EXCESS LINE ASSOCIATION OF NEW YORK

Annual Report 2010

ELANY

Serving the Excess and Surplus Lines Broker Community for More Than 20 Years

DANIEL F. MAHER
Executive Director

2010 WAS A HARD YEAR FOR THE excess line market. Soft market conditions, combined with an anemic economy, made it a struggle for all concerned. In the legislative arena, 2010 proved to be a very active year with Congress delivering the Dodd-Frank Wall Street Reform and Consumer Protection Act, which incorporated the Nonadmitted and Reinsurance Reform Act (NRRA).

While Dodd-Frank, as a whole, is viewed unfavorably by various segments of the financial services industry, the insurance industry widely supported the NRRA for bringing some degree of uniformity, simplicity and modernization to complicated insurance transactions which often overlap state lines. The NRRA, which was signed into law by President Obama this past July, generally does not take effect until July 21, 2011. While the NRRA is intended to streamline E&S regulation through a series of state law preemption provisions and mandates, Congress has left much of the implementation to the discretion of the states. Therefore, the real promise of reform is yet to be realized and may depend on what steps the states actually take in the face of these Congressional preemptions and mandates.

"While the NRRA is intended to streamline E&S regulation through a series of state law preemption provisions and mandates, Congress has left much of the implementation to the discretion of the states. Therefore, the real promise of reform is yet to be realized and may depend on what steps the states actually take in the face of these Congressional preemptions and mandates."

The NRRA will cause procedures, process and compliance requirements to change. While change is initially painful, it generally proves to be worthwhile when you come out on the other side with a more efficient system. I anticipate that most states will implement the mandatory provisions of the NRRA in a manner that is generally consistent with Congressional intent.

With regard to the tax sharing provisions of the NRRA, it is unclear what will occur. ELANY has been supporting an interstate compact, known as SLIMPACT, since 2007. While many legislative groups [National Council of Insurance Legislators (NCOIL), National Conference of State Legislators (NCSL) and Council of State Governments (CSG)] have adopted resolutions in support of SLIMPACT, as amended in late 2010, the National Association of Insurance Commissioners (NAIC) opposes it. The NAIC rolled out its own draft proposal in late 2010 called the Nonadmitted Insurance Multistate Agreement (NIMA) as an alternative to SLIMPACT. While both proposals would create a clearinghouse to receive, allocate and distribute taxes, SLIMPACT contained additional provisions to permit the SLIMPACT Commission (essentially a Board of Directors) to create additional modernization and uniformity in the E&S market. NIMA only addresses tax allocation and would be managed by, or under, the control of NAIC personnel.

The greatest concern brokers raise about these competing proposals is that the market does not end up with several different systems. Small groups of states, initiating several different approaches, is a worst case scenario for the marketplace.

As we move into 2011, ELANY plans to work with our legislators and regulators here in New York, and wherever else necessary, to bring a rational, uniform and simple NRRA implementation to fruition.

THOMAS J. DERELLA
Chairman

OVER THE COURSE OF THE LAST 15 years, ELANY has focused much of its efforts on the enactment of legislation for the benefit of its members. ELANY recently prepared a quantitative analysis for our New York legislators, who have been tremendously supportive of ELANY's efforts to help grow New York's excess line business over the years. We wanted to demonstrate the very positive impact their legislation has had on our marketplace. I am pleased to provide you with very concrete evidence that the bills passed by the legislature and signed into law expanded business opportunities for licensed New York insurance producers, licensed insurers, excess line insurers and for the State in terms of increased tax revenues. Ultimately, all of these legislative efforts resulted in preserving or creating jobs.

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The following focuses on the direct impact such legislation has had on the excess and surplus lines market in particular.

ELANY, often working in coalitions with PIWA (Professional Insurance Wholesalers Association, Inc.), NAPSLO (National Association of Professional Surplus Lines Offices, Ltd.), other trade organizations and, sometimes, individual insurers, has helped to authorize five new "kinds" of insurance to be sold in New York's excess line market. Through 2010, this has resulted in 6,119 additional excess line transactions, which generated $127,815,553 of taxable premium and generated an additional $4,601,360 of excess line taxes for the State.

New York businesses obtained the coverage they needed from excess line brokers, who were happy to sell it, and insurers, who chose to underwrite it, with the State receiving more taxes by improving the business climate. This is a big win all around.

Over and above these five bills, at least six other pieces of legislation passed, which either expanded the marketplace for excess line risks or reduced operational costs to brokers. Amending the law to permit the writing of primary medical malpractice for such businesses as nursing homes and other facilities, which are not legally considered a "general hospital," generated additional taxable premiums of approximately $124,000,000 since 2002.

