



April 26, 2023

Ms. Jamie Walker, Deputy  
Commissioner  
Financial Regulation Division  
Texas Department of  
Insurance  
333 Guadalupe  
Austin, TX 78701

RE: Surplus Lines Stamping Office Plan of Operation Notifications to TDI

Deputy Commissioner Walker:

The Board of Directors of the Surplus Lines Stamping of Texas (the "Board") respectfully submits this letter and its attachments as notification to the Texas Department of Insurance ("TDI") in accordance with Sections 2.(b)(7)(B) and (C) and 2.(c)(5)(B) of the Surplus Lines Stamping Office of Texas ("Stamping Office") Plan of Operation. On March 31, 2023, the Board held its annual meeting and among other agenda items, received reports and recommendations from the Board Finance and Audit Committee regarding the Stamping Office's Reserve Balance and Stamping Fee. The Board also considered continuing its discussions with TDI regarding its prior recommendations for amendments to the Surplus Lines Stamping Office of Texas Plan of Operation ("Plan of Operation"). After considering such recommendations and items, the Board voted to make the following notifications to TDI as required by the Plan of Operation:

1. Section 2.(b)(7)(B) of the Plan of Operation requires that if the Stamping Office reserve balance is projected to exceed two times the average of audited operating expenses for the five-year period immediately preceding the budget year, the Board must within 30 days after its annual meeting, submit a written plan for reducing the amount of actual reserves within a reasonable time. As we have reported, the Stamping Office projected reserves are expected to exceed the Plan of Operation limit. However, with a recommended decrease in the stamping fee as described below, the reserves are projected to decrease and reach a compliant level over the course of the coming years. We have attached and marked as **Exhibit A**, a document reflecting the Board's plan to reduce reserves within a reasonable time.

2. Section 2.(b)(7)(C) of the Plan of Operation requires that within 30 days of its annual meeting, the Board must recommend for adoption by the Commissioner a stamping fee, as measured by premium, to be charged on all surplus lines filings submitted to the Stamping Office. In 2020, upon the recommendation of the Board as a strategy for reducing the reserve balance to a compliant level, the Commissioner took action to decrease the stamping fee to .075%, effective January 1, 2021. However, persistent surplus lines insurance market conditions generating record high premiums year-over-year have resulted in a continued rise in the reserve balance despite the 2021 stamping fee reduction. At this time, after a thorough review, the Board recommends that the Commissioner decrease the stamping fee to .04%, effective January 1, 2024, as a continued strategy to decrease the Stamping Office reserve balance to a compliant level within the coming years. The information regarding this review and upon which the Board bases its recommendation is attached and marked as **Exhibit B**.
  
3. Section 2.(c)(5)(B) of the Plan of Operation requires that the Board conduct a review of the Plan of Operation and propose any amendments during the annual meeting. During its annual meeting the Board considered and voted to allow the prior amendment recommendations to TDI to stand, recommend no new Plan of Operation amendments at this time, and to continue its discussions with TDI regarding its prior recommended amendments presently under consideration.

Should you have any questions, please reach out to me at (512) 225-8594. I and others are happy to coordinate a meeting with you and your staff to discuss this letter and answer any questions you may have.

Regards,



Garrett Sprowls  
Board Chair

Enclosures

CC: Ms. Jessica Barta, TDI – via email  
Ms. Margaret Jonon, TDI – via email  
Ms. Patty Otto, TDI – via email  
Mr. Greg Brandon, Surplus Lines Stamping Office – via email  
Mr. Stanton Strickland, Mitchell Williams – via email

# Financial

## Exhibit A

### Unrestricted, Undesignated Funds – Maximum

Per plan of operation section 2(b)(7)(A):

Projected reserves, except for funds for asset replacement, must not exceed two times the average of audited operating expenses for the five-year period immediately preceding the budget year.

