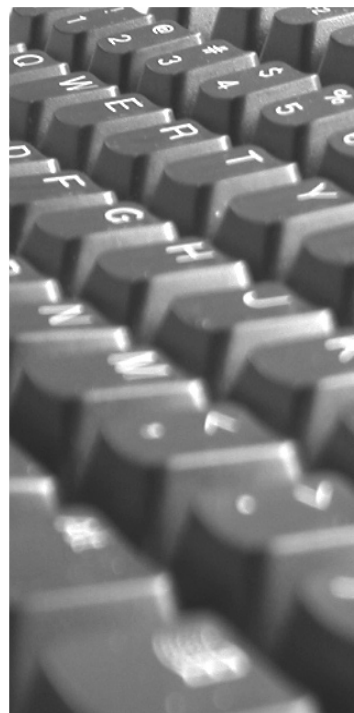
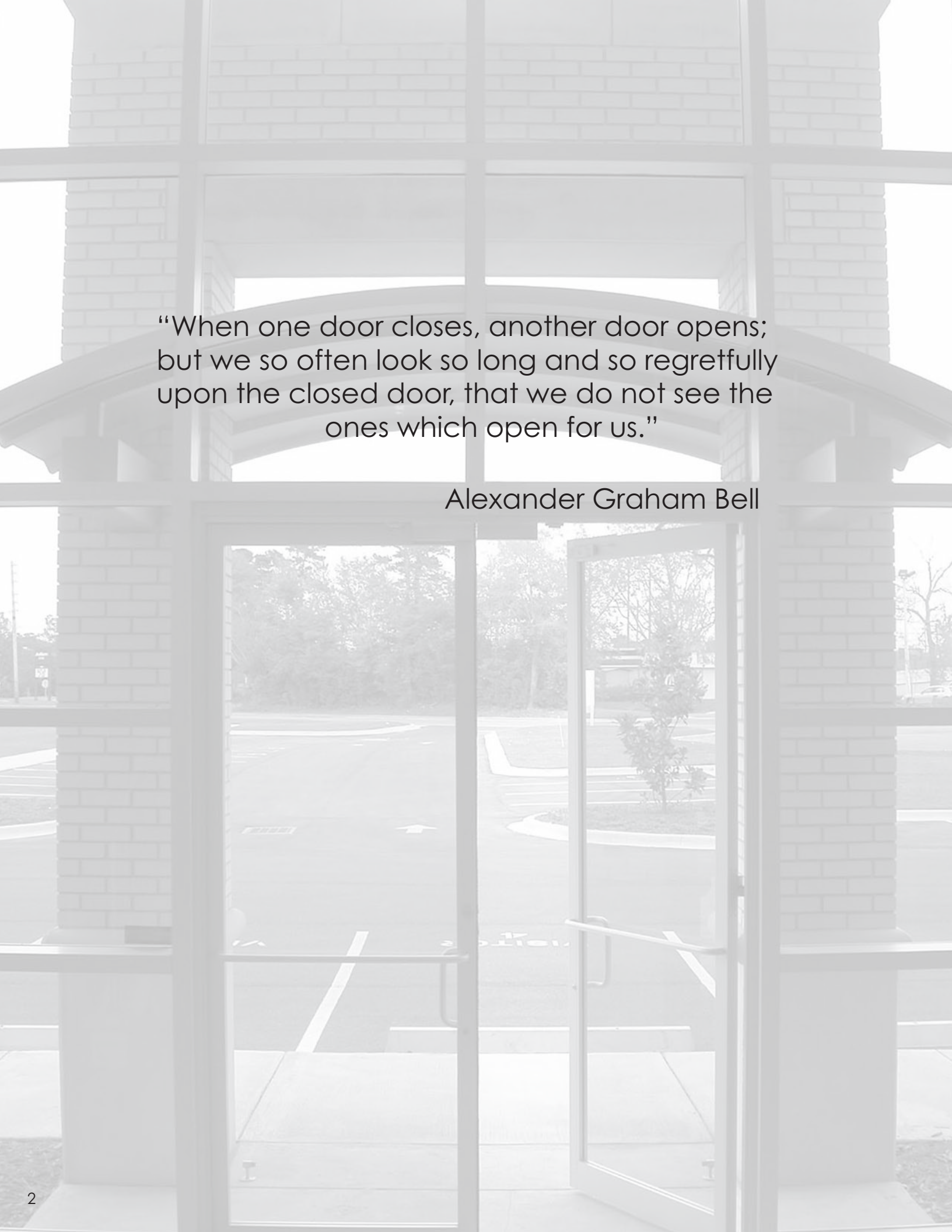


Florida Surplus Lines Service Office

Annual Report 2003





“When one door closes, another door opens;
but we so often look so long and so regretfully
upon the closed door, that we do not see the
ones which open for us.”

Alexander Graham Bell

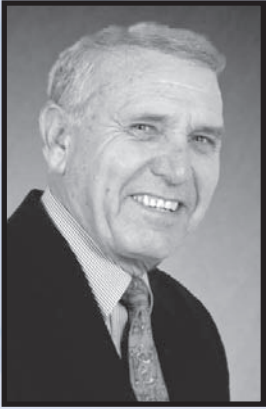
In Reflection of Dana Roehrig.
His dream became our reality.

Physicality and technology
affords our organization
with a foundation
for innovation,
efficiency,
protection,
assistance,
information,
and credibility.

