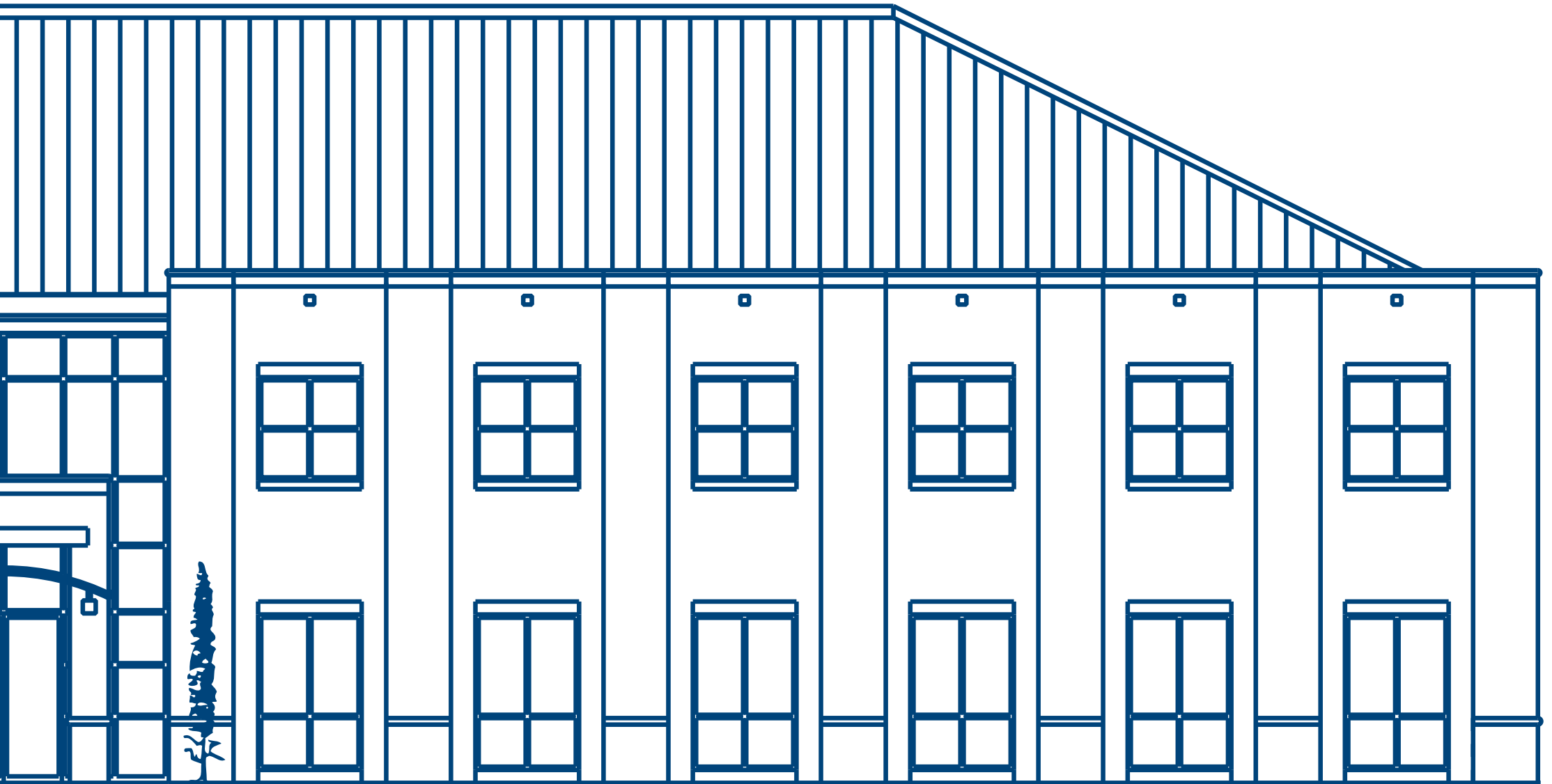


FLORIDA SURPLUS LINES SERVICE OFFICE

2010 *Annual Report*





# Table of Contents

03 From the Chairman

04 From the Executive Director

06 Marketplace Monitoring

08 Assistance

10 Outreach

12 Information

13 Education

15 Finance

16 Data and Statistics

25 Tid - Bits

26 Board of Governors

27 FLSO Staff



## *Vision*

The FLSO's vision is to be 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.

## *From the Chairman*

The year 2010 marked another year of change for our industry. With a continuing soft market, economic uncertainty on a national scale, and landmark federal legislation passage, our unique ability to adapt and adjust was continually tested throughout the past year. I am pleased to report that the Service Office has responded to these outside influences with innovative solutions, designed to maximize efficiency and effectiveness for both customers and internal measures.

As the surplus lines market continued to trend with soft market indicators, the Service Office worked to provide its customers with innovative solutions that would both maximize the efficiencies of current processes and help to improve the effectiveness of operations. Utilizing the speed and spread of the Internet to distribute communications, providing web-based tools and programs, and offering continuing education to members at no charge are just a few examples of the Service Office's push to provide customers with products and programs that help drive compliance with no incurred costs.

Undoubtedly, few will forget the firestorm of legislation from Capitol Hill that set the stage for economic, healthcare and insurance reform on a broad scale. The summer of 2010 was marked with the passage of the Dodd-Frank Wall Street Reform & Consumer Protection Act, which was signed into law by President Obama in July. As a part of the Wall Street bill, the Nonadmitted and Reinsurance Reform Act (NRRRA) provided for a national drive to streamline the placement of multi-state surplus lines policies. As this legislation marked big changes for the nation's insurance industry, the Service Office utilized the latter half of the 2010 year to prepare for the implications that this legislation would bring to Florida's surplus lines community.

These initiatives provide you with a sampling of just a few of the projects undertaken by the Service Office in the 2010 year. You will find these among many others documented in the 2010 Annual Report, which I encourage each of you to review. Each of the services and products outlined in this report has evolved as a result of the Service Office's three-year strategic planning process. The feedback and input of members also remains a key measurement in this

planning process and provides the Service Office with satisfaction standards and a means to create and improve products and services.

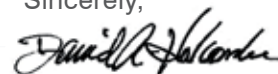
I would like to take this opportunity to recognize several individuals for their time and commitment to FLSLO during the 2010 year and beyond. First and foremost, I send best wishes to former Assistant Director, Carolyn Daniels who retired from the Service Office in late 2010. Carolyn was one of the original staff members of the Service Office, and her dedication, expertise, and adoration for the organization and its customers is easily recognized through the many successes that the office has achieved over the course of the past 12 years.

Additionally, I recognize and extend thanks to Irvin "Skip" Wolfe III who completed his tenure with the Board of Governors in 2010. Even though he will continue to represent the surplus lines industry through his role at Regional Excess Underwriters, his knowledge and input as a member of our Board will be greatly missed. We would like to welcome Keith Driggers of Florida Home Builders Insurance, Inc. to the Board of Governors and look forward to his expertise and guidance.

It is always a pleasure to recognize those who have shown great commitment to their work. My sincere gratitude is extended to Executive Director, Gary Pullen, and the talented staff of the Service Office. Their efforts to serve customers through the creation of viable and innovative solutions continues to bring improvement to Florida's surplus lines industry.

Although the coming year will undoubtedly bring with it a series of known and unknown challenges, both the Board and the staff of the Service Office will continue to demonstrate a high level of dedication to the future of our industry. I value this opportunity to continue my service as Chairman and am looking forward to another successful year.

Sincerely,



David Holcombe  
Chairman



*David Holcombe*  
Chairman

## *From the Executive Director*

In order for a building to withstand the test of time, it must have a strong foundation and a durable frame to provide support. In many ways, a successful organization, like the Service Office, has the same requirements: a foundation of past successes on which to stand and a solid framework of core services that support our vision.

As a building must be monitored for signs of wear, the products provided by the Service Office must be afforded the same attention. With this thought in mind, we sought to improve the efficiency of many of our services for the benefit of our customers throughout the 2010 year. Of these improvements, the most noticeable came through enhancements to our filing process platforms.

The Agent and Insurer versions of the Surplus Lines Information Portal (SLIP) received a number of enhancements throughout the year, designed to streamline the submission process, as well as capture new data elements used to expand upon internal marketplace monitoring processes.

This pursuit for improvement also extended to include Independently Procured Coverage (IPC) filers. Since the Service Office began receiving IPC filings in 2001, IPC filers utilized an “IPC Submission Website” found through [www.fslso.com](http://www.fslso.com) as the platform for completing their IPC filings. Building upon the successes of Agent and Insurer SLIP, the IPC Submission Website was discontinued in late 2010 and replaced with a version of SLIP tailored for the needs of IPC filers. With this release, all of Florida’s surplus lines community now has the opportunity to utilize SLIP as the premier filing platform to file surplus lines policy information with FSLSO.