<b>MAXIMUM FUND BALANCE</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Unaudited 2022</b>	<b>5 Years Operating Expenses</b>
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#### UNAUDITED

Operating Expenses	3,870,993	4,564,448	4,631,622	5,895,165	7,534,038	\$ 26,496,266
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5-Year audited Average Operating Expenses	3,328,728	3,425,617	3,628,492	3,792,446	5,299,253	\$ 5,299,253
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<b>Maximum Fund Balance</b>	6,657,455	6,851,234	7,256,985	7,584,891	10,598,506	<b><u>\$ 10,598,506</u></b>
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(Two times average operating expenses)

UNAUDITED balance at December 31, 2022

Unrestricted, undesignated funds balance

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**29,178,116**

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Unrestricted, undesignated funds balance in **Excess (Below)** maximum as of  
January 1, 2023

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**\$ 18,579,610**

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# Financial

Unrestricted, Undesignated Funds – February 2023

## ACTUAL CURRENT FUND BALANCE

Beginning Fund Balance	<u>29,178,116</u>
Change in Unrestricted Fund Balance Year-to-date	<u>(145,495)</u>
<b>Unrestricted/Undesignated as of February 28, 2023</b>	<b><u>29,032,621</u></b>
Unrestricted, undesignated funds balance in <b>Excess (Below)</b> maximum as of February 28, 2023	<b><u>\$ 18,434,115</u></b>

## PROJECTED YEAR END FUND BALANCE

Actual plus remaining budget	<u>29,128,226</u>
Actual + budget less Contingency	<u>29,167,893</u>
<b>Maximum Fund Balance</b>	<b><u>\$ 10,598,506</u></b>



Item 3C (BOD Meeting)

2023 Stamping Fee Rate Analysis

# Stamping Fee Analysis - Purpose

Plan of Operation Section 1 (b)(7)(C)

- “On the basis of the anticipated volume of surplus lines premium during the upcoming calendar year, the board must recommend for adoption by the Commissioner a **stamping fee**, as measured by premium, to be charged on all surplus lines filings submitted to the stamping office. The recommendation must be submitted to the deputy commissioner of the Financial Regulation Division within 30 days of the Annual Meeting and must include a description of the factors considered and whether the recommendation is to **raise the fee, lower the fee, or take no action.**”

Regarding Undesignated Fund Balance

- Section 1 (b)(7)(A): “The budget must take into account unknown and unanticipated expenses as may reasonably occur and make provision for such expenses under prudent business practice. Projected reserves, except for funds for asset replacement, must not exceed two times the average of audited operating expenses for the five-year period immediately preceding the budget year
- Section 1 (b)(7)(B): “If the reserve balance is projected to exceed the limit under subsection (b)(7)(A) of this section in the upcoming year, within 30 days after the Annual Meeting the board must submit a written plan for reducing the amount of actual reserves **within a reasonable time** given the then-existing market conditions to the department’s deputy commissioner of the Financial Regulation Division, or the deputy commissioner’s designee