Other legislation repealed the bond requirement for excess line brokers, which became part of a national effort by ELANY, NAPSLO and many state stamping offices. With the advent of full nonresident licensing, this will save brokers millions of dollars. In New York alone, ELANY estimates this has saved its members $3,545,600 from 2002 to 2010.

These are just some of the positive results emanating from ELANY inspired legislation.

As Chairman, it is my pleasure to share this vital information with you. These are the benefits members reap from an association working hard on your behalf.

MARGARET M. BEIRNE
Chairman

THE YEAR 2010 BEGAN WITH earthquakes in Haiti and Chile, followed by floods in Australia, tornadoes in the Midwest and earthquakes in New Zealand. The significant number of natural catastrophes is evidenced by the deterioration in the underwriting results sustained by the companies on ELANY's eligibility list. While most companies did not suffer significant decreases in surplus as investment income helped maintain their surplus, loss ratios and combined ratios showed a dramatic increase over 2009. All foreign companies on the eligibility list continue to maintain an "A-" rating or better from A.M. Best, as well as those alien companies that are rated.

As we go to press, we are just learning of the impact that the earthquake in Japan, and the tsunami that followed, will have on the insurance industry. While it is anticipated that these events could be the costliest catastrophe ever, most of the losses will be borne by Japanese insurance and reinsurance companies. None of the companies on ELANY's eligibility list write direct Japanese business. However, some companies may incur associated losses through pooling arrangements with affiliated companies. The Committee will be monitoring contingent business interruption losses, which may result if insureds encounter slowdowns or shutdowns of Japanese suppliers.

During the year, ELANY added five foreign and two alien companies to the eligibility list. One foreign company withdrew, resulting in a total of 100 foreign and 38 alien companies as of yearend 2010.

The Nonadmitted and Reinsurance Reform Act (NRRA), which was passed as part of the overall Dodd-Frank Wall Street Reform and Consumer Protection Act, will become effective for the surplus lines industry on July 21, 2011. While the Act mandates that the "Home State of the insured" will have exclusive regulatory jurisdiction over the excess line transaction, the Act stipulates that a commercial insured can waive the broker's duty to conduct the diligent search if it employs, or retains, a qualified risk manager, has paid a minimum $100,000 of property and casualty premium in the immediately preceding 12 months, and meets at least one of the following criteria:

- has a net worth greater than $20 million;
- generates annual revenues in excess of $50 million;
- employs more than 500 full-time employees, or is a member of an affiliated group employing more than 1,000 employees;
- is a not-for-profit or public entity enterprise with annual budgeted expenses greater than $30 million; or
- is a municipality with a population of 50,000.

For insureds who meet this definition, the excess line broker need not make a diligent search of the admitted market, provided that prior to procuring nonadmitted coverage, the broker discloses to the insured that the coverage may, or may not, be available from an admitted market that may provide greater protection with more regulatory oversight, and the insured subsequently requests, in writing, that coverage be procured from a nonadmitted insurer.

The Act will also change the requirements for a company's eligibility in New York. The Act stipulates that:

- any foreign company authorized to write a particular line of business in its state of domicile can write that line of business in New York if it has the greater of the minimum capital and surplus amount under New York law, or $15 million.
- any alien company listed in the NAIC Quarterly Listing of Alien Insurers will automatically become eligible.

Under Regulation 41, the excess line broker has a duty to ascertain the insurer's financial stability when placing coverage. ELANY will continue to