*Gary Pullen*  
*Executive Director*

Programs, such as SLIP, are afforded the opportunity for enhancement through the feedback by FSLSO’s customers. In keeping with tradition, the Service Office distributed its annual customer satisfaction survey in 2010 with the intention of garnering appraisals and suggestions of Service Office products and services from users. Results yielded a 96% satisfaction rate regarding the various products and services provided by the Service Office among licensed surplus lines agents, agency support staff, IPC filers, agency accounting contacts, Variance contacts and insurer contacts. The filing platform, SLIP, also earned high marks from customers for its ease of use, accessibility, and reporting features, receiving a 95.3% satisfaction rating. This input from our customer base is invaluable to our organization and guides our annual strategic planning process to ensure that our goals remain in line with our customers’ needs.

While the survey remained a valuable measure of external successes, we recognized the need for a clear and succinct means of measuring internal successes as well. As such, staff worked to define key internal processes that aligned with our mission statement, vision and values and create appropriate corresponding benchmarks for each of those processes. Targets were outlined for each of these processes, and results were distributed on a monthly, quarterly and annual basis. It is our hope that, through these identified quantifiable measures, our internal processes can be streamlined to be as efficient and effective as our external ones.

The 2010 year also brought the winds of change in the wake of insurance reform. In July of 2010, President Obama signed the Nonadmitted and Reinsurance Reform Act (NRRRA) into law as part of the Dodd-Frank


Wall Street Reform & Consumer Protection Act. This law is intended to streamline and modernize the regulation of multi-state surplus lines policies, and as such, enacts several changes to the nation's surplus lines industry. In the wake of this activity, the Service Office has worked diligently to implement the changes necessary to comply with this legislation. For more information on the NRRRA, please visit [www.fslso.com](http://www.fslso.com).

Undoubtedly, the 2010 year brought about its share of changes nationally, statewide and locally. On the home front, the Service Office staff and Florida's surplus lines insurance community wished a fond farewell to Carolyn Daniels who retired at the close of 2010. Carolyn served the insurance industry for more than 38 years in various capacities; her last 12 years were spent with the Service Office as one of its original architects, helping to build many of its programs, shaping its internal policies and procedures and developing it into the office that you see today. Few words can express my gratitude for all that Carolyn has given to both this organization and the industry, and instead of saying "goodbye," we extend a sincere and hearty "best wishes."

As we reflect over our last year's accomplishments, I must take this time to thank the individuals who have apprised this organization with their leadership and guidance. I take this opportunity to thank David Holcombe, our 2010 Chairman, and all of the members of the Board of Governors for their leadership, direction and counsel throughout the past year. They have remained strong supporters of our organization and its vision of being a compliance advocate and technological leader within the surplus lines market.

The pursuit of our vision could not be enacted without the skills and knowledge provided by the Service Office staff. I thank our staff for their strong focus on providing quality service to all of our customers and their devotion to the compliance of Florida's surplus lines industry. Although the future holds many unknowns, one thing is certain. The Service Office will continue to strive towards the principles of exceptional service and unprecedented commitment to its customers and the surplus lines marketplace.

Sincerely,



Gary D. Pullen  
Executive Director

## *Mission*

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

## *Marketplace Monitoring*

In order to create a strong and reliable structure, an architect must first be able to identify weaknesses in both the design and materials in order to produce a sound framework. Following this same principle, the Service Office has taken great care to impart programs that oversee and measure the credibility and strength of Florida's surplus lines industry.

Two Service Office programs are specifically geared towards ensuring credibility and conformity with Florida's Surplus Lines Law through the evaluation of agent, insurer and Independently Procured Coverage (IPC) data submissions: the Variance Analysis Program and the Compliance Review Program. These two programs combine the strengths of both human and technological tools in order to facilitate compliance within the surplus lines market.

The power of technology provides the Service Office with the capability to examine large amounts of data in order to compare transactions submitted by both Florida licensed surplus lines agents and IPC filers with transactions submitted by Florida eligible surplus lines insurers. When discrepancies between these two data pools are detected, the Variance Analysis team researches which party is responsible for correcting the filing and who is assessable for applicable taxes, fees and penalties. In 2010, the Variance team collected on a total of 241 unfiled policies which amounted to more than \$52 million dollars in unreported premium and \$3.2 million in unreported taxes, fees, assessments and penalties.

In 2010, the Variance Program took steps to expand their data pool to include Lloyd's of London filings. The unique nature of the Lloyd's market

can often produce several different policy numbers at each stage of the brokering chain, making the policy number an unreliable method of matching policies. In order to alleviate this problem, Service Office staff consulted with Lloyd's representatives and member agents to produce a reliable method for tracking policies placed with Lloyd's. After much research, the staff began collecting the Unique Market Reference number in surplus lines agent submissions that were written with Lloyd's as a means to assist in the matching of agent filings with Lloyd's filings. Agents began submitting this number on the transaction level in the 3rd Quarter of 2010 and reconciliation of these policies is slated for 2011.

Another way in which the Service Office monitors the marketplace and verifies data is through the Compliance Review Program. This program compares a random sampling of a surplus lines agent's onsite policies with information submitted to the Service Office, identifying discrepancies and omissions. Generally, any differences detected are reflective of insufficient training or quality control by an agent and his or her support staff. In these instances, the Compliance Review staff provides education and training to enhance future compliance levels.

In 2010, the Compliance Review Program broadened its scope to include the nonresident agents alongside reviews of resident agents. As such, the Compliance Review program conducted 458 reviews in 2010, uncovering 587 unfiled policies by 84 agents which recovered more than \$4 million in unfiled premium. At the conclusion of each review, an Industry Comparison Report is issued to the agent, which scores them in areas such as data validation, regulatory requirements, and financial elements. The overall score for agents receiving reviews in 2010 was 92.9%.



Keeping inline with FLSO's education efforts, the Agent Report Card serves as another means through which the Service Office educates its agent population regarding compliance with the Surplus Lines Law. The Report Card provides agents a grade on four categories of compliance. These include: percentage of transactions with no outstanding transactions-in-question (TIQ), percentage of submissions accepted versus total number of submissions, percentage of affidavits submitted timely, and percentage of transactions submitted timely. The overall industry grade across all four categories on the Agent Report Card was an 88.9%. This method of monitoring compliance provides agents with a clear and concise measurement of their strengths and weaknesses.

Together, these three programs combine to enhance the credibility of Florida's surplus lines marketplace. By increasing compliance and education, the Service Office is devoted to maintaining a fair and reliable resource for Florida's surplus lines insurance consumers.

## Assistance

For more than a decade, the Service Office has committed itself to providing quality support and assistance to the people who are ultimately responsible for the success of the organization – its valued customers. This dedication to service manifests in every interaction with its customers, whether through traditional forms of customer assistance or through improvements to available products and programs.

In the continual quest to improve the filing experience for its customers, the Service Office worked with its strategic partner, Infinity Software Development, Inc. to provide enhancements to both the Agent and Insurer versions of the Surplus Lines Information Portal (SLIP) throughout the year.

In late July, the Service Office released new requirements and several enhanced features to its Agent SLIP which included the addition of new radio buttons pertaining to transactions filed 30 days past the effective date along with a new “Issue Date” field and several other features geared to improving SLIP’s usability.

A second release for Agent SLIP in late 2010 included a new, streamlined navigation approach to policy filing, a Transaction-In-Question (TIQ) Manager application, a Review Page that allowed users to review policy and transaction detail information prior to submission, and a mandatory Unique Market Reference number field for agents submitting policy information attributable to Lloyd’s of London. These enhancements were designed to streamline and improve the filing process, as well as capture new data elements used to improve internal monitoring procedures.

This pursuit of continual improvement to filing platforms also played a key role for Independently Procured Coverage (IPC) filers in 2010. In November, the IPC Submission Website was removed and replaced with an IPC version of SLIP, specifically designed with the IPC filer in mind. Internally, Service Office staff fielded numerous phone calls and emails regarding this conversion and provided training and education to assist their customers make a smooth transition from one platform to another.



In keeping with tradition, the Service Office circulated the annual customer satisfaction survey among its key customer groups, including surplus lines agents, surplus lines insurers, surplus lines agent submission contacts, agency accounting contacts, Variance contacts and IPC filers. These surveys remained a powerful tool for the Service Office to gather customer feedback on existing programs, products and

services, as well as identify future needs.