It serves our Vision
in becoming
the definitive
resource
of Florida's
surplus lines
insurance marketplace.

Chairman's Message

Chairman's Message



We have experienced yet another landmark year for the Florida Surplus Lines Service Office (FSLSO) in 2003. With the office's relocation, the first of many foundation stones have been set into place for a year characterized by rebuilding and enhancing the services available to its customers.

As your new incoming FSLSO Chairman, I extend my sincere appreciation to our past Chairman, Mike Riordan, for guiding the Service Office during his tenure. Mike Riordan's leadership and commitment is commended not only for his support of the Service Office's many accomplishments throughout the year, but he is also one of the founding members who helped to establish the FSLSO.

Although housed in a new state-of-the-art facility, this year's accomplishments certainly transcend brick and mortar as the Service Office continued to concentrate on using information technology to enhance its products and services. A major accomplishment was the migration to a web-based system, internally improving its efficiencies and enabling staff to better serve their customers.

Taking technology, coupled with creative staff and you have the building blocks for innovative processes. As an industry, we are able to take full advantage of the Service Office's services, such as the availability of electronic invoicing that accompanies the Monthly Transaction Reports. Their resourcefulness is saving member agents' operations both time and money while increasing the level of customer satisfaction.

My sincere gratitude is extended to Gary Pullen, FSLSO's Executive Director, and the staff at FSLSO for their continued efforts to enhance efficiencies and effectiveness for their customers.

Please take the time to review our 2003 Annual Report, as I am sure you will appreciate the complexity of numerous activities that were not left to chance. With a three-year strategic plan, their blueprint for productivity and benchmarking, there is no room for chance. Input and feedback from industry members are incorporated into their planning process in order to meet the needs of the marketplace.

I also recognize the continuous efforts of the entire FSLSO Board of Governors for their participation and support of the Service Office, as they provide their time to focus on significant issues affecting the surplus lines industry. Their contributions mirror the spirit of this organization.

As a long-time member of the Board, I look forward to working another year with the FSLSO and our valued industry members. As mentioned by my predecessors, our goal is to ensure that our industry remains stable and productive, and I thank you for the opportunity and privilege to serve as your 2004 Chairman.

Sincerely,

A handwritten signature in black ink that reads "Larry B. Stowe". The signature is written in a cursive, flowing style.

Larry B. Stowe
Chairman

Director's Message

Director's Message

One of the many factors that drives our operation is change. Whether internal or external, these changing factors are managed in part through the interaction with our customers, one of the keystones to building a successful year.

Another key element in our success is the guidance provided by our Board of Governors. We welcome our new Chairman, Larry Stowe, a board member since the establishment of the Florida Surplus Lines Service Office (FSLSO) in 1998, and whose accomplishments and experiences within the insurance industry add value to our operation. We look forward to working with him. I extend our warmest regards to Mike Riordan for his leadership during his tenure as our 2003 Chairman. His trusted judgement will remain a valuable resource as he continues to serve as a member of the Board.



One of the most notable issues impacting our industry happened late in the year, with a federal court's rulings concerning Florida's procedures relative to nonresident surplus lines agents. The ensuing actions by the Service Office, as a result of input from the FSLSO Board of Governors, called for the framework to provide appropriate needs of consumer protection and regulatory oversight. The Department of Financial Services and the Office of Insurance Regulation heeded our response that resulted in legislative initiatives to respond to the U.S. District Court's rulings.

I commend our staff for developing innovative solutions that met our customers' ever increasing demands for efficiency and effectiveness. Independent evaluations were a major part of our self-evaluation and essential for our annual strategic planning process. The staff worked to improve real time access to reports and information which facilitated internal enhancements to better serve our customers. The Service Office broke new ground in its use of online opportunities with the addition of online educational services now available to the insurance industry at-large. This direction of educational opportunity not only provides accessibility to a larger audience, but promotes a more credible surplus lines marketplace.

Our relocation effort was seamless and the much anticipated Open House provided the setting for our members and regulators to visit with one another at our new state-of-the-art facility that provides staff the where-with-all to offer our services.

We continually strive to meet the challenges that present themselves. In 2004, we are already working to integrate nonresident surplus lines agents into the fold. Only through the interaction with our member agents, industry members, regulators and consumers will we be able to move forward together for another successful year.

Sincerely,

A handwritten signature in black ink that reads "Gary D. Pullen".

Gary D. Pullen
Executive Director

Board

Board of Governors

Larry B. Stowe

Chairman — 2004

Elliott, McKiever & Stowe, Inc.
Coral Gables

Edward J. Wojchick

Vice Chairman — 2004

Franzese & Associates
Orlando

Kevin C. Schuck

Secretary/Treasurer — 2004

Agency Marketing Services, Inc.
St. Petersburg

Michael J. Riordan

Hull & Company
St. Petersburg
(Chairman — 2003)

Ronald Gabor

Gabor Insurance Services, Inc.
Miami

Daniel C. O'Leary III

Shelly, Middlebrooks & O'Leary, Inc.
Jacksonville

David Holcombe

International Speedway Corp.
Daytona

Tom Enright

Enright & Wilson, Inc.
Hollywood

Elsie B. Crowell

Florida's Insurance Consumer Advocate (2003)
Florida Department of Financial Services
Tallahassee