# Stamping Fee Analysis - Purpose

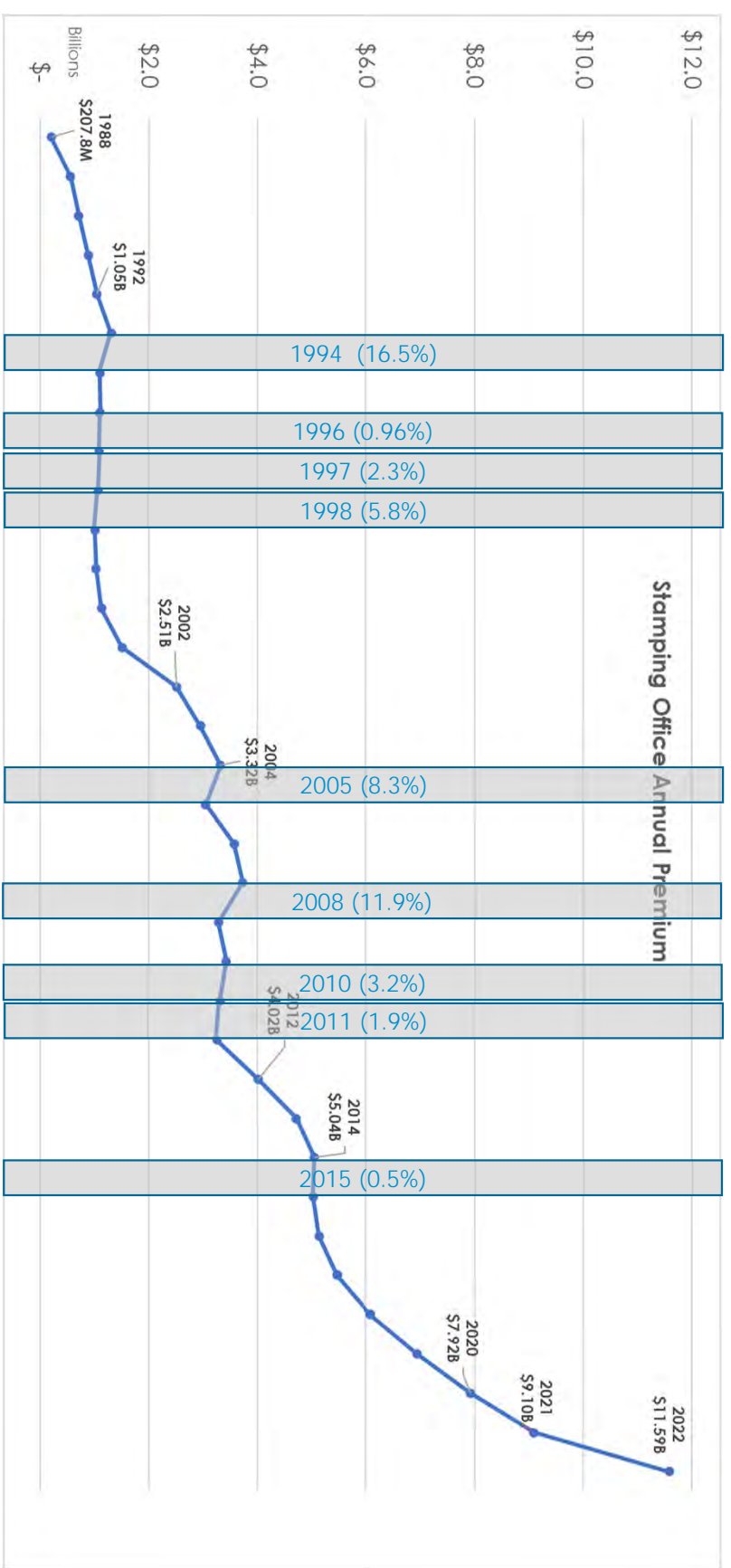
Language from 1987 Bill (989) creating the stamping office:

- 24 Prescribe; prepare and deliver to the Commissioner reports of surplus lines business; (4)
- 25 collect from each surplus lines agent a stamping fee for the costs of operations to be paid
- 26 by the insured and determined by the State Board of Insurance in an amount not to exceed
- 27 three-quarters of one percent ~~(1%)~~ of gross premium resulting from surplus lines
- 28 contracts; (5) employ and retain such persons as are necessary to carry out the duties of

Administrative Code

- *§15.103 For each surplus lines policy, contract, or other detailed evidence of coverage issued on Texas risks, including additions or deletions to, or cancellations of, the surplus lines agent must submit a stamping fee as approved by TDI.*

# Annual Premium Review





# Stamping Fee Analysis- Updated Fund Balance

	EOY 2020	EOY 2021	EOY 2022
Undesignated Fund Balance	\$27.2 million	\$28.8 million	\$29.2 million
Maximum Fund Balance	\$7.8 million	\$8.8 million	\$10.6 million*
<b>Difference</b>	<b>\$19.4 million</b>	<b>\$20.0 million</b>	<b>\$18.6 million</b>

NOTE: Maximum Fund Balance is 2 times the 5-year average of audited operational expenses

NOTE: EOY 2022 Max Balance has not yet been confirmed from 2023 Audit

# Stamping Fee Analysis- Texas Stamping Fee Rate History

Nine rate changes in 35-year history

Largest increases in 2000 & 2016 paid for new filing systems (EFS, SMART) and 2016 dual intention to also purchase property.

All others were made to manage reserve to fund balances.