Respondents also were given the opportunity to elaborate on their responses to the survey and provide suggestions. These responses were incorporated into the Office’s annual strategic planning process, providing the momentum for many of the objectives being pursued in 2011. The combined satisfaction rating for the Office’s current service and programs was more than 95% satisfaction over all six customer groups.

In the 4th Quarter of 2010, staff developed a more creative method of aiding their customers in remaining compliant with the Florida Surplus Lines Law. Per statute, Florida licensed surplus lines agents are required to re-appoint themselves every two years during his or her birth

month. In order to assist its customers with this important but sometimes overlooked requirement, staff utilized the power of email by sending out reminders in the form of a “birthday eCard” to those agents whose self-appointment renewal was due.

As the surplus lines community continued to grow, the Service Office welcomed 111 new surplus lines agents – 40 resident and 71 nonresident – in 2010. These new agents were each provided with a New Agent Packet, containing useful informational guides to help ease their transition to a new market and new responsibilities. These included copies of the most current Annual Report, the Agent’s Procedures Manual, SLIP username and password, *The Advisor* newsletter, various brochures and teaser cards.

Additionally, all surplus lines insurers who seek eligibility to place business in Florida must first submit their application through the Service Office. As such, four insurers submitted eligibility requests in 2010. Service Office staff completed reviews of three complete applications, forwarding these to the Department of Financial Services/Office of Insurance Regulation with a letter requesting eligibility.

During 2010, the Service Office persisted to strive for service excellence by improving and enhancing many of its services and programs, and by providing quality assistance to its customer base. Through customer feedback, the Service Office will continue to place customer needs and satisfaction as the benchmarks for success.

## Outreach

Throughout its history, the Service Office has served as a source of advice, guidance and counsel for a wide spectrum of customers including member agents, industry members, state governments and consumers. As such, staff employed all methods available, including participation in industry tradeshows and various technological communications, in order to reach their extensive customer base. Often times, the Service Office's outreach programs intertwine with many of its other core services and are partnered with various other programs such as Assistance and Information.

As part of the Compliance Review process, the Service Office distributed informational packets to all agents with upcoming compliance reviews. These packets included a User's Guide to Agent SLIP, a Directory of Services, accounting information, a schedule of upcoming education classes offered, as well as information pertaining to their compliance review.

Additionally, the Service Office continued the popular "eBlast" email messaging. These email outreach messages were delivered to users on a quarterly basis and promoted various programs and services offered by the Service Office, including enhancements to Agent SLIP, the Disaster Planning and Recovery Guide, the Agent Report Card, the results of the Annual Customer Satisfaction Survey, the FLSO Webinar Archive and the newly developed Compliance Saver Reference Guide.

Through the attendance of industry tradeshows, the Service Office is afforded the ability to connect with its members on a face-to-face basis as well as provide information to all interested participants. Staff attended

a variety of events in 2010 including tradeshows held in conjunction with the Florida Association of Insurance Agents (FAIA) and the Florida Surplus Lines Association (FSLA) conventions.

In addition, the Service Office participated in several meetings and conferences in an effort to remain informed of industry changes. These included: the 2010 State of the Florida Insurance Market Summit, the American Association of Managing General Agents (AAMGA) Annual Automation and Technical Management Conference, the AAMGA Annual Convention, the National Association of Professional Surplus Lines Offices (NAPSLO) Annual Convention, meetings of the Surplus Lines Law Group, the Governor's Florida Sterling Conference, and the Texas Surplus Lines Association's Mid-Year Conference.

As the passage of the Nonadmitted and Reinsurance Reform Act came to pass in the summer of 2010, this attendance acquired a new importance. With the express purpose of monitoring the implementation of these mandated changes, staff attended meetings held by the National Association of Insurance Commissioners (NAIC), the National Council of Insurance Legislators (NCOIL) and conference calls of the Surplus Lines Implementation Task Force hosted by the NAIC. With this focus, the Service Office remained informed and prepared for the changes that lay ahead.

In its capacity as a speaker and subject matter expert, the Service Office delivered industry presentations to a variety of organizations in 2010 including the Department of Financial Services, the Florida State University Law School and the Florida Surplus Lines Association (FSLA).



## Information

The advance of technology into every aspect of our lives can be both exciting and challenging. Communication is no longer restricted to printed sources and word-of-mouth; today's world of communication is truly global, linked inextricably together through the World Wide Web. The Service Office has embraced technology, utilizing its far reach in its efforts to provide up-to-the-minute industry information to its customers.

As such, the Service Office website, located at [www.fslso.com](http://www.fslso.com), has continued to serve as the main conduit through which information is disseminated to its extensive customer base. Through this medium, customers can utilize a variety of informational resources, including the Market Data Reports, Insurer Financials, Florida Statutes, news releases, manuals, forms and much more. During 2010, the Service Office posted 36 news items to its main page, apprising visitors with updates on industry issues, compliance requirements and marketplace information.

The passage of the Nonadmitted and Reinsurance Reform Act (NRRRA) in July of 2010 again proved the viability of the Service Office website as an information dissemination tool. Information relative to the new law was provided to customers through the front page of the website, as well as the newly created NRRRA repository page.

Capitalizing on the advantages presented by the immediacy of the World Wide Web, staff created a section of the website dedicated solely to providing information relative to the 2010 Florida Legislative Session. This section provided visitors with easy access to bill text, amendments, summaries, and staff analysis'. Visitors to this page were provided with

a concise and clear picture of any changes resulting from the 2010 Legislative Session.

In addition to providing information through the website, the Service Office also utilized a more direct method of information delivery through its eNews and eAlert bulletin services. Throughout 2010, staffers distributed fourteen eNews and twenty-two eAlert bulletins announcing various industry related information including: new data requirements for transaction filings, the annual continuing education schedule, changes to the Florida Hurricane Catastrophe Fund assessment, legislative updates including notice of the passage of the Nonadmitted and Reinsurance Reform Act, enhancements to Agent SLIP, the release of IPC SLIP, the adoption of the Nonadmitted Insurance Multi-State Agreement by the National Association of Insurance Commissioners and more.

In keeping with the continual progression towards becoming a truly "paperless" office, the Service Office's longtime quarterly publication, *The Advisor*, continued the trend of being an all-electronic, interactive publication. *The Advisor* was delivered quarterly, electronically through email, and apprised customers of product improvements and changes, industry trends and compliance requirements.

Throughout its history, the Service Office has built a solid reputation as the definitive source for information relative to the surplus lines industry in the state of Florida. The office has continued to build upon its framework and refine the tools necessary to ensure that its customers remain firmly ahead of the information curve.

## Education

An educated workforce is pivotal to business success as meeting the demands of the modern working world and staying abreast of changing requirements remains a challenge. The Service Office believes that education is the intermediary to a more credible marketplace and takes pride in its ability to provide comprehensive educational tools in a variety of formats.

In 2010, the Service Office focused on improving regulatory compliance among its member agents, and staff developed and deployed a new traveling classroom offering for that purpose. This class, entitled “Be ECO Friendly (Effectively Compliant Office): Surplus Lines Rules and Tools,” was designed to inform and educate Florida’s surplus lines community of their statutory compliance requirements as well as provide a closer look at the internal procedures of the Service Office. This course was taught in five locations around the state including West Palm Beach, Sarasota, Daytona Beach, Jacksonville and Tallahassee. A total of 128 students completed the class with an average satisfaction survey score of 4.83 out of 5.

In an effort to provide educational opportunities to a large number of

students, the office partnered with various industry groups, including the Latin American Association of Insurance Agents, the Florida Surplus Lines Association and the Independent Insurance Agents of North

East Florida to bring both existing and newly developed continuing education classes to their members.

In response to requests made from prior attendees for more subject-specific class offerings, the Service Office contracted with an outside instructor to develop and deliver a course on understanding insurer financial statements. This course, aptly titled “Understanding Insurer Financials and the FLSO,” was given in conjunction with the Florida Surplus Lines Association’s convention in Amelia Island, Florida.

Outside of the traditional classroom setting, staff also continued to utilize the opportunities presented through webinar technology. The Service

Office hosted webinar presentations designed to increase participants’ knowledge of their filing requirements, compliance duties and procedural responsibilities relative to FLSO. These webinars included: “Welcome New Surplus Lines Agent,” “Understanding FLSO’s Compliance Procedures,” “Don’t Be a Liability: Understanding FLSO’s Accounting



Procedures,” “Agent SLIP Enhancements,” “Do You Know FLSO? Understanding the Variance Process,” and “Florida Surplus Lines Insurers: Don’t Delay, Submit Today!”

In keeping with the focus of compliance, the Service Office also developed a series of short, 10-minute webinars that were geared to educating agents about their statutory duties as found in the Surplus Lines Law. These webinars were hosted as part of a “Compliance Corner Series” and included topics such as completing the diligent effort requirement, excessive fees, information required on the contract, and maintaining records.