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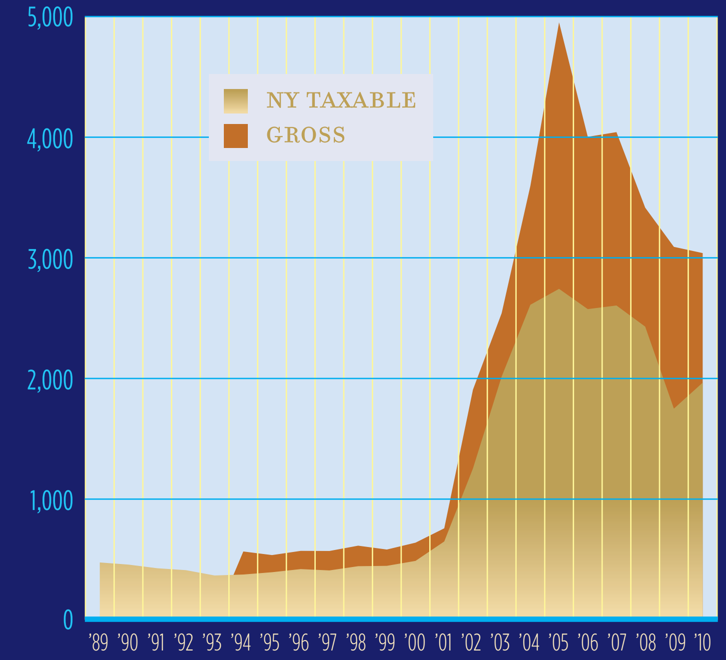
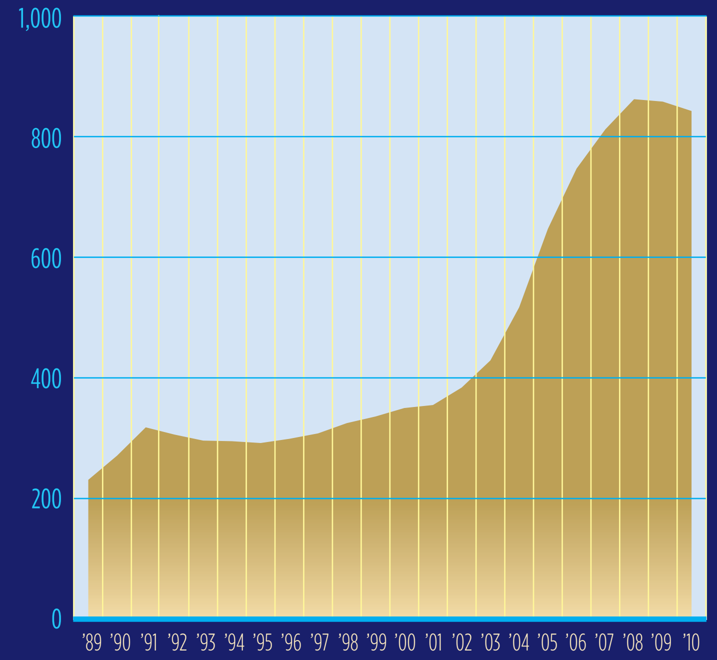
TOTAL PREMIUMS (IN MILLIONS)

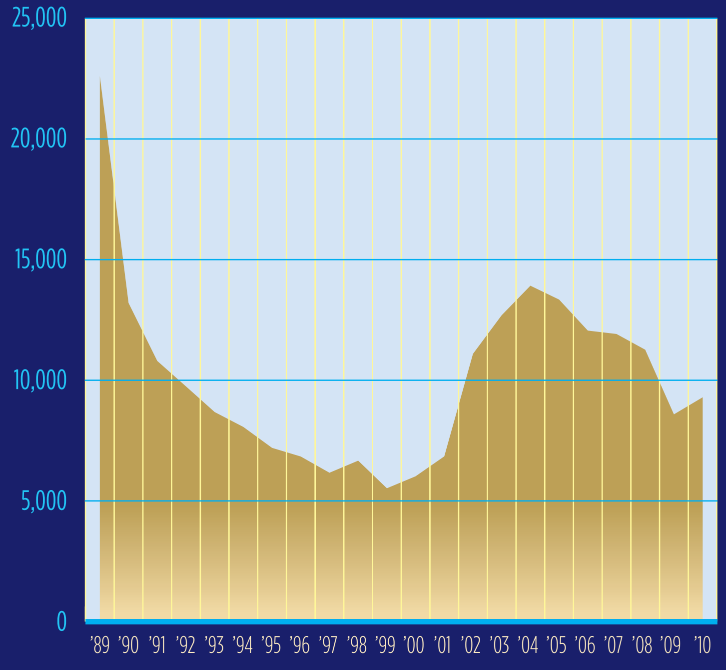


Tax allocation began in 1994.