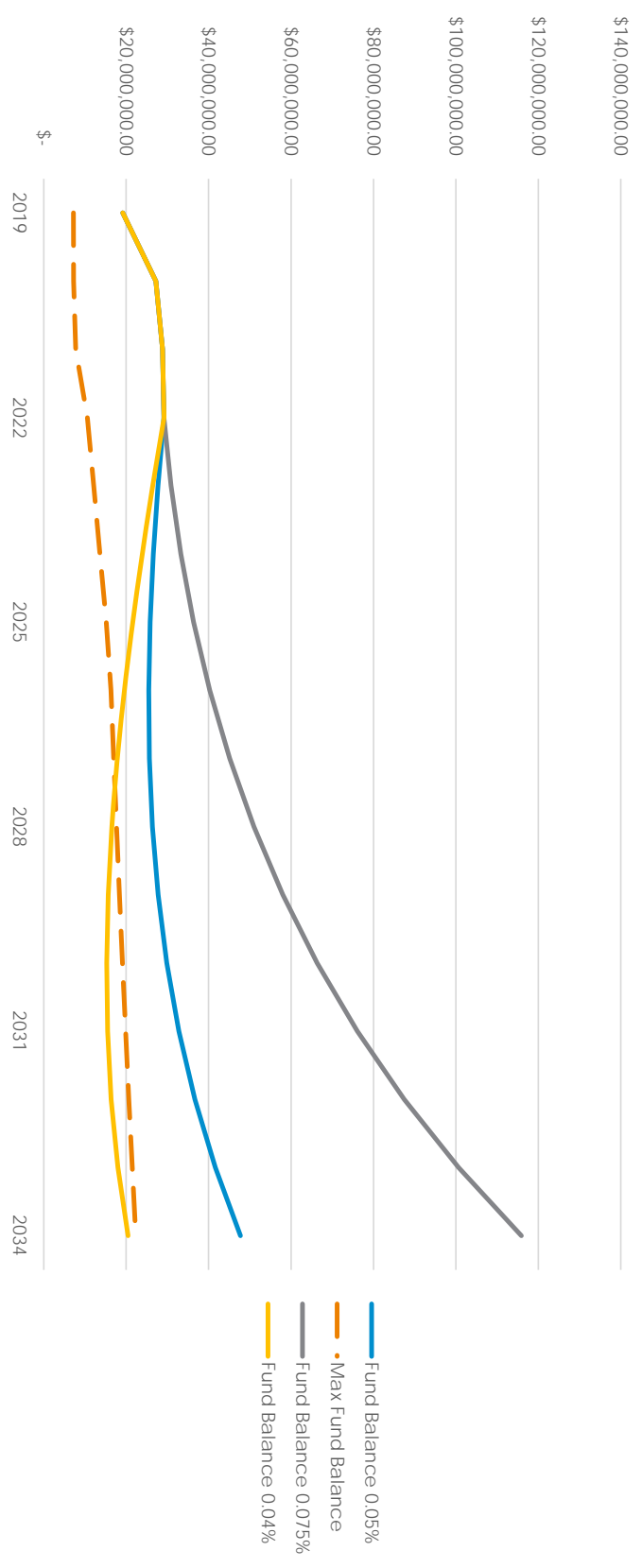
NOTE: Statutory Maximum Fee is 0.75%

# Stamping Fee Analysis- Break-Even Analysis

	2020	2021	2022	Total
Stamping Fee Revenue	\$11.9 million	\$7.7 million	<b>\$8.8 million</b>	\$28.4 million
Audited Expenses	\$4.6 million	\$5.9 million	<b>\$7.5 million</b>	\$18.1 million
Break Even Rate	0.058%	0.065%	<b>0.065%</b>	0.063%
Stamping Fee Rate	0.150%	0.075%	<b>0.075%</b>	0.075%
Realized Rate*	0.150%	0.085%	<b>0.076%</b>	0.099%

