,659,532
4 Palm Beach	\$351,786,992
5 Hillsborough	\$234,880,521
6 Multiple Counties	\$218,324,603
7 Pinellas	\$201,805,113
8 Orange	\$176,069,374
9 Lee	\$125,031,671
10 Collier	\$89,731,707
11 Brevard	\$77,379,169
12 Polk	\$65,912,490
13 Sarasota	\$65,882,840
14 Seminole	\$61,378,085
15 Volusia	\$58,882,508
16 Alachua	\$49,176,060
17 Martin	\$48,582,033
18 Escambia	\$46,267,793
19 Manatee	\$45,849,508
20 Marion	\$44,653,599
21 Bay	\$42,303,325
22 Okaloosa	\$40,264,073
23 Monroe	\$39,485,904
24 Leon	\$37,523,358
25 Indian River	\$37,288,283
26 Pasco	\$32,779,878
27 St. Lucie	\$32,096,083
28 Lake	\$23,264,393
29 St. Johns	\$20,994,960
30 Osceola	\$20,226,640
31 Walton	\$19,500,246
32 Charlotte	\$17,729,115
33 Citrus	\$13,409,122
34 Santa Rosa	\$13,300,231
35 Hernando	\$12,784,811
36 Clay	\$9,899,973
37 Putnam	\$9,776,539
38 Franklin	\$9,105,209
39 Nassau	\$8,025,548
40 Sumter	\$7,729,295
41 Highlands	\$6,852,348
42 Flagler	\$6,592,311
43 Hendry	\$5,166,796
44 Washington	\$5,004,661
45 Okeechobee	\$4,061,016
46 Columbia	\$4,011,383
47 Gadsden	\$3,757,747
48 Hardee	\$3,231,510
49 Desoto	\$3,000,978
50 Jackson	\$2,955,050
51 Levy	\$2,591,213
52 Gulf	\$2,330,696
53 Taylor	\$1,997,863
54 Suwannee	\$1,940,569
55 Bradford	\$1,645,229
56 Baker	\$1,582,781
57 Jefferson	\$1,375,237
58 Madison	\$1,304,250
59 Wakulla	\$1,195,581
60 Lafayette	\$1,185,037
61 Calhoun	\$1,061,547
62 Union	\$1,012,210
63 Holmes	\$790,751
64 Dixie	\$754,873
65 Hamilton	\$753,271
66 Gilchrist	\$713,800
67 Glades	\$598,185
68 Liberty	\$298,554
Total	\$4,095,547,082



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2012 WEBSITE VISITOR SESSIONS

FSLSO.com only



Yearly Total: 155,076

TOTAL TAXES AND ASSESSMENTS BILLED FOR FSLSO CLIENTS

2012	Citizens Property Insurance Corporation (Assessments)	Florida Hurricane Catastrophe Fund (Assessments)	Division of Emergency Management (EMPA Surcharge)	Florida Department of Financial Services (Premium Taxes)	Nonadmitted Insurance Multi-State Agreement (Taxes)
Agent	\$22,910,016	\$43,117,458	\$972,162	\$156,975,576	\$1,184,584
IPC	\$1,373,974	\$3,021,490	\$10,017	\$14,755,623	\$250,184
Total	\$24,283,990	\$46,138,948	\$982,179	\$171,731,199	\$1,434,768

TOTALS

Agent: \$225,159,796	IPC: \$19,411,288	Total: \$244,571,084
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The data contained in this chart includes the total taxes, assessments and fees billed during the calendar year of January 1, 2012-December 31, 2012 by the Florida Surplus Lines Service Office.

TID-BITS

◆ Premium and Policy Count Wrap Up

- 2012 Total Florida Premium
 - Agent: \$3,884,943,589
 - IPC: \$315,049,096
- 2012 Total Florida Policy Count
 - Policy Count- Agent: 861,254
 - IPC: 10,697
- ◆ In 2012, there were 203 eligible insurers in Florida: 67 were alien and 136 were foreign insurers. Four insurers were added to the eligibility list, while four were removed by consent order.
- ◆ As of December 31, 2012, there were 1,406 active surplus lines agents, of which 865 were submitting agents.
- ◆ There were 137 newly licensed surplus lines agents and FLSO members in 2012. Of those, 42 were resident agents and 95 were nonresident agents.
- ◆ 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.fslo.com.
- ◆ Offered five continuing education classroom courses throughout 2012.
- ◆ FLSO has 21 employees with more than 300 combined years of insurance experience.
- ◆ The FLSO participated in three community service events during 2012, which included the Dale Pullen Scholarship Fund Golf Tournament, Kids Incorporated Holiday Happiness program, and the Tallahassee Veterans Village donation drive.
- ◆ The FLSO newsletter is called *The Advisor*.

◆ Website Features:

- 155,076 visitor sessions to FLSO 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:

- 2010: Collected on 241 policies with more than \$52 million in unreported premium and more than \$3.2 million in taxes, fees and penalties.
- 2011: Collected on 285 policies with more than \$38 million in unreported premium and more than \$2.3 million in taxes, fees and penalties.
- 2012: Collected on 1,011 policies with more than \$41 million in unreported premium and more than \$1.8 million in taxes, fees and penalties.