Additionally, with the impending move to IPC SLIP, the Service Office depended upon the reach of the webinar technology for delivering tutorials to better prepare IPC filers for the upcoming transition. Service Office staff hosted “Learn to Submit Through IPC SLIP” which was attended by more than 100 participants.

In total, more than 500 students, including agents, IPC filers, insurers and agency accounting contacts received training through the 2010 webinar series. As webinars prove to be a cost efficient and effective means to communicate with customers from all parts of the country, the Service Office will continue to utilize this technology to provide training opportunities in the future.

As online training remained a key method for student learning, the Service Office also continued to offer 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 Florida’s Surplus Lines Law. These offerings included: “Illegal Insurance Entities: Knowing the Difference,” a two-hour course exploring the difference between the terms unauthorized insurers and illegal insurance entities, “Florida’s Surplus Lines Rules and Regulations,” a three-hour course covering the Surplus Lines Law, and “The Retail Agent’s Role in the Surplus Lines Marketplace,” a two-hour course on the responsibilities of the producing agent in the placements of risks within the surplus lines market. Additionally, the Service Office also supported its Certification of Online Agent SLIP Training program, which served as a training resource on the use of Agent SLIP. Throughout 2010, 10 students received a “SLIP IQ” of 80 or above on the COAST II exam.

Remaining 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 24 students to fulfill their 60-hour requirement as means of qualification for the State’s surplus lines licensing exam.

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 2010, the Service Office was pleased to report more than 2,000 education hours to the Florida Department of Financial Services as a result of its online and classroom-based students. Through these efforts, the surplus lines community is equipped to continue building a more informed and credible marketplace.



## *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, 2010 and December 31, 2009. Effective strategic planning, prudent budgeting and spending coupled with good internal controls are definite reasons for this success.

As Florida has continued to experience a soft market in both the admitted and non-admitted markets, Florida's surplus lines industry experienced premium declines of approximately \$149 million, a 3.8% slide in 2010 compared to a decline of 6% in 2009. As a result of the continuing decline in the surplus lines premiums during the 2010 fiscal year, the Service Office experienced a decrease in both operating revenues and in net assets. The Service Office billed on the premium subject to taxes and fees, as submitted by agents and IPC filers, in the amounts of \$177,521,552 and \$3,581,276 respectively. These billed amounts represent a \$2,989,202 decrease in surplus lines taxes to the state of Florida and a decrease of \$66,565 in charges for services.

During the year ending December 31, 2010, the Service Office generated \$3,578,263 in revenues, a decrease of \$112,640 from the previous year. With respect to the operating expenses, the Service Office spent \$5,709,974 during the year ending December 31, 2010, an increase of \$673,517 from year 2009. Revenues and expenditures created a decrease in total net assets to \$27,763,751 from \$29,681,481 representing a decrease \$1,917,730 over the prior year.

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.



# Data and Statistics

Financial Statements as of Dec 31, 2010

## STATEMENT OF NET ASSETS

ASSETS	
<b>Current assets:</b>	
Cash and cash equivalents .....	\$14,742,634
Accounts receivable .....	15,802
Accrued interest income .....	33,119
Investments .....	<u>380,000</u>
Total current assets .....	15,171,555
Long term investments .....	8,373,470
Property and equipment, net .....	4,602,774
Deposits .....	<u>11,810</u>
<b>Total assets</b> .....	<b>\$28,159,609</b>
LIABILITIES AND NET ASSETS	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses .....	\$385,230
Amounts held for the account of others .....	<u>10,628</u>
Total current liabilities .....	<u>\$395,858</u>
Net assets:	
Invested in capital assets, net of related debt .....	4,602,774
Unrestricted .....	<u>23,160,977</u>
Total net assets .....	27,763,751
<b>Total liabilities and net assets</b> .....	<b>\$28,159,609</b>

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

<b>Operating revenues:</b>	
Charges for services .....	\$3,552,751
Interest and finance charges on service fees .....	9,405
Other income .....	<u>16,107</u>
Total operating revenues .....	\$3,578,263
<b>Operating expenses:</b>	
Administrations and support .....	\$2,465,623
Education and outreach .....	996,590
Agent and insurer relations .....	1,807,661
Depreciation and amortization .....	<u>440,100</u>
Total operating expenses .....	<u>5,709,974</u>
Operating loss .....	(\$2,131,711)
<b>Non-operating revenues (expenses):</b>	
Investment interest .....	\$163,829
Rental income .....	91,801
Rental expenses .....	<u>(40,832)</u>
Total non-operating revenues (expenses) .....	<u>213,981</u>
Decrease in net assets .....	(1,917,730)
Net assets at beginning of year .....	<u>29,681,481</u>
<b>Net assets at end of year</b> .....	<b>\$27,763,751</b>

## STATEMENT OF CASH FLOWS

<b>Operating activities:</b>	
Operating loss .....	(\$2,131,771)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization .....	440,100
Changes in operating assets and liabilities:	
Accounts receivable .....	(7,663)
Accounts payable and accrued expenses .....	263,440
Amounts held for the account of others .....	-
Net cash used in operating activities .....	<u>(\$1,435,834)</u>
<b>Financing activities:</b>	
Purchase of property and equipment .....	(\$332,890)
Other receipts .....	<u>50,152</u>
Net cash used in capital and related financing activities .....	(\$282,738)
<b>Investing activities:</b>	
Investment income .....	<u>\$163,829</u>
Purchases of investments .....	(6,617,427)
Sales of investments .....	4,568,257
Net cash used in investing activities .....	<u>(\$1,885,341)</u>
Net change in cash and cash equivalents .....	(\$3,603,913)
Cash and cash equivalents at beginning of year .....	<u>18,346,547</u>
<b>Cash and cash equivalents at end of year</b> .....	<b>\$14,742,634</b>

## 2008 - 2010 PREMIUM COMPARISONS

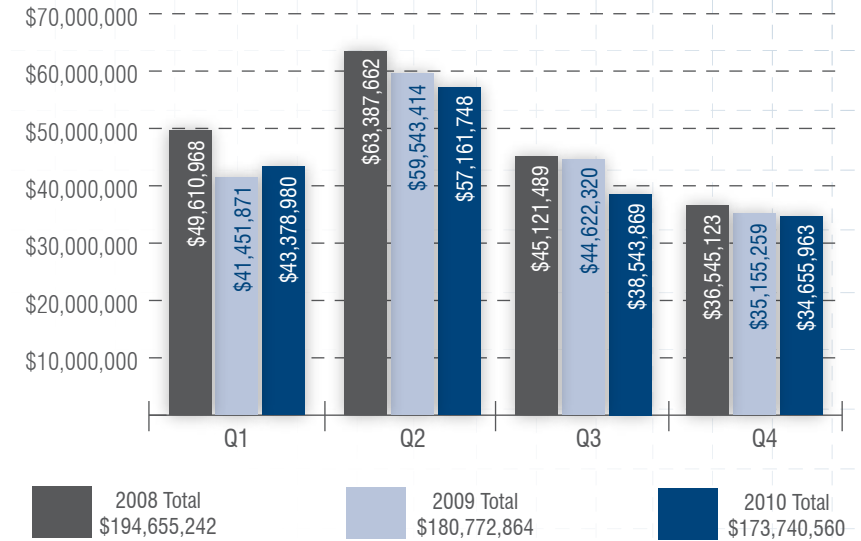
2010	Agent Premium	IPC Premium	Total Premium
Q1	\$816,492,253	\$125,837,672	\$942,329,926
Q2	\$1,214,957,084	\$195,369,087	\$1,410,326,171
Q3	\$647,665,557	\$145,452,883	\$793,118,439
Q4	\$608,018,350	\$133,495,276	\$741,513,626
<b>Total</b>	<b>\$3,287,133,243</b>	<b>\$600,154,918</b>	<b>\$3,887,288,162</b>

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
<b>Total</b>	<b>\$3,444,943,509</b>	<b>\$591,406,449</b>	<b>\$4,036,349,959</b>