Staff

FSLSO Staff

Gary Pullen

Executive Director

Carolyn Daniels

Assistant Director, Agent & Insurer Relations

Sean Fisher

Assistant Director, Outreach & Education

Mark Shealy

Chief Financial Officer/Chief Information Officer

Georgie Barrett

Executive Assistant

Kristen Bertagnolli

Compliance Review Administrator

Jim Day

Database/Network Administrator

Ashlee Broome

Public Information Specialist

Cathy Durrance

Variance Analyst

James Farmer

Senior Information Architect

Lisa French

Insurance Analyst

Jason Haynie

Accounting Systems Specialist

Teri Littlefield

Senior Variance Analyst

Tiffany Maruniak

IPC Collections Coordinator

Felicia Meredith

Review Analyst

Matt Wester

Senior Insurance Analyst

Mathu Spires

Information Systems Support/Developer

Mission

Mission

The Florida Surplus Lines Service Office will protect consumers and state revenues by facilitating industry compliance and serving as a source of information and advice concerning the surplus lines insurance marketplace in the state of Florida.

Goals

Goals

- ◆ Protect consumers seeking insurance in this state.
- ◆ Permit surplus lines insurance to be placed with approved surplus lines insurers.
- ◆ Maintain a self-regulating organization that will promote and permit orderly access to surplus lines insurance in Florida.
- ◆ Enhance the number and types of insurance products available to consumers in Florida.
- ◆ Provide a source of advice and counsel for the benefit of consumers, surplus lines agents, insurers and government agencies, concerning the operation of the surplus lines insurance market.
- ◆ Protect the revenues of the state.



Assistance

Assistance

The Service Office staff takes great pride in what they do because they know that **quality support** is the very foundation of every customer service program. It is the knowledge that every customer is unique. It is the assurance that any question can be answered. It is the drive to deliver **quick** and quality **service** to everyone.

In order to guarantee that each customer would receive the kind of **care** and service that they needed, the Service Office employed a number of interactive tools including new software, enhancements to its existing systems, email, internet, telecommunications, and face-to-face. The interlinking of various technologies and conventional methods of communication framed a year of success attributed to the assistance the Service Office provided.

Through a continued relationship with Infinity Software Development, Inc., one of the Service Office's internal enhancements included the migration of its traditional client-server management system to a web-based application called RAPID. RAPID, which stands for Regulatory Administrative Platform of Insurance Data, allowed for the Service Office to provide faster response times with a system that has continued to keep the Service Office at the **forefront** of enhanced technologies.

The Service Office also continued its performance of providing **accessible** financial **solutions**



Florida was the first state to implement electronic collection of policy data from surplus lines agents, surplus lines insurers and IPC filers.

for its customers by combining the speed and ease of internet use with its billing format in order to offer electronic invoicing for both monthly and quarterly invoices and their corresponding transaction reports. This service was created to cut back on the staff time and cost of making copies and mailing documents and the reduction of paper use and postage fees for member agents. Agents would then be able to reconcile any issues at a much faster and easier rate than as before with a **reduced cost**. Electronic invoicing was provided through email and was made available upon request.

In 2003, the staff reduced the number of Transactions in Question (TIQ) in FLSO's management system by working with the agent contacts. Thanks to the concerted efforts of the FLSO assistance team, the 2003 TIQ files reached their lowest level since October 1998.

The Service Office also welcomed 57 new surplus lines agents, who obtained their 1-20 license, with a "New Surplus Lines Agent" packet. Each packet includes all of the necessary information needed to get each agent well on their way to **achieving success** within the industry.

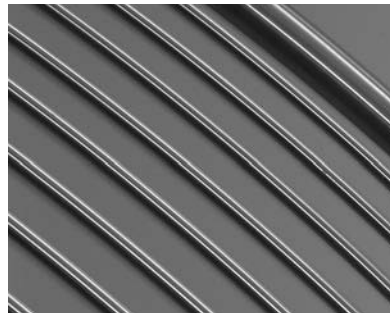
All surplus lines insurers who seek eligibility to market their products in Florida must submit their applications through the Service Office. During 2003, eight surplus lines insurers sought to provide a variety of coverages in Florida's marketplace. By year's end, the Service Office completed the

review of seven insurer's applications which were forwarded to the Department of Financial Services/ Office of Insurance Regulation (DFS/OIR) with a letter requesting eligibility. The eighth application was submitted in early 2004. As of December 31, 2003, four applications that had been processed in 2002, as well as, three applications in 2003 had been approved by DFS/OIR.

The **desire** to fulfill the needs of our customers and the **dedication** to assist them into technologies that are paving the way for a new marketplace are just two of the reasons behind the success of the FLSO. Staff's **commitment** to putting the customer first provides for one of the many benchmarks of FLSO achievements and the continued success of the marketplace. ♦

Education

During the 2003 year, the education section of the Service Office made a concerted effort to merge customers' needs of **accessibility** with a comprehensive learning program. With a focus of **mobility**, the Service Office invested its efforts into available online technologies to fuse its traditional classroom styles with new age methodology. Welcome to the new digital classroom, where learning is done completely online.



FLSO has 17 employees with more than 195 combined years of insurance experience.



Of the forty eight participants that accessed the COAST program in 2003, twenty-seven received their certificates.