◆ Compliance Review Program:

- 2010: Collected on 587 policies with more than \$4 million in unreported premium and \$241,781 in taxes, fees and penalties.
- 2011: Collected on 445 policies with more than \$2.4 million in unreported premium and \$166,926 in taxes, fees and penalties.
- 2012: Collected on 1,156 policies with more than \$6.5 million in unreported premium and \$191,826 in taxes, fees and penalties.

MISSION

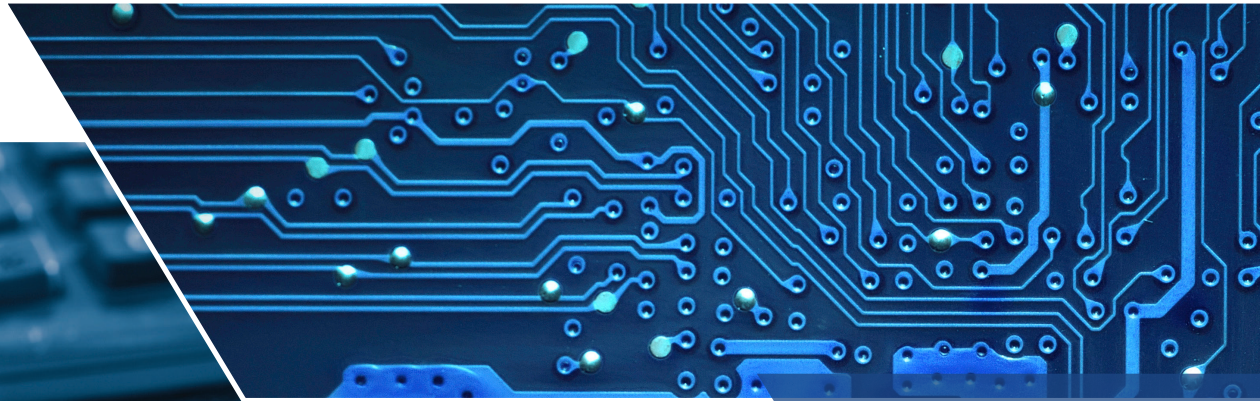
To fairly administer the collection of revenues, facilitate customer compliance and provide assistance and information regarding the placement and taxation of surplus lines insurance.

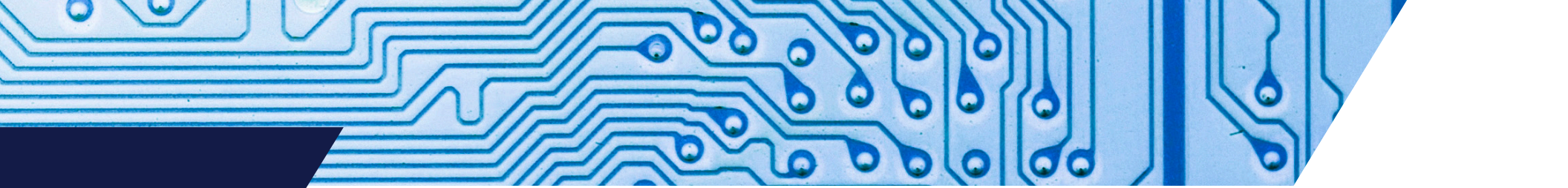
VISION

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

VALUES

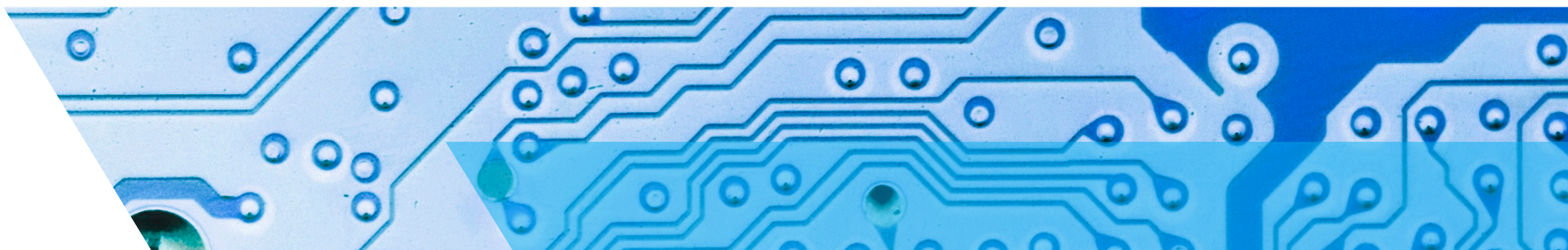
- **EFFICIENCY:** a productive use of resources that provides the ability to do something well or achieve desired results without wasted energy.
- **EFFECTIVENESS:** achieving the desired or intended result which also produces a favorable and successful impression on people.





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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Tallahassee, FL 32312

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