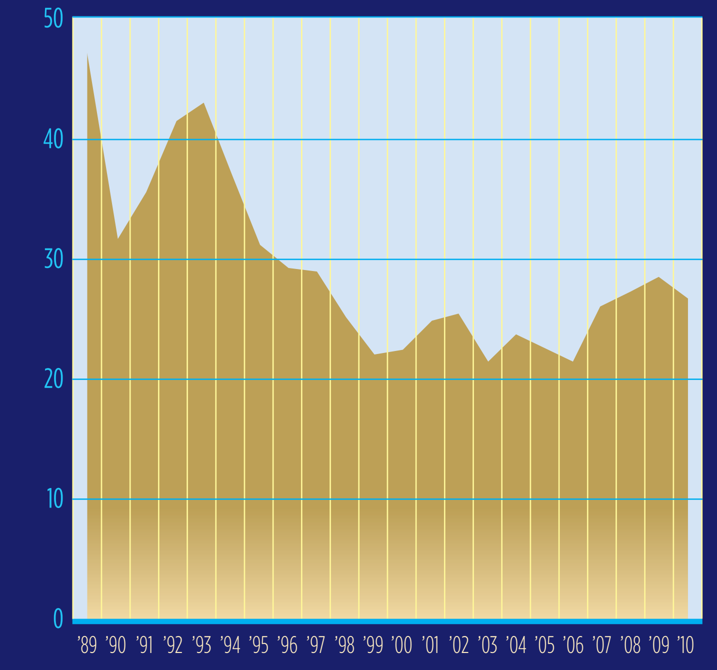
ELANY ACTIVE MEMBERS



NEW YORK TAXABLE PREMIUMS
PER STAMPED INSURANCE DOCUMENT

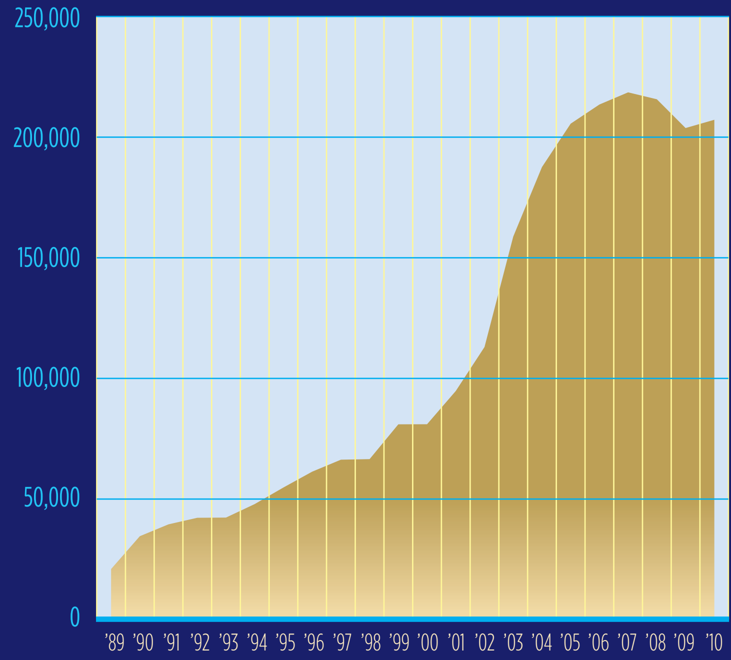


PROCESSING COST PER STAMPED ITEM

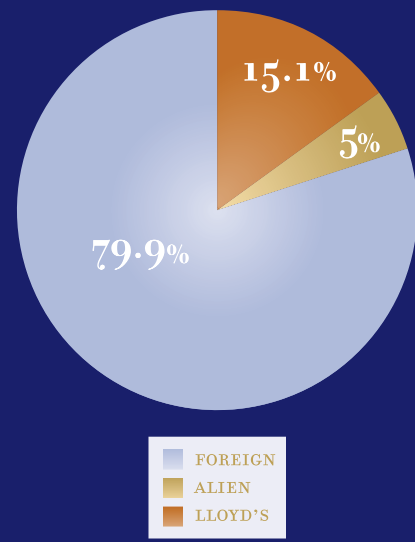


All figures and statistics are based on calendar year premium except where otherwise noted.