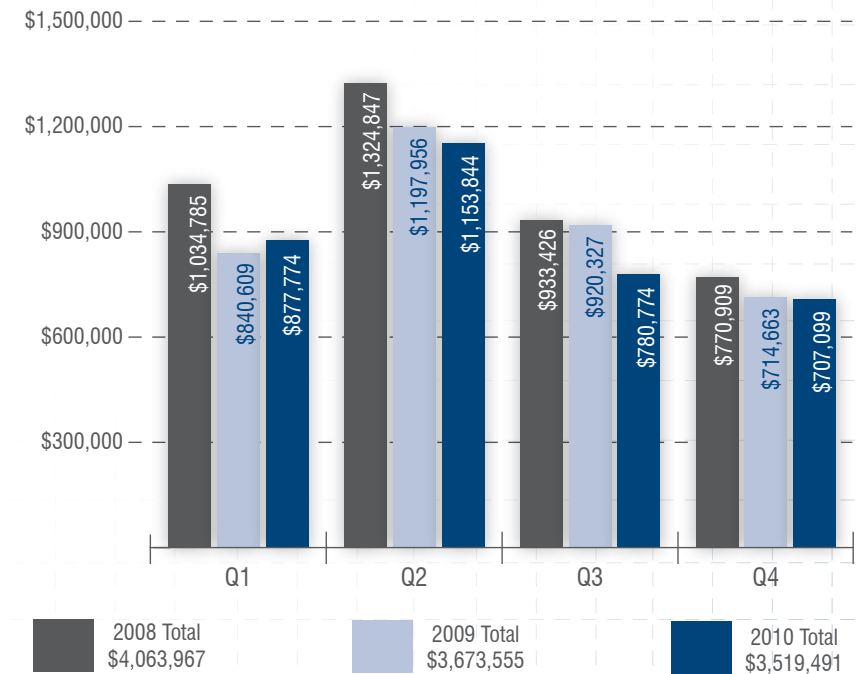
2008	Agent Premium	IPC Premium	Total Premium
Q1	\$850,863,647	\$197,928,056	\$1,048,791,703
Q2	\$1,193,414,290	\$267,976,367	\$1,461,390,657
Q3	\$830,932,486	\$174,039,808	\$1,004,972,294
Q4	\$646,120,910	\$133,213,628	\$779,334,538
<b>Total</b>	<b>\$3,521,331,333</b>	<b>\$773,157,859</b>	<b>\$4,294,489,192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

For all premium comparisons and generated taxes and fees, 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 6/30/11. All figures have been rounded to the nearest dollar amount.

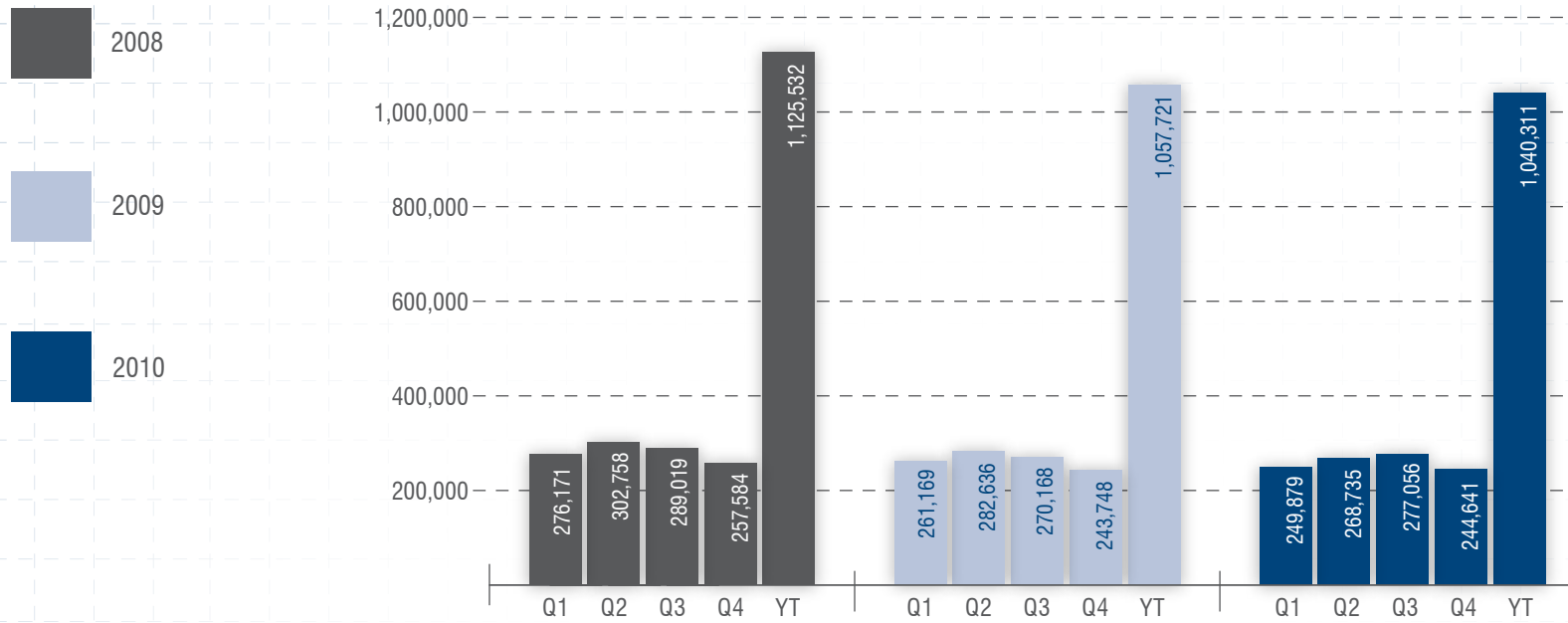
## 2008-2010 GENERATED DFS TAXES



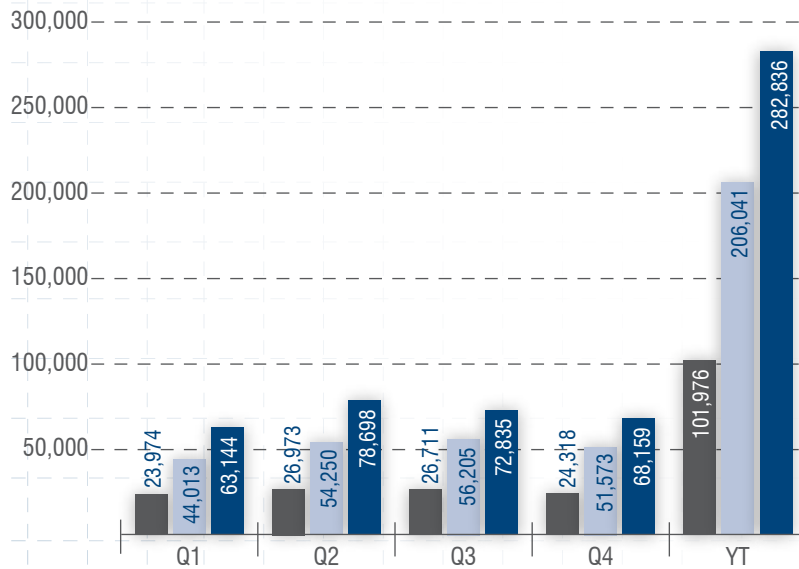
## 2008-2010 GENERATED SERVICE OFFICE FEES



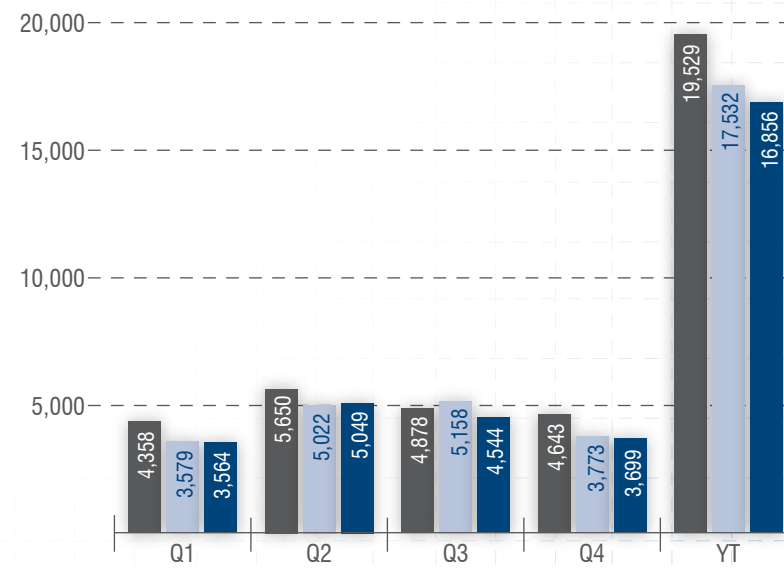
## AGENT TRANSACTIONS



## AGENT & INSURER SUBMISSIONS VIA SLIP/FTP



## IPC ONLY SUBMISSIONS



The transaction and submission information in this annual report is extracted from data submissions received by surplus lines agents, surplus lines insurers and Independently Procured Coverage (IPC) filers. The transaction information is based upon the submission date of policy transactions submitted as of 6/30/11.