Online learning provides our customers with the accessibility to different mediums while **saving time and money**. The creation of the Certification Online Agent Software Tutorial (COAST) Program and the Agent Software Tutorial in 2001 laid the basic groundwork for a new type of educational learning style; one in which the learner could study in a self-motivated environment, at their own pace and at their **convenience**. Through a continued partnership with Learn something.com, Inc., an online educational training and development company, the Service Office launched the first completely online 60-Hour Surplus Lines Pre-Licensing Qualification Course in the state of Florida.

The Pre-Licensing Course was designed to satisfy the educational requirements necessary for an agent to sit for the state's 1-20 surplus lines insurance license examination. The course coupled the use of technology and online capabilities in an effort to provide learners the opportunity to take course work from any location and at any time.

Students were given 90 days to complete all modules of the course material, as well as, the required final exam. The online exam consisted of 75 questions in a multiple-choice format and students were given two opportunities to successfully pass.

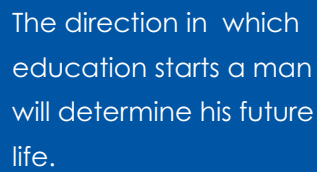
Soon after the release of the Pre-Licensing course, the Service Office began construction of its first online continuing education course entitled "Surplus Lines Insurance Rules and Regulations." Rules and Regulations was approved for three

hours of property and casualty credit to be taught through self-study in an online capacity. The Rules and Regulations course material included an overview of the FLSLO and its services; surplus lines filing procedures; a breakdown of common submission errors; a declaration page activity; the Rules of Practice applicable to the Florida Surplus Lines Law; and a listing of applicable Florida Statutes.

The COAST program also received some basic resurfacing improvements with the inclusion of material taught through multiple sessions. Prior to its improvements in the second quarter, COAST participants were required to complete all online training in one sitting. In response to customer suggestions, COAST was revamped and released as a new version that gave learners the ability to bookmark their sessions with up to two weeks to complete the program. Twenty-seven participants completed the COAST program in 2003, earning their certificate of completion and continuing education coupon.

And while online technologies became a central focus of **improvement** for the FLSLO education section, the role of traditional classroom teaching was not forgotten. In an effort to serve a wide variety of audiences — those with online capabilities and those without — the FLSLO included three continuing education courses taught at various classroom locations around the state to more than 250 participants.

"A Review of Insurance Fraud Affecting the Marketplace and Florida's Surplus Lines Service Office" and "Navigating Commercial Marine



The direction in which education starts a man will determine his future life.

Plato

Liabilities and Florida's Surplus Lines Service Office" were each approved for four hours of property and casualty credit. The Service Office staff was combined with the expertise of educational speakers, Tom Abell and Ian Greenway, and taught at six different engagements throughout the year to participants that included regulators, surplus lines agents, and general lines agents. A two-hour course entitled "The Impact of Terrorism on the Insurance Industry" was also approved and taught at two industry trade shows that included the Latin American Association of Insurance Agents (LAAIA) and the Florida Association of Insurance Agents (FAIA).

The FLSO also provided speakers to participate within the classrooms of other organizations including the Insurance Professionals of Greater Orlando and Gainesville, Andy Beverly Insurance School and Hilda Tucker Insurance School. The raw **support** of FLSO's Speakers' Bureau came from the talents of its presenters which included FLSO Board Members Ed Wojchick and Dan O'Leary, staff members Carolyn Daniels and Matt Wester and member agent Steve Finver.

The Service Office could not have provided the high quality of customer-based services without the solid support it received from its Board of Governors, member agents and regulators. Through their cooperation, collaboration, and encouragement, the Service Office opened many doorways into a new and exciting dimension of **educational excellence.** ♦

Information Information

In today's world, it pays to be **fast**. Providing informational resources in a timely and cost **efficient** manner is one of the major cornerstones within FLSO's organizational framework. And in an age where so many processes are becoming digital, mobile and virtual, the Service Office maintains its role as a paperless office by delivering quality information to the customer's fingertips. Advancements in online technology have created a solid foundation for **creative solutions** that resolve time and budgetary constraints.

Building a successful information technology system begins with a useful and **responsive** website that utilizes the needs and demands of our customers. The FLSO website serves as a conduit to a variety of informational resources including online data reports, exportable submission file formats, Florida Statutes, news releases, manuals, forms, and online-accessible FLSO publications.

The FLSO website also hosts a variety of practical tools that merge a large amount of diversified information into a more manageable format that saves our customers time and money. The Florida Eligible Surplus Lines Insurer Financial data and the Market Data Reports are just two examples of FLSO's approach to **research-made-easy**. The Insurer Financial data provides annual financial and basic company information for all eligible surplus lines insurers approved to transact business. These reports also give an overview of an individual insurer's financial stability and their **progress** within the industry along with their current website address to further conclude any researchable needs.

Alongside the Insurer Financial data, customers will find a second compilation of industry information called the Market Data Reports. The Market Data Reports provide a channel to an assortment of aggregated data reports based on the data

You must be the change





The FLSO
newsletter is
called *The Advisor*.

submissions provided by surplus lines agents, Independently Procured Coverage (IPC) filers and surplus lines insurers. These reports are consistently maintained and updated on a monthly basis. Changes for the 2003 year included updates on all new coverage codes. **Improvements** to the Market Data Reports are generally made based on customer needs and feedback.

Online resources also allow for the Service Office to distribute **valuable** information in a timelier manner through its electronic news bulletin called eNews. The information technology staff transmitted 20 eNews bulletins during 2003 relaying items of interest to subscribers including legislative updates, continuing education opportunities, and billing information.