POLICIES & ENDORSEMENTS PROCESSED

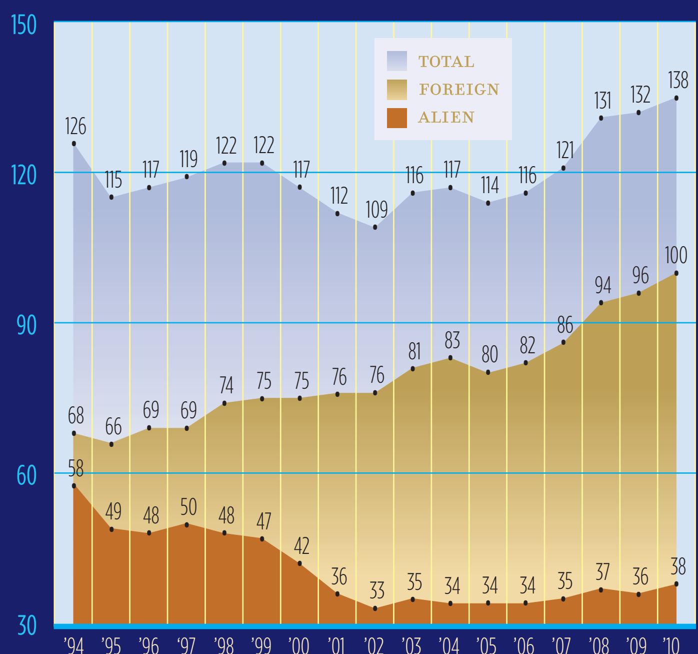


PERCENTAGE OF YEAR 2010 NY TAXABLE PREMIUM DISTRIBUTION BY ELIGIBLE INSURERS*

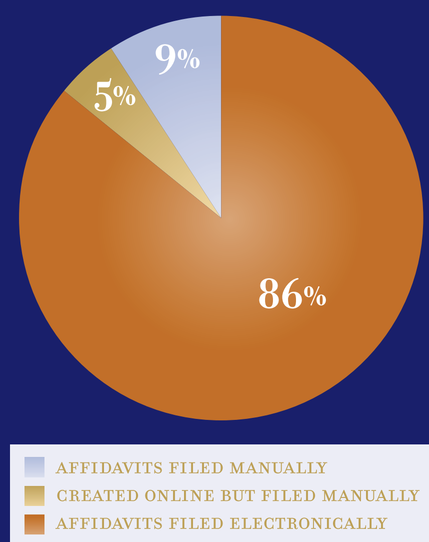


**Figures are on a risk attaching basis.*

ACTIVE ELIGIBLE E&S INSURERS



2010 ELECTRONIC AFFIDAVIT SUBMISSIONS

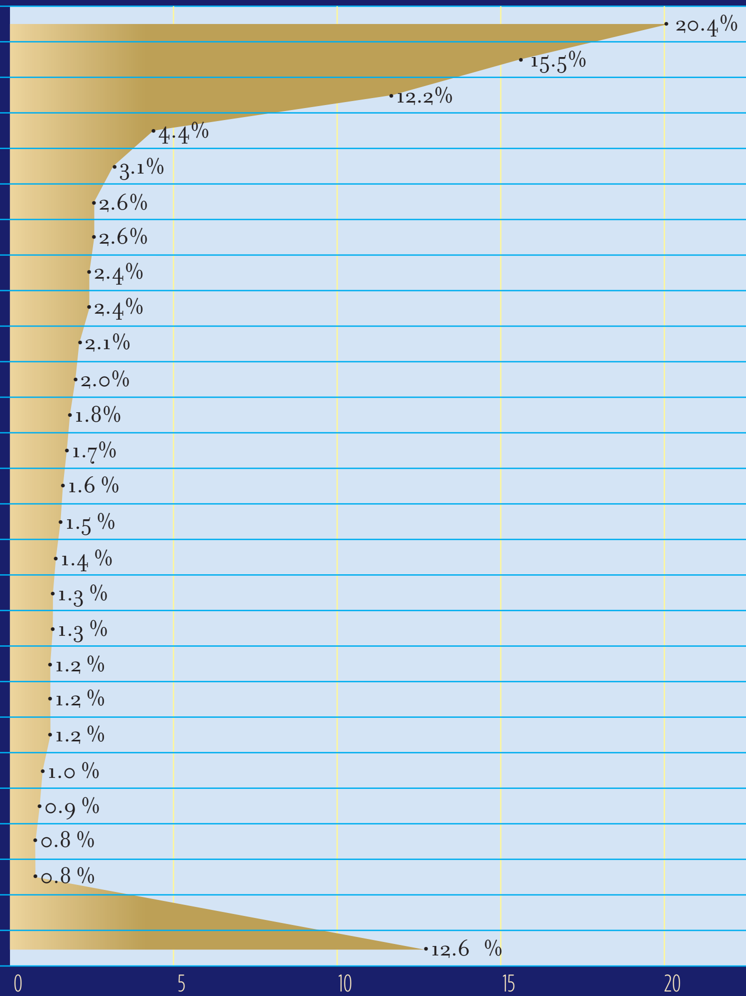


This year ELANY added 5 foreign companies and 2 alien companies. One foreign company voluntarily withdrew and no alien companies were removed. Since 1994, the total number of companies increased from 126 to 138. However, while foreign companies increased by 32, the alien companies decreased by 20 with a total of 100 foreign companies and 38 alien companies.

All figures and statistics are based on calendar year premium except where otherwise noted.

2010 NEW YORK TAXABLE PREMIUM BY INSURANCE GROUP

Chartis Group	(3 companies)	$ 405,781,545
Lloyd's of London		$ 308,574,806
Zurich Financial Services Group	(2 companies)	$ 243,105,714
Nationwide Group	(2 companies)	$ 88,380,662
Travelers Companies, Inc	(5 companies)	$ 61,761,023
Markel Corporation Group	(4 companies)	$ 51,464,298
CNA Insurance Companies	(1 company)	$ 51,252,307
W.R. Berkley Group	(4 companies)	$ 48,125,341
Berkshire Hathaway Insurance Group	(6 companies)	$ 47,995,930
Ace Group	(3 companies)	$ 42,043,769
XL Capital Group	(2 companies)	$ 40,218,471
AXIS Capital Group	(2 companies)	$ 35,145,354
Arch Group	(3 companies)	$ 33,290,705
First Mercury Financial Group	(1 company)	$ 31,402,412
Munich Re Group	(4 companies)	$ 29,108,868
Allianz Insurance Group	(4 companies)	$ 28,585,802
Chubb Group of Insurance Companies	(2 companies)	$ 25,789,039
Ironshore Inc.	(2 companies)	$ 25,078,850
Argo Group	(1 company)	$ 24,917,693
RLI Insurance Group	(1 company)	$ 23,524,963
HCC Insurance Holdings Group	(1 company)	$ 23,362,715
Allied World Assurance Group	(2 companies)	$ 19,170,092
Alleghany Corporation	(2 companies)	$ 18,163,888
Aspen Insurance Holdings Ltd.	(2 companies)	$ 17,792,561
IFG Companies	(2 companies)	$ 17,427,573
SUBTOTAL		**$ 1,741,464,381**
All others	(76 companies)	$ 252,195,476
TOTAL		**$ 1,993,659,857**