## TOTAL TAXES, FEES AND ASSESSMENTS BILLED

2010	Citizens Property Insurance Corp. (Assessment)	Florida Hurricane Catastrophe Fund (Assessment)	Department of Community Affairs (EMPA Surcharge)	Department of Financial Services (Premium Tax)	Florida Surplus Lines Service Office (Service Fee)	Total
Agent	\$32,096,370	\$32,245,836	\$916,453	\$146,337,561	\$2,951,386	\$214,547,606
IPC	\$5,873,476	\$5,672,246	\$22,646	\$31,183,991	\$629,890	\$43,382,249
<b>Total</b>	<b>\$37,969,846</b>	<b>\$37,918,082</b>	<b>\$939,100</b>	<b>\$177,521,552</b>	<b>\$3,581,276</b>	<b>\$257,929,856</b>

## COMPLIANCE REVIEW ACTIVITIES

2010	Reviews Done	# of Policies Reviewed	# of Transactions Reviewed
Q1	122	3,244	3,740
Q2	111	2,396	2,616
Q3	119	3,786	4,215
Q4	106	2,465	2,780
<b>Total</b>	<b>458</b>	<b>11,891</b>	<b>13,351</b>

## COMPLIANCE REVIEW UNFILED POLICIES

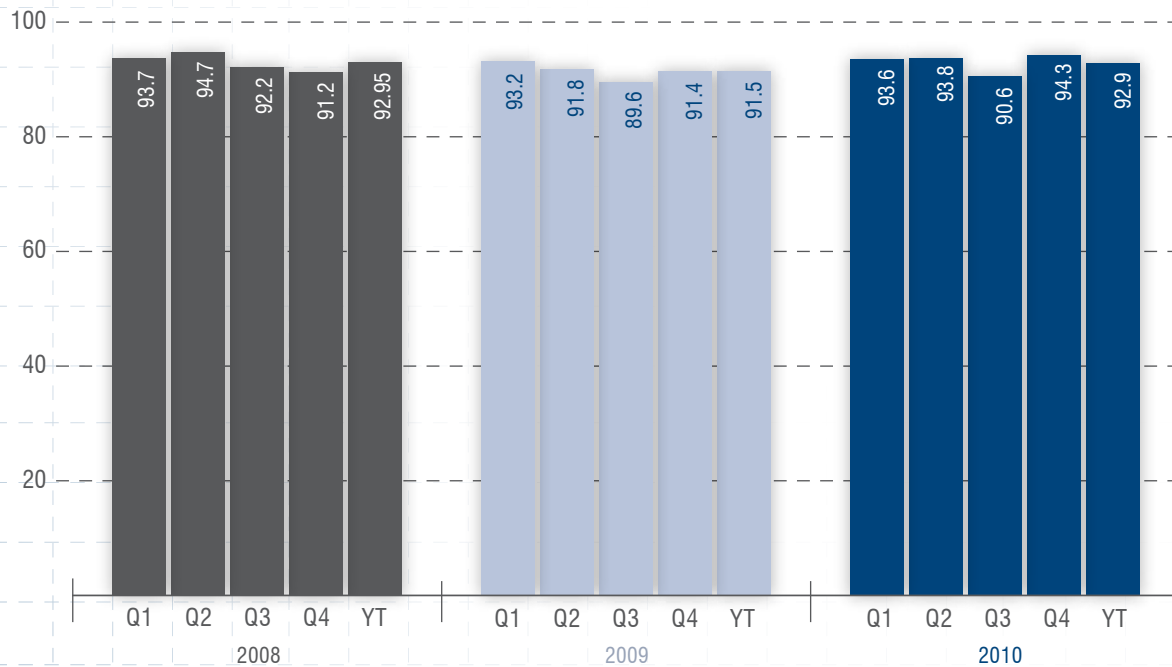
2010	# of Agents	# of Unfiled Policies	Total Premium Collected On	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	22	99	\$689,340	\$28,332	\$6,102	\$991	\$279	\$5,981	\$977
Q2	26	82	\$1,204,044	\$42,167	\$7,463	\$1,233	\$245	\$10,260	\$1,912
Q3	25	353	\$1,601,560	\$62,935	\$9,692	\$1,763	\$329	\$20,325	\$3,173
Q4	11	53	\$506,561	\$23,627	\$5,482	\$512	\$118	\$6,564	\$1,320
<b>Total</b>	<b>84</b>	<b>587</b>	<b>\$4,001,504</b>	<b>\$157,062</b>	<b>\$28,739</b>	<b>\$4,499</b>	<b>\$971</b>	<b>\$43,130</b>	<b>\$7,381</b>

All figures have been rounded to the nearest dollar amount.

## VARIANCE STATISTICS

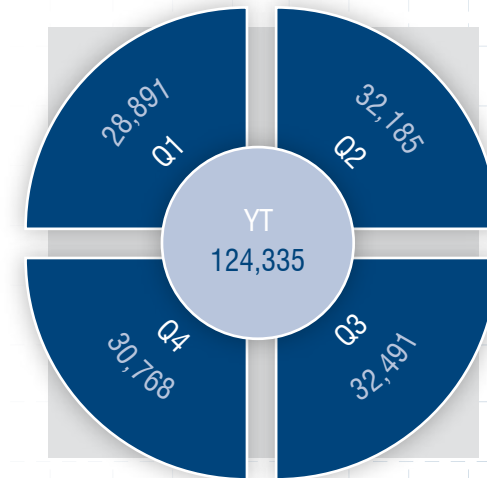
2010	# of Unfiled Policies	Premium Amount	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	53	\$14,563,193	\$676,913	\$55,144	\$16,245	\$2,120	\$195,931	\$18,382
Q2	44	\$12,045,847	\$467,106	\$24,286	\$10,459	\$1,009	\$232,407	\$13,549
Q3	62	\$8,898,635	\$382,091	\$27,140	\$8,155	\$825	\$128,392	\$11,320
Q4	82	\$16,520,983	\$630,550	\$29,435	\$12,990	\$810	\$269,955	\$10,600
<b>Total</b>	<b>241</b>	<b>\$52,028,657</b>	<b>\$2,156,660</b>	<b>\$136,004</b>	<b>\$47,848</b>	<b>\$4,764</b>	<b>\$826,684</b>	<b>\$53,850</b>

## COMPLIANCE REVIEW SCORES



All figures have been rounded to the nearest dollar amount.

## 2010 WEBSITE VISITOR SESSIONS



## *Values*

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**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.

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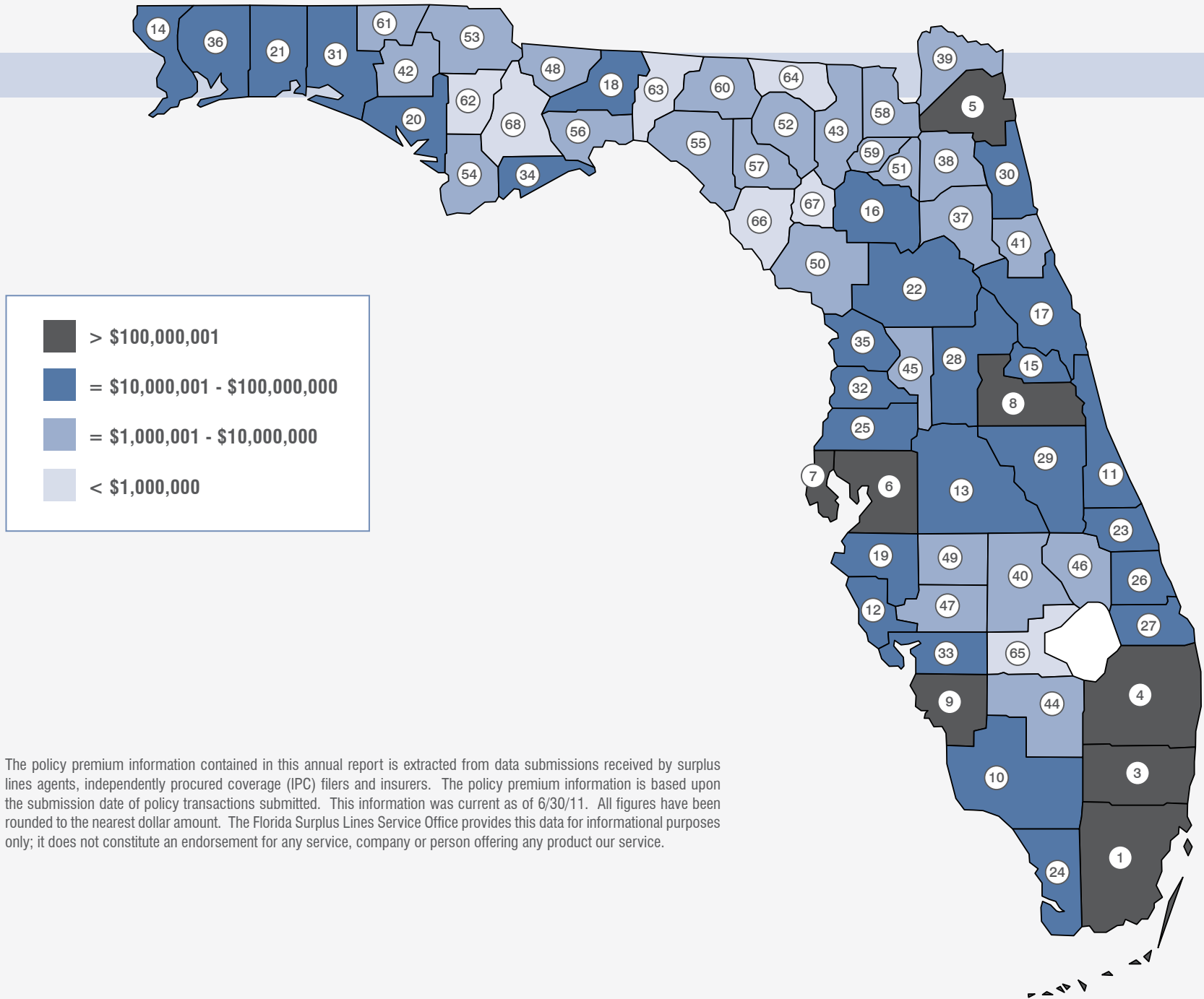
**Effectiveness:** Producing the desired or intended result; producing a favorable impression; successful, especially in producing a strong or favorable impression on people.