# Stamping Fee Analysis- Fund Balance Projections

Fund Balance by Stamping Fee Rate from 2019-2034

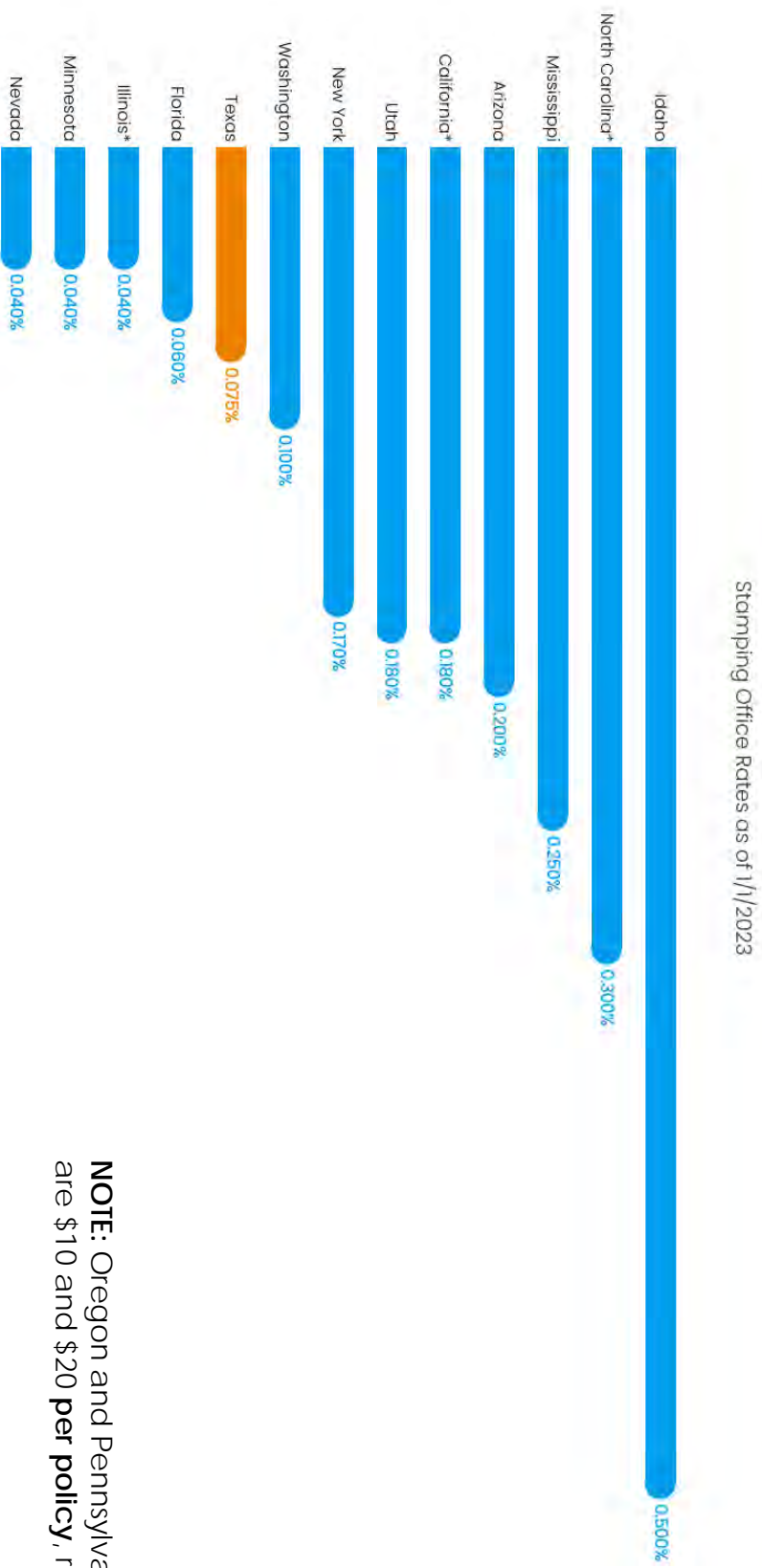


# Stamping Fee Analysis- Rate Comparison

5 Year Outlook*	0.075%	0.06%	0.05%	0.04%
Premium	\$77.8 billion	\$77.8 billion	\$77.8 billion	\$77.8 billion
Stamping Fee Revenue	\$58.4 million	\$46.7 million	\$38.9 million	\$31.1 million
Expenses	\$42.4 million	\$42.4 million	\$42.4 million	\$42.4 million
Ending Fund Balance	\$45.1 million	\$33.4 million	\$25.6 million	\$17.9 million
Ending Maximum Fund Balance	\$17.0 million	\$17.0 million	\$17.0 million	\$17.0 million

\* Projections assuming 10% annual premium growth; 4% annual expense growth

# Stamping Fee Analysis – State Fee Comparison



**NOTE:** Oregon and Pennsylvania fees are \$10 and \$20 **per policy**, respectively

\* California (0.25%), Illinois (0.075%), and North Carolina (0.4%) stamping fee rate reduced effective 1/1/23

# Stamping Fee Analysis- Projection Considerations

## STAMPING FEE INVOICE

NOT A REAL AGENCY-TESTING ONLY 0123 TDI LICENSE NO XXXXX TDI BROKER ID 11111111  
 CHEYENNE HERRERA SETUP FOR TESTING PURPOSES ONLY  
 FOR TESTING PURPOSES POSTING IN THE PRODUCTION ENVIRONMENT TX 78660-0675