TOP 10 PERILS*

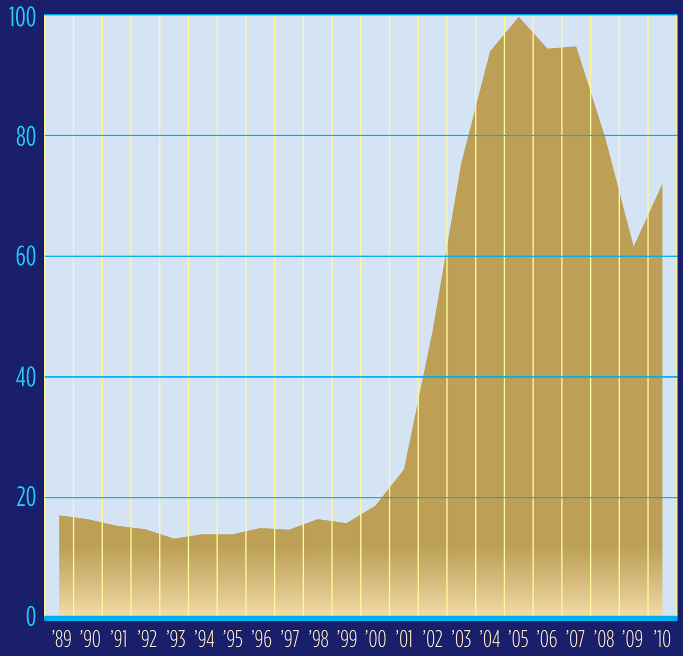
	PERIL	NEW YORK PREMIUM	2009 RANKING
1.	General Liability	$ 633,089,935	1
2.	Errors and Omissions	$ 268,638,914	3
3.	All Risk	$ 267,546,419	2
4.	Credit Insurance	$ 185,351,281	0
5.	Multiple Peril	$ 141,901,496	4
6.	Fire	$ 86,545,429	7
7.	Umbrella Liability	$ 82,692,405	5
8.	Environmental Impairment	$ 76,485,823	8
9.	Miscellaneous Professional	$ 62,423,428	6
10.	Additional Property Coverage	$ 46,582,293	0
	SUBTOTAL	**$ 1,851,257,423**	
	All Others	$ 164,171,031	
	TOTAL	**$ 2,015,428,454**	

All figures and statistics are based on calendar year premium except where otherwise noted.

**Figures are on a risk attaching basis.*

E&S TAX (IN MILLIONS)*

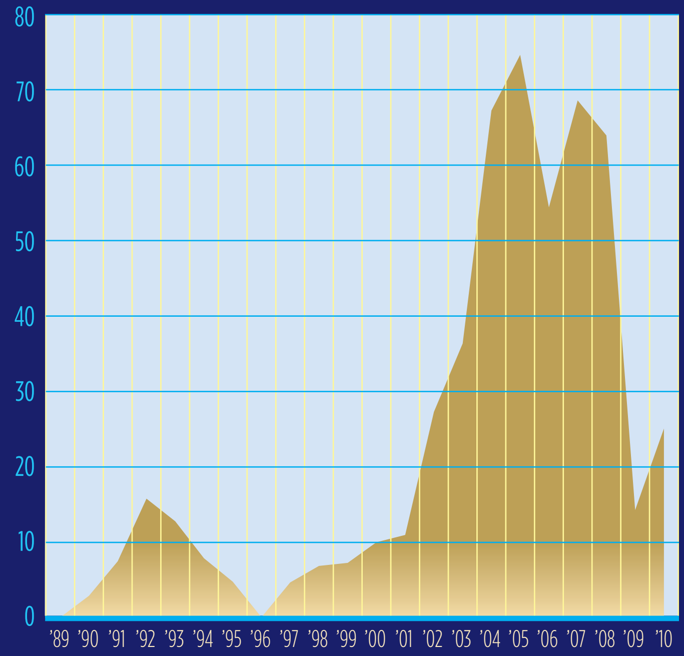
Table/Graph Revised 5/2013.



Total excess line taxes (based on a 3.6% rate) paid to the State on business placed through licensed excess line brokers.