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## 2010 PREMIUMS BY COUNTY

County	Premium	County	Premium
1. Miami-Dade .....	\$655,251,260	36. Santa Rosa .....	\$11,525,934
2. Multiple Counties .....	\$512,337,686	37. Putnam .....	\$9,746,882
3. Broward .....	\$364,477,100	38. Clay .....	\$8,681,972
4. Palm Beach .....	\$322,382,399	39. Nassau .....	\$7,248,306
5. Duval .....	\$316,163,885	40. Highlands .....	\$6,696,464
6. Hillsborough .....	\$217,530,149	41. Flagler .....	\$5,422,019
7. Pinellas .....	\$196,965,105	42. Washington.....	\$4,409,479
8. Orange.....	\$140,596,624	43. Columbia .....	\$4,006,254
9. Lee.....	\$103,609,324	44. Hendry.....	\$3,822,851
10. Collier .....	\$82,343,166	45. Sumter .....	\$3,635,916
11. Brevard .....	\$65,281,335	46. Okeechobee .....	\$3,304,925
12. Sarasota .....	\$61,921,916	47. Desoto .....	\$3,225,639
13. Polk .....	\$58,012,205	48. Gadsden.....	\$3,224,040
14. Escambia.....	\$49,962,122	49. Hardee.....	\$2,966,102
15. Seminole.....	\$49,828,858	50. Levy .....	\$2,712,201
16. Alachua.....	\$45,831,890	51. Bradford.....	\$2,672,920
17. Volusia .....	\$44,934,098	52. Suwannee.....	\$2,271,930
18. Leon .....	\$42,129,095	53. Jackson .....	\$2,258,129
19. Manatee.....	\$41,919,619	54. Gulf.....	\$2,079,449
20. Bay .....	\$39,942,292	55. Taylor.....	\$1,650,849
21. Okaloosa .....	\$37,766,205	56. Wakulla .....	\$1,587,553
22. Marion .....	\$37,622,001	57. Lafayette .....	\$1,495,305
23. Indian River.....	\$37,207,273	58. Baker .....	\$1,343,472
24. Monroe .....	\$35,529,036	59. Union .....	\$1,308,692
25. Pasco.....	\$30,646,199	60. Madison.....	\$1,077,852
26. St. Lucie.....	\$30,325,444	61. Holmes .....	\$1,045,629
27. Martin .....	\$29,166,547	62. Calhoun .....	\$867,497
28. Lake.....	\$23,166,726	63. Jefferson.....	\$856,125
29. Osceola .....	\$19,055,222	64. Hamilton .....	\$791,762
30. St. Johns .....	\$19,050,338	65. Glades .....	\$675,654
31. Walton .....	\$15,782,932	66. Dixie.....	\$594,690
32. Hernando.....	\$15,577,529	67. Gilchrist .....	\$496,883
33. Charlotte.....	\$15,350,817	68. Liberty.....	\$247,065
34. Franklin.....	\$13,883,117	<b>TOTAL .....</b>	<b>\$3,887,288,162</b>
35. Citrus .....	\$11,788,211		





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 6/30/11. 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 our service.

## TOP 25 COVERAGES

Coverage	Premium	Policy Count
1000 - Commercial Property	\$1,895,482,943	114,848
5000 - Commercial General Liability	\$453,402,797	142,466
1005 - Commercial Package (Property & Casualty)	\$247,362,270	71,961
2002 - Homeowners-HO-3	\$130,884,872	51,358
1010 - Flood	\$102,094,639	1,344
6001 - Miscellaneous Medical Professionals	\$77,135,962	2,115
7003 - Miscellaneous E&O Liability	\$74,487,127	7,366
1013 - Windstorm &/Or Hail	\$73,528,374	1,780
5006 - Excess Commercial General Liability (Not Umbrella)	\$63,735,554	5,136
5001 - Commercial Umbrella Liability	\$45,003,845	3,192
1006 - Condominium Package (Commercial)	\$44,558,172	1,479
2009 - Dwelling Property	\$38,840,726	16,996
2012 - Windstorm	\$36,935,218	282
5012 - Pollution & Environment Liability	\$32,972,054	2,057
6000 - Hospital Professional Liability	\$27,597,521	104
2005 - Condo Unit-Owners HO-6	\$25,979,908	23,273
7002 - Lawyers Professional Liability	\$23,933,363	636
3006 - Personal & Pleasure Boats & Yachts	\$23,318,145	6,348
4000 - Inland Marine (Commercial)	\$23,071,467	4,598
5002 - Directors & Officers Liability (Profit)	\$20,038,656	316
8004 - Garage Liability	\$19,967,123	6,905
1008 - Difference In Conditions	\$19,218,492	4,233
6003 - Physician/Surgeon	\$18,893,183	430
1001 - Builders Risk	\$18,591,310	3,290
4001 - Inland Marine (Personal)	\$18,054,622	134,667
<b>TOTAL</b>	<b>\$3,555,088,342</b>	<b>607,180</b>

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 \$332,199,820. All figures have been rounded to the nearest dollar amount. This information was current as of 4/28/11. 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 our service.

## TOP 25 INSURERS

Insurer Name	Premium	Policy Count
Lloyd's Underwriters At London	\$831,281,145	293,891
Lexington Insurance Company	\$465,444,614	16,448
QBE Specialty Insurance Company	\$267,942,786	3,177
Landmark American Insurance Company	\$139,116,503	15,018
Scottsdale Insurance Company	\$136,382,091	44,127
Illinois Union Insurance Company	\$87,054,445	693
Westchester Surplus Lines Insurance Company	\$83,585,350	1,012
Arch Specialty Insurance Company	\$81,423,787	1,725
Steadfast Insurance Company	\$78,106,351	3,028
Axis Surplus Insurance Company	\$61,556,494	7,774
Columbia Casualty Company	\$53,742,983	4,666
Mt. Hawley Insurance Company	\$49,509,581	1,962
Geovera Specialty Insurance Company F/K/A USF&G	\$48,907,229	30,846
Century Surety Company	\$47,197,831	14,532
Ironshore Specialty Insurance Company	\$46,811,167	790
Princeton Excess And Surplus Lines Insurance Company	\$46,801,749	1,604
Alterra Excess & Surplus Insurance Company	\$46,616,611	5,585
Empire Indemnity Insurance Company	\$46,115,747	1,072
Chubb Custom Insurance Company	\$45,912,920	2,893
Chartis Specialty Insurance Company	\$41,788,327	1,370
Great Lakes Reinsurance (U.K.) Plc	\$41,158,740	5,079
Lantana Insurance Ltd	\$40,159,034	10,843
Colony Insurance Company	\$36,609,892	10,413
Nautilus Insurance Company	\$36,520,231	17,330
Everest Indemnity Insurance Company	\$36,068,719	1,475
<b>TOTAL</b>	<b>\$2,895,814,327</b>	<b>497,353</b>

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 \$991,473,835. All figures have been rounded to the nearest dollar amount. This information was current as of 4/28/11. 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 our service.