Remittance Copy

Year/Month	Total Premium	Tax	Stamping Fee
Current Month			
2022 01 - January	\$1,273,171,455.43	\$61,747,108.79	\$935,304.04
<b>Prior Months Outstanding</b>			
2020 07 - July			\$223,79
2020 08 - August			\$60,28
2020 10 - October			\$6,91
2021 11 - November			\$29,333.13
2021 12 - December			\$162,014.60
			<b>Total Stamping Fee Due to SITX: \$1,126,942.75</b>

**Make Checks Payable to:**  
 Surplus Lines Stamping Office of Texas  
 Operating Acct  
 1601 E Pflugerville Pkwy Suite 3301  
 Pflugerville, TX 78660

**Questions:**  
 (800) 681-5848  
 accounting@stlx.org

**PAYMENT PROCESS**

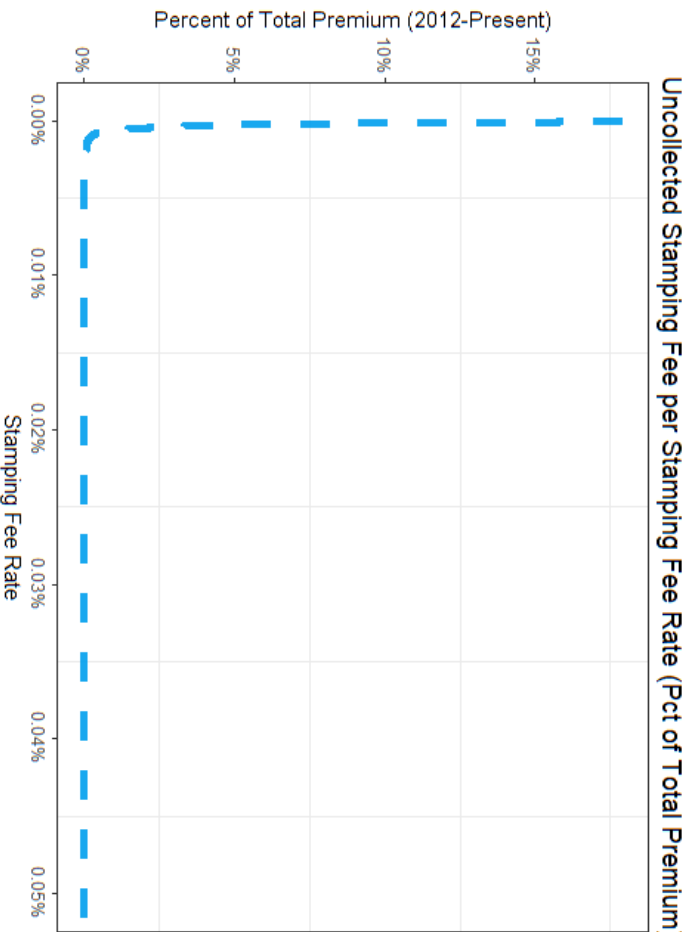
Through the online filing system payment portal, users may make stamping fee payments via ACH at no extra cost. Users may also pay via a credit card which incurs a 3.25% processing fee. It is not mandatory to file surplus lines policies electronically for access to the online payment portal. Users may also pay invoices by check if the online filing system is not available. For more information, please visit: <https://www.sitx.com/Content/AboutUs/2018/05/25/STXOnlineInvoicePaymentHowtoGuide.ecd41418.pdf>

**NOTE**

This invoice represents stamping fee charges only. The full amount is due and payable by the 30th of this month. Checks will be returned on short paid invoices. Premium tax payments are to be made to the Texas Comptroller of Public Accounts and the Stamping Office. Any tax payments received by SITX will be returned.

**Balances less than \$15,000 need not be paid until a future invoice reflects a balance exceeding this amount. However, all balances must be paid by the end of each year (December 31st), regardless of amount!**

- Impact of projected expenses and related changes
- How would reduced rate impact cash flow?
- How would reduced stamping fee rate impact small transactions?