PURCHASING GROUP ACTIVITY (IN MILLIONS)*

Table/Graph Revised 5/2013.



Beginning 1998, these statistics are on a risk attaching basis.

TOP 10 INSURERS*

	INSURER	NEW YORK PREMIUM	%
1.	Lexington Insurance Company	$ 330,735,836	16%
2.	Lloyd's Underwriters	$ 304,463,827	15%
3.	Steadfast Insurance Company	$ 244,995,118	12%
4.	Scottsdale Insurance Company	$ 82,974,089	4%
5.	Chartis Specialty Insurance Company	$ 80,526,369	4%
6.	Columbia Casualty Company	$ 52,103,419	3%
7.	Travelers Excess & Surplus Lines Company	$ 47,294,763	3%
8.	Indian Harbor Insurance Company	$ 41,202,563	2%
9.	Illinois Union Insurance Company	$ 40,525,486	2%
10.	Evanston Insurance Company	$ 36,385,469	2%
	SUBTOTAL	**$ 1,261,206,939**	**63%**
	All Others	$ 754,221,515	37%
	TOTAL	**$ 2,015,428,454**	**100%**

The top 10 insurers accounted for 62.6% of total premiums written in 2010, compared to 57.3% in 2009, 60.5% in 2008 and 61.7% in 2007.

**Figures are on a risk attaching basis.*

THOMAS J. DERELLA
Chairman

IN 2010, WE WITNESSED A HISTORICAL milestone in the modernization of excess line regulation when the "Nonadmitted and Reinsurance Reform Act" (NRRA) was signed into law as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (H.R. 4173).

The goal of the NRRA is to streamline the regulatory process with regard to excess line transactions by enabling insurers and brokers to more easily and efficiently comply with state excess and surplus line laws and regulations and provide insurance protection to consumers. The law was intended to accomplish this by giving sole regulatory authority over E&S transactions to the "HOME STATE of the insured."

Since its passage in July 2010, ELANY's legislative/regulatory efforts have focused on implementing the mandatory provisions of the NRRA, most of which become effective as of July 21, 2011, and by advocating for the enactment of SLIMPACT–LITE.

"Since its passage in July 2010, ELANY's legislative/regulatory efforts have focused on implementing the mandatory provisions of the NRRA…"

SLIMPACT-LITE is a legislative proposal to create an interstate compact among the states. It would create one uniform set of rules across all participating states for tax allocation and other uniform rules to modernize surplus lines compliance across state lines. SLIMPACT-LITE has the broad support of many industry groups and is also supported by the National Conference of Insurance Legislators (NCOIL), National Conference of State Legislators (NCSL) and Council of State Governments (CSG).

In late 2010, the National Association of Insurance Commissioners (NAIC) and state insurance departments developed an alternate to SLIMPACT-LITE known as the Nonadmittted Insurance Multi-State Agreement (NIMA). NIMA only addressed the tax allocation requirements of the NRRA. The industry largely opposes NIMA. ELANY will work to assure it obtains a reasonable implementation of the NRRA modernization provisions in 2011.

In 2010, ELANY continued to support other legislation and regulatory reform in New York State as well. At ELANY's request, a public hearing on expansion of the "Export List" was held in August, 2010. We await the New York State Insurance Department's final determination on this matter. Coverages that are included on the expanded export list eliminate the declination, or diligent search, compliance burden for our members.

ELANY also endorsed the promulgation of a 12th amendment to Regulation 41, which will officially increase the minimum surplus to policyholders that insurers need to maintain from $15 million to $45 million in order to remain eligible. The ultimate consumer protection for insureds and claimants is the expectation and security that an insurance company will have the financial wherewithal to pay claims as, and when, they become due. The 12th amendment seeks to secure that protection to insureds and claimants.

ELANY supported several other pieces of New York legislation in 2010. Modernization concepts included changing the diligent search/declination process to a three-year process versus the current annual declination requirement. ELANY has proposed that a materially higher premium quote from a licensed insurer (+25% or more) be treated as a de-facto declination as well. ELANY had also proposed creation of a class of "exempt commercial purchasers," which could elect excess line coverage without first searching the licensed market. The New York proposal was slightly different from the defined exemption contained in the NRRA.

ELANY continues to focus on common sense approaches to complex problems that will make for a more efficient E&S marketplace.

OPERATIONS & PROCEDURES COMMITTEE

JANET PANE
Chairman

BUSINESS INVESTMENT IS RUNNING at its slowest pace in any business cycle since the 1970s. This is largely due to poor and uncertain economic conditions. Despite this downturn, ELANY has undertaken operational improvements over the last few years to assist our members in this challenging economic environment, while making improvements to ELANY's own infrastructure.