And while the Service Office does pride itself on its use of online capabilities to distribute information efficiently and effectively, it also produces several paper publications available

for its customers. *The Advisor*, FLSO's newsletter, provides **up-to-date** information on a quarterly basis to interested subscribers. It serves as an informational and educational pipeline to members to keep them abreast of current issues affecting the industry. Key points in the quarterly distributions of *The Advisor* noted market trends, agent and insurer filing requirements, agent responsibilities when transferring business, Board member and staff profiles, and updates to the eligible insurers for the state of Florida.

The Service Office has built a solid reputation as the **definitive source** for information relative to the surplus lines insurance marketplace in the state of Florida. Understanding customer needs and providing concrete solutions has become a firm part of FLSO's framework for building better **customer service.** ♦

you wish to see in the world.

Mahatma Gandhi



Marketplace

Marketplace Monitoring

The blueprint of success for all types of organizations derives from the basic principles of **credibility**, **integrity**, and **virtue**. As a self-regulating entity, the Service Office takes great strides in maintaining that relationship with each and every one of its customers. This sort of relationship is upheld through the utilization of several innovative processes that work together to evaluate and improve compliance.

To ensure **fairness** and conformity with the law, the Service Office employs two separate programs that monitor and evaluate data submissions in order to maintain the credibility of the surplus lines marketplace. The Variance Program and the Compliance Review Program were created to provide a foreman's eye over the ups and downs of business on an individual basis.

The variance staff looks for discrepancies that may suggest unreported transactions by comparing the data being submitted by surplus lines agents and independently procured coverage filers (IPC) with the data submitted by surplus lines insurers. They then begin various methods of **research** in order to determine the party responsible to file the transactions in order to assess the applicable fees, taxes, and possible penalties. Over the course of the 2003 year, the variance staff collected on a total of 137 policies which represented more than \$55.1 million in unreported premium and \$3.1 million in taxes, fees and penalties. The majority of these policies were the responsibility of IPC filers.

A second means of tracking industry business is through the agent compliance review program. The **compliance** review program compares a sampling of the surplus lines agents' policy information to the transaction data submitted to the Service Office. The compliance review program facilitates more than just compliance within the industry, but also provides a method of educational assistance to enhance the quality of service provided in the marketplace. There were 250 agents reviewed during the year. The compliance review program collected on a total 279 policies from 11 different agents, which represented more than \$11.5 million in unfiled premium.

Although the primary goal of FLSO's compliance review program is to **educate**, agents may be referred to the Department of Financial Services (DFS) should they be found in gross non-compliance. Multi-violations that may result in a referral to DFS may include: improper appointment, no bond in place, inappropriate handling of risk placements, charging inappropriate fees, unreported policies, inaccurate Quarterly Report Affidavits, aiding and abetting ineligible unauthorized insurers, insufficient tax and service fees charged, and no documentation of diligent effort to place coverage in the surplus lines marketplace. Only three agents were referred to DFS for multi-violations.



In 2003, the Service Office processed 818,667 policies.

As reliable and credible information is crucial to our industry's **reputation**, the Service Office has meticulously taken steps to ensure compliance with the laws and rules governing the surplus lines marketplace in Florida. The Service Office began enforcing penalty fees allowable by law to those agents that were not in compliance relative to their submission. Effective January 1, 2003, the Service Office began enforcing the late filing penalty procedure. Agents who filed 50 percent of their transactions 90 days past due were assessed. During the 2003 year, 62 violations of the filing procedure were found.

Above and beyond their roles as monitors and educators, the Service Office carries out their responsibilities with the highest degree of transparency and **accountability**. Through its marketplace monitoring programs, the Service Office is constantly investing in the long term growth and competitiveness of its members and their compliance with industry standards in order to create an **open** and **honest marketplace**. ♦



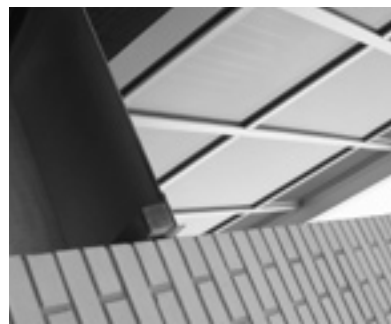


Representation **Representation**

Since its inception in 1998, the Service Office has laid the groundwork for a working relationship between its staff and its customers. The Service Office has and will continue to serve as a source of **advice** and information for its industry members, member agents and state government by exercising its facet of representation in industry trade shows, conferences, and government correspondence.

The FLSLO staff participated in several industry trade shows during the course of 2003 in an effort to provide and promote materials that remained pertinent to the marketplace. A sampling of trade shows included the Latin American Association of Insurance Agents (LAAIA), the Florida Surplus Lines Association (FSLA), the National Association of Insurance Women (NAIW), and the Florida Association of Insurance Agents (FAIA).

In conjunction with trade shows, the Service Office also attended several industry conferences and roundtable discussions in an effort to stay abreast with the latest developments in the surplus lines marketplace on both state and national levels. These conferences allowed for staff to maintain a constant foundation of **counsel** for industry members and member agents. Several staff members attended conferences over the course of the year including the National Association of Professional Surplus Lines Offices (NAPSLO), American Association of Managing General Agents



(AAMGA) and the National Association of Insurance Commissioners (NAIC). The topics covered during the conferences included electronic signatures, e-business, business continuity and disaster recovery plans, big business remote access, information technology budgeting, software licensing trends and a thorough roundtable discussion. The conferences provided FLSO staff with the opportunity to gauge process and progress within these different segments of the surplus lines industry.