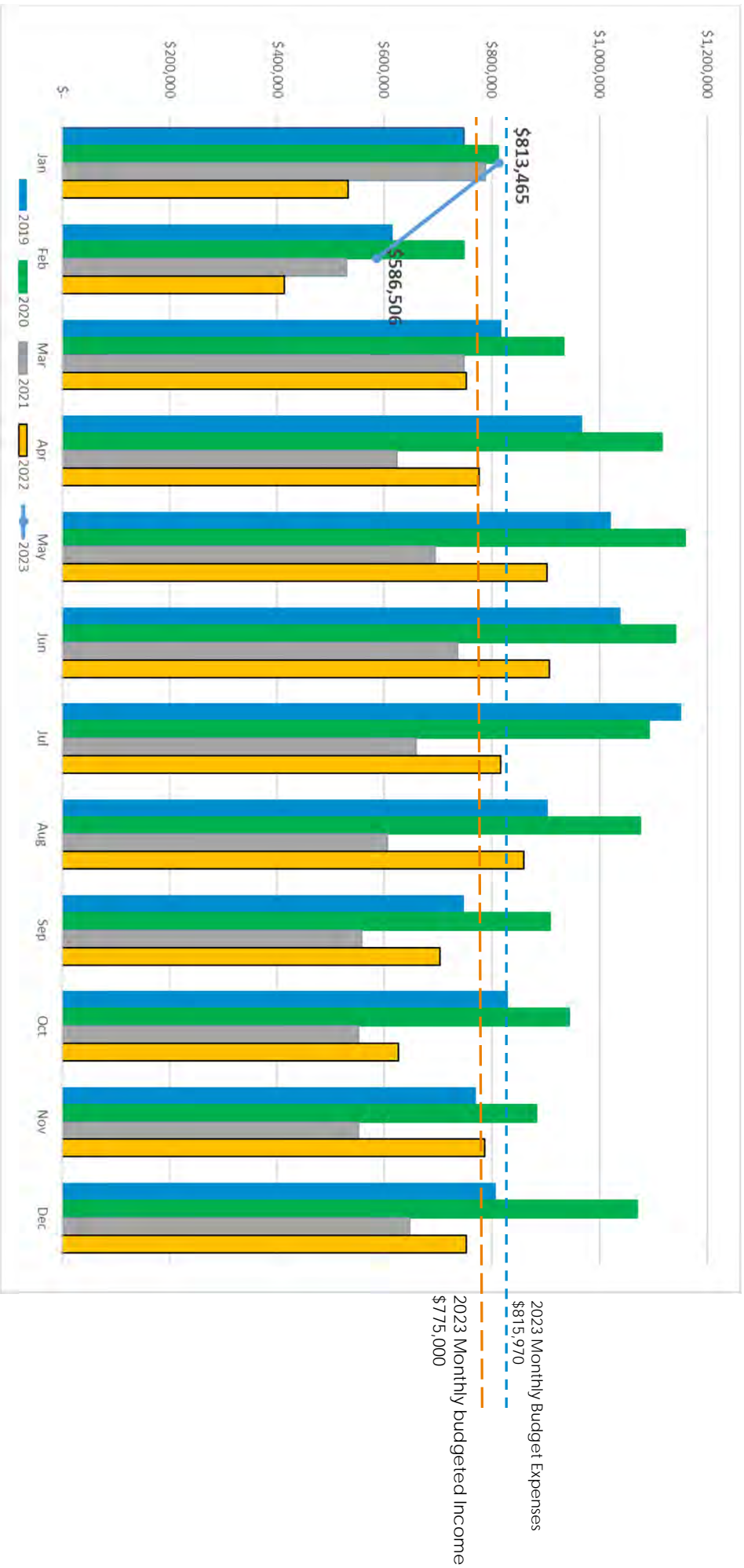
Uncollected Stamping Fee per Stamping Fee Rate (Pct of Total Premium)

# Stamping Fee Analysis- Factors to Monitor

- How long will current premium growth rate last?
  - Early results from 2022 insurer financials continue to show strong hard-market conditions
  - Continued trend of new market entrants
  - Macroeconomic and geopolitical factors
- How will expenses be experienced over next 5 years?
  - New office location
  - SMART project
  - Legislation changes



# Stamping Fees: Historical Income



## Recommendation

Based on the projections outlined, the Finance and Audit Committee recommends that the board submit a proposal to the Commissioner of Insurance reducing the current stamping fee of 0.075% to **0.04% starting January 1, 2024.**