- In 2010, there were 172 eligible insurers in Florida: 38 were alien and 132 were foreign insurers. Two insurers were removed from the eligibility list by consent order.
- As of December 31, 2010, there were 1,082 active surplus lines agents, of which 785 were submitting agents.
- There were 111 newly licensed surplus lines agents and FLSO members in 2010. Of those 40 were resident agents and 71 were nonresident agents.
- Total reported premium by member agents: \$3,287,133,243
- Total billed taxes by member agents: \$214,547,606
- 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](http://www.fslso.com).
- Offered seven continuing education classroom courses throughout 2010.
- FLSO has 21 employees with more than 270 combined years of insurance experience.
- The FLSO participated in four community service events during 2010, which included the Dale Pullen Scholarship Fund Golf Tournament, Second Harvest of the Big Bend, HOPE Community, and the Big Bend Hospice Annual Holiday Drive.
- The FLSO newsletter is called *The Advisor*.

### Website Features:

- 124,335 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.
- 2009: Collected on 197 policies with more than \$75 million in unreported premium and more than \$4.1 million in taxes, fees, and penalties.
- 2008: Collected on 247 policies with more than \$87.6 million in unreported premium and more than \$4 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.
- 2009: Collected on 399 policies with more than \$5.8 million in unreported premium and \$258,092 in taxes, fees, and penalties.
- 2008: Collected on 354 policies with more than \$4.9 million in unreported premium and \$162,082 in taxes, fees, and penalties.

### IPC Data:

- Total reported premium: \$600,154,918
- Total billed taxes: \$31,183,991
- Total number of policies processed: 16,856

### Recognition

- Received First Place in the 2010 AAMGA Marketing and Advertising Award in the Surplus Lines Print Promotion Category for 2008 Annual Report.

# Board of Governors

## David Holcombe

Chairman, 2009-2010  
International Speedway Corporation  
Daytona Beach

## R.C. Chaffin

Vice Chairman, 2009-2010  
SeaCoast Underwriters  
Coral Gables

## Lorna W. Palmer

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

## Bruce E. Bowers

Hull & Company  
Ft. Lauderdale

## Keith M. Driggers

Florida Home Builders Insurance, Inc.  
Tallahassee

## Roy V. Fabry

Kahn Carlin & Co. Inc.  
Miami

## Steve M. Finver

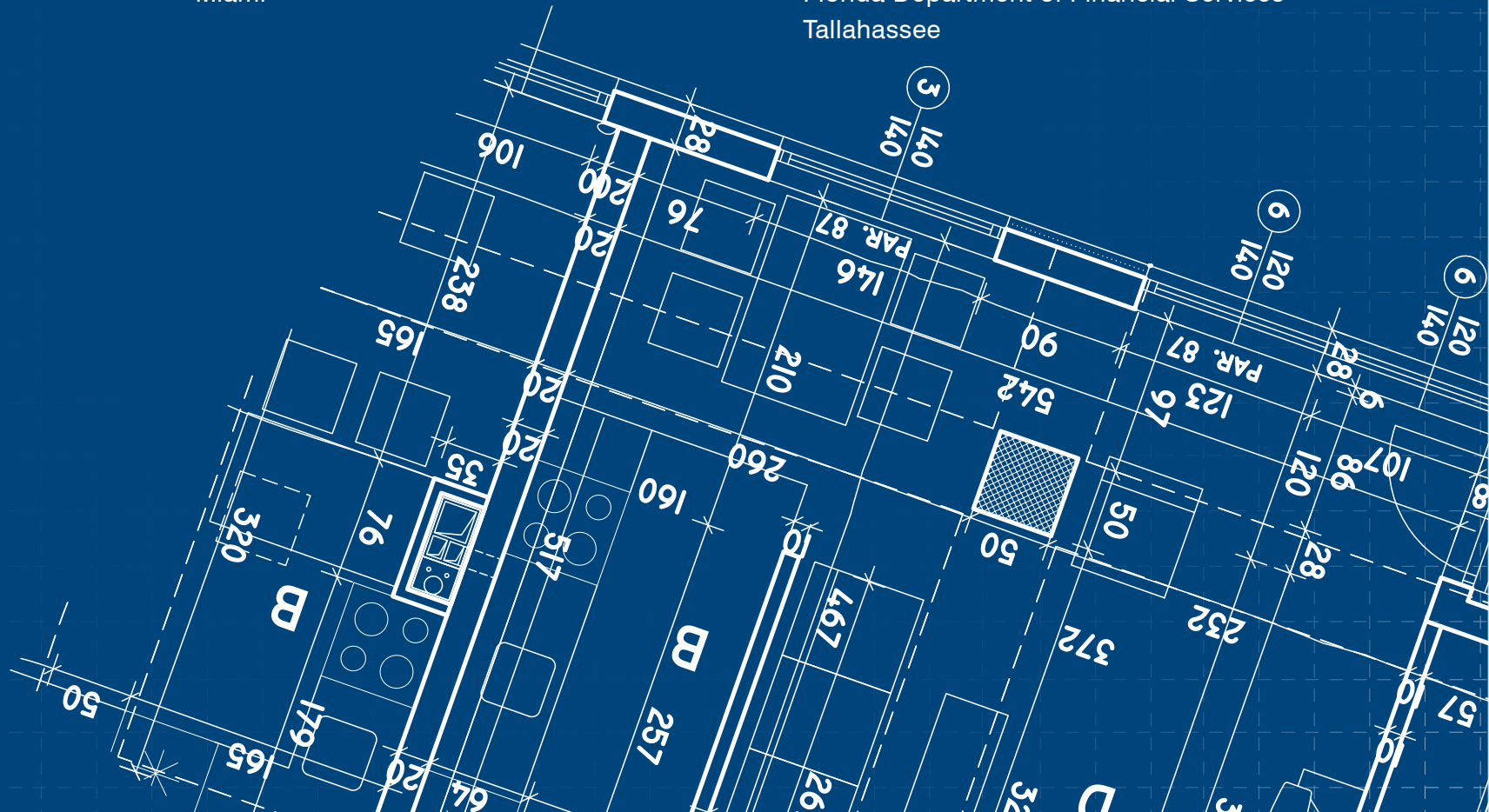
Gabor Insurance Services, Inc.  
Miami

## Daniel C. O'Leary III

Shelly, Middlebrooks and O'Leary  
Jacksonville

## Terry Butler

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



# *fslso Staff*

**Gary Pullen**  
Executive Director

**Tom Terfinko**  
Assistant Director of Agent  
and Insurer Services

**Georgie Barrett**  
Deputy Director of Operations

**Jim Godfrey**  
Chief Financial Officer

**Kristen Bertagnolli**  
Compliance Review Analyst

**Brian Bogner**  
Insurance Analyst

**Jessica Brown**  
Operations Specialist

**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

**Tiffany Maruniak**  
IPC Collections Coordinator

**Felicia Meredith**  
Compliance Outreach Coordinator

**Jennifer Mills**  
Accounting Specialist

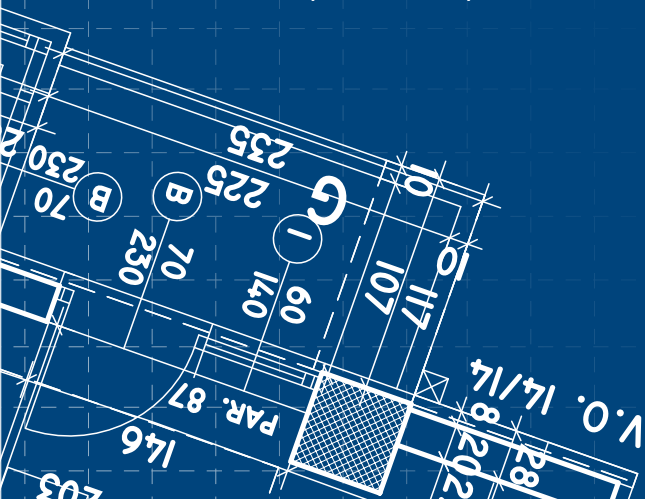
**Sheila Pearson**  
Accounting Supervisor

**Brian Sadler**  
Information Systems  
Support/Developer

**Kara Steele**  
Variance Specialist

**Ashlee Weber**  
Public Information Manager

**Bryan Young**  
Insurance Analyst





For more information, visit [www.fslso.com](http://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.

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**Florida Surplus Lines Service Office**

1441 Maclay Commerce Drive, Suite 200

Tallahassee, FL 32312

Local: 850.224.7676

Toll Free: 1.800.562.4496

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1441 Maclay Commerce Drive

Suite 200

Tallahassee, FL 32312

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850.224.7676 (Office)

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