FLSO's **reputation** as a paperless stamping office also attracted members of other state agencies. The Alabama Department of Insurance sent a delegation team to the Service Office to discuss its management system and agent software as a viable alternative to their current processing system. The delegation was given a full tour and explanation of the FLSO facility and process.

FLSO's representation of the industry and its members at conferences and conventions does not solely complete its services as a speaker for Florida's surplus lines marketplace. The Service Office also stands as a representative for industry members with state government, including the Florida Department of Financial Services (DFS) and Office of Insurance Regulation (OIR).

On September 30, the U.S. District Court ruled Florida's countersignature law as unconstitutional.

The DFS and OIR sought a Motion For Relief From Judgment, a temporary grant of stay from the U.S. Districts Court's ruling relative to the licensure of nonresident surplus lines insurance agents. An agreement was entered October 30th, delaying this portion of the Judgment until July 1, 2004.

Florida's Chief Financial Officer, Tom Gallagher, responded to a letter of recommendation by Gary Pullen regarding the U.S. District Court's ruling.

FLSO's letter of recommendation, which included input from FLSO's Board of Governors, raised concerns citing that the state's revenues and consumers must be protected and that nonresident surplus lines agents should not be less qualified than resident surplus lines agents. Gallagher noted that legislation will be required, and these issues would be addressed in the 2004 regular session.

Finally, the Service Office hosted an Open House, showcasing its new facilities to regulators, member agents and industry related members. The Open House provided a means for the Service Office to present its new found headquarters and the capabilities of its services — services that are an integral part of building a **powerful platform** for managing industry change. ◆



Florida ranks third nationally in the volume of total surplus lines premium reported.






Underpromise;
Over deliver.

Tom Peters

Finance

The 2003 year represented another building block in a solid financial foundation. This was reiterated within the satisfactory audit opinion received on the FLSO's financial statements for the fiscal years ended December 31, 2003 and December 31, 2002. Prudent budgeting and spending coupled with a continued upturn of premium in the surplus lines marketplace are definite reasons for this success.

In 2003, the Service Office reported an increase in premium of more than \$543 million. While availability remained to be an issue in both the admitted and non-admitted markets, surplus lines insurers commanded a higher premium to meet market demands. Riding this hard market for



several years, Florida experienced premium growths of 24.8% in 2003 and 57.3% in 2002, over their previous years. The Service Office billed on the premium subject to taxes and fees, as submitted by agents and IPC filers, in the amounts of \$120,387,187 and \$7,443,605 respectively. These billed amounts represent a \$27,594,074 increase in surplus lines taxes to the state of Florida and an increase of \$1,535,078 to the Service Office.

During the year ending December 31, 2003, the Service Office generated \$7,474,454 in revenues, an increase of \$1,525,177 from the previous year. With respect to the operating expenses, the Service Office spent \$2,519,353 during the year ending December 31, 2003, an increase of \$87,385 from year 2002.

Revenues and expenditures created an increase in total net assets to \$11,718,087 from \$6,784,386

Tidbits

- ◆ In 2003, there were 145 eligible insurers in Florida: 31 alien and 114 foreign insurers. Six insurers were removed from the eligibility list by consent order and seven surplus lines insurers added.
- ◆ Has 657 licensed member agents and 464 submitting agents. Of the 464 submitting agents, 140 made error-free submissions via the Agent Software Program.
- ◆ There were 57 newly licensed surplus lines agents and FLSO members in 2003.
- ◆ Total reported premium by member agents: \$ 2,310,033,331.
- ◆ Total reported taxes by member agents: \$ 103,133,304.
- ◆ Permanent office location in Tallahassee, FL.
- ◆ 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.flsso.com.
- ◆ Offered eight continuing education classes in the state with more than 250 attendees participating.
- ◆ Website Features:
 - ❖ 74,648 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 Software Tutorial



Small opportunities
are often the
beginning of
great enterprise.

Demosthenes

representing an increase in of \$4,933,701 over the prior year. The general upturn in the surplus lines industry during the prior fiscal year resulted in a significant positive increase to the operating revenues and net assets of the Service Office.

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSO management. The Statement of Financial Position is in conformity with generally accepted accounting principles (GAAP) used in the United States. The Service Office 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. ◆

- ◆ Variance analysis:
 - ❖ 2003: Collected on 137 policies with more than \$55.1 million in unreported premium and more than \$3.1 million in taxes, fees and penalties.
 - ❖ 2002: Collected on 20 policies with more than \$8.1 million in unreported premium and more than \$400,000 in taxes, fees and penalties.
 - ❖ 2001: Collected on 13 policies with more than \$4.5 million in unreported premium and more than \$200,000 in taxes, fees and penalties.
- ◆ IPC Data:
 - ❖ Total reported premium: \$417,130,942
 - ❖ Total reported taxes: \$20,856,547
 - ❖ Total number of policies processed: 7,530