ELANY began to see a steep rise in transaction volume following the September 11, 2001 tragedy. The volume of business and transactions in the E&S marketplace was also spurred by legislation to allow licensing of nonresidents as excess line brokers in New York State as of 2003. Over the last ten years, transaction volumes increased nearly 300%. This increase in volume made the development of ELANY's fully electronic filing system (EEFS) even more critical.

The initial objective was to improve the filing process and ease the burden for excess line brokers handling these transactions. However, the system created back office efficiencies for ELANY as well. Today, ELANY examiners are able to process an average of over 50 transactions per day, compared with 20 transactions per day under the paper system. This represents an operational efficiency increase of 250%.

During the third quarter of 2010, ELANY expanded the scope of the project and implemented a fully electronic Purchasing Group (PG) Module. By the end of December 2010, fully electronic filings increased as the first group of PG brokers were brought online. ELANY set a goal in 2010 to achieve 90% of all filings electronically. We are pleased to report that in February 2011, over 92% of all filings received by ELANY were processed electronically.

ELANY has dedicated some resources to mapping data transfer from member systems to the ELANY system with a few brokers having fully adopted this programmatic filing method. We hope to see more brokers convert to this process in the future.

The ELANY Helpdesk staff continues to work with the membership on a variety of projects. To date, they have signed up over 700 excess line brokers to EEFS and will continue to lobby additional brokers in order to register and train them on the benefits of our fully electronic processes.

The number of late filings by brokers continues to fall, and the system is a major contributing factor for these results. These improvements, implemented by ELANY, have been a tremendous success by any measure.

ELANY staff has also successfully conducted the annual Disaster Recovery procedures at its offsite location, which included testing remote access with its IT partner. The Disaster Recovery planning and testing goes a long way to ensure ELANY's business continuity and its ability to ensure service to all of its members under any circumstances.

Our ELANY associates are true professionals who deliver service excellence to the excess and surplus lines industry.

Information Resources and Security Committee

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assist excess line licensees with the performance of this duty. We will continue to request financial information from those insurers desiring to meet, or maintain, New York eligibility status and keep ELANY members informed of each insurer's financial condition.

ELANY continues to urge the New York State Insurance Department to promulgate the 12th Amendment to Regulation 41, which will increase the minimum policyholders' surplus, for eligibility purposes, to $45 million. We anticipate that this new requirement will become effective in the very near future.

ELANY's Information Resources and Security Committee continues to address the many changes and challenges that face the industry. We will continue to assist members in meeting the due diligence standard for selecting insurers with input from the New York State Insurance Department and the knowledgeable staff at ELANY.

GARY HOLLEDERER
Chairman

ELANY'S BOARD SPENDS CONSIDerable time and effort anticipating the market to properly fund its budget. With the conservative approach and prudent business management of the Executive Director and his staff, I am pleased to report the Association's financial condition remains healthy.

Providing a high level of service at a reasonable cost is a primary ELANY goal. While the expense of operating a stamping office is predictable, income is at the mercy of the market, which proves to be volatile at times. The elongated soft market and uncertainty in the economy have been a challenge for the past several years, and one that ELANY has effectively managed with the foresight of its fund balance.

At year end 2010, total revenues increased 19% from 2009. Stamping fee revenues increased by 16% from 2009 and were 12.5% higher than budgeted for 2010. The higher than anticipated stamping fee revenues are primarily attributable to brokers correcting suspense items or filing transactions from prior years. The New York State Insurance Department conducted audits, which created an impetus for brokers to correct filings or file old unfiled transactions. The reported premiums were 13.9% higher than at year end 2009.

Expenses at year end 2010 were within 2% of the budgeted costs and 5% lower than the previous year. It should be noted that the depreciation expense, largely associated with the amortization of ELANY's electronic filing system, has a major impact on expenses.

ELANY's net income for 2010 resulted in a deficit of $437,070, which was substantially lower than the deficit of $1,551,792 realized in 2009, and one that is easily managed through the fund balance in place.

The Audit and Finance Committee supports ELANY's conservative approach to achieve its goals and will enable the Association to continue to provide the highest level of service at a reasonable cost in the future.

The following briefly highlights 2010 financial results:

2010 REVENUES

Stamping Fees	$4,309,483
Investment & Miscellaneous Income	794,197
TOTAL	$5,103,680

2010 EXPENSES

Payroll	1,959,255
Depreciation	1,062,498
Computer Charges	375,687
Rent & Utilities	335,757
Professional Fees	363,245
Postage/Printing/Stationery	55,995
All Other	1,388,313
TOTAL	**$5,540,750**
FUND BALANCE	**$19,567,894**

The annual independent audit of the Association's books and records has been completed and copies are available at the ELANY offices for members to review.

ELANY

BOARD OF DIRECTORS

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John McParland, CPA
Independent Accountant
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