Financial Statements as of December 31, 2003

Statement of Net Assets

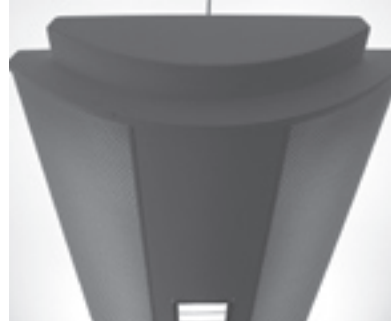
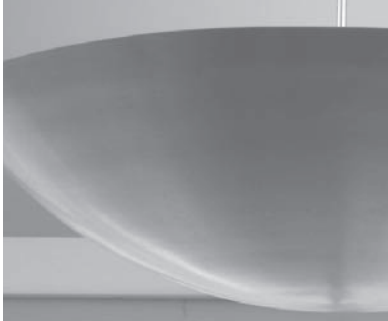
Assets	
Current assets:	
Cash and cash equivalents	\$6,909,831
Accounts receivable	92,731
Total current assets	7,002,562
Property and equipment, net	4,896,033
Deposits	11,810
Total assets	11,910,405
Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	189,064
Amounts held for the account of others	3,254
Total current liabilities	192,318
Net assets:	
Invested in capital assets, net of related debt	4,896,033
Unrestricted	6,822,054
Total net assets	11,718,087
Total liabilities and net assets	11,910,405

Statement of Revenues, Expenses, and Changes in Net Assets

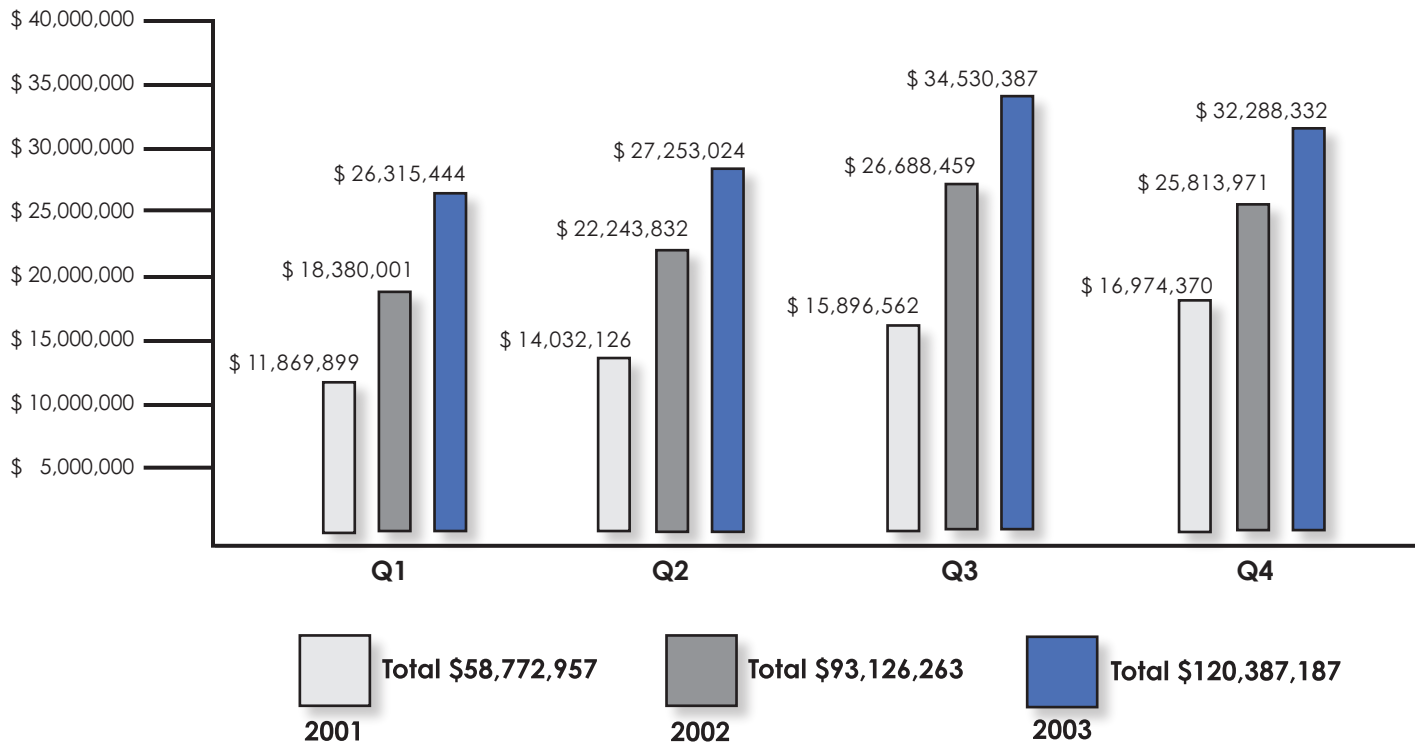
Operating revenues:	
Charges for services	\$7,434,001
Interest and finance charges on service fees	40,453
Total operating revenues	7,474,454
Operating expenses:	
Administration and support	981,524
Education and outreach	625,863
Agent and insurer relations	682,530
Depreciation and amortization	229,436
Total operating expenses	2,519,353
Operating income	4,955,101
Nonoperating (expenses) revenues:	
Investment interest	10,155
Loss on sale of assets	(52,507)
Rental income	20,952
Total nonoperating (expenses) revenues	21,400
Increase in net assets	4,933,701
Net assets at beginning of year	6,784,386
Net assets at end of year	11,718,087

Statement of Cash Flows

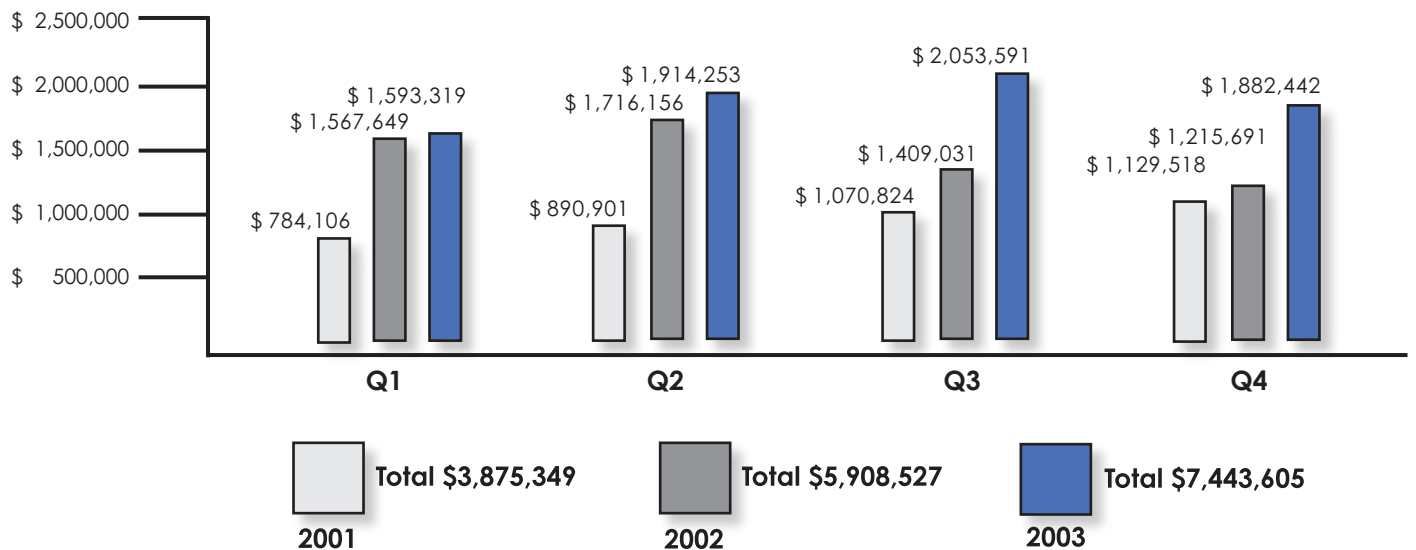
Financing activities	
Purchase of property and equipment	(2,548,131)
Proceeds from sale of land	787,947
Borrowings on note payable	1,442,324
Principal paid on note payable	(2,352,523)
Interest paid on note payable	(18,403)
Other receipts (payments)	20,952
Net cash used in capital and related financing activities	2,667,834
Investing activities	
Interest income	10,155
Net cash provided by investing activities	10,155
Operating activities	
Operating income	4,955,101
Adjustments to reconcile operating income to	
Net cash provided by operating activities:	
Depreciation and amortization	229,435
Changes in operating assets and liabilities:	
Accounts receivable	(3,641)
Prepaid expenses	17,381
Deposits	(2,585)
Accounts payable and accrued expenses	(98,647)
Construction costs payable	(290,264)
Amounts held for the account of others	(276,998)
Net cash provided by operating activities	4,529,782
Net increase in cash and cash equivalents	1,872,103
Cash and cash equivalents at beginning of year	5,037,728
Cash and cash equivalents at end of year	6,909,831



2001 – 2003 Generated Taxes



2001 – 2003 Generated Fees





Top 25 Insurers by Premium Reported

INSURER

PREMIUM

Lloyd's Underwriters At London	\$435,538,663
Lexington Insurance Company	\$334,046,656
Scottsdale Insurance Company	\$119,898,299
Royal Surplus Lines Insurance Company	\$79,917,846
Westchester Surplus Lines Insurance Company	\$73,930,997
Evanston Insurance Company	\$72,043,436
Essex Insurance Company	\$70,237,952
USF&G Specialty Insurance Company	\$70,000,399
Empire Indemnity Insurance Company	\$67,837,420
American International Specialty Lines Insurance Company	\$64,031,855
Columbia Casualty Company	\$55,449,077
Steadfast Insurance Company	\$50,836,886
Axis Surplus Insurance Company F/K/A Sheffield Insurance Company	\$50,158,293
Arch Specialty Insurance Company	\$49,618,671
Landmark American Insurance Company	\$48,059,643
United National Insurance Company	\$47,084,942
Colony Insurance Company	\$46,796,644
Mt. Hawley Insurance Company	\$40,033,525
The Burlington Insurance Company	\$39,749,375
First Specialty Insurance Company	\$38,487,777
Pacific Insurance Company, Limited	\$37,535,220
General Star Indemnity Company	\$37,242,314
Century Surety Company	\$32,979,450
Illinois Union Insurance Company	\$25,971,361
Admiral Insurance Company	\$25,857,307

TOTAL

\$2,013,344,008

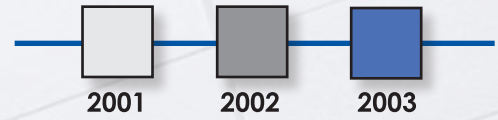
The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of policy transaction submitted. All other policy premium amounted to \$713,820,265. This information was current as of 5/1/2004. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

Top 25 Coverages by Premium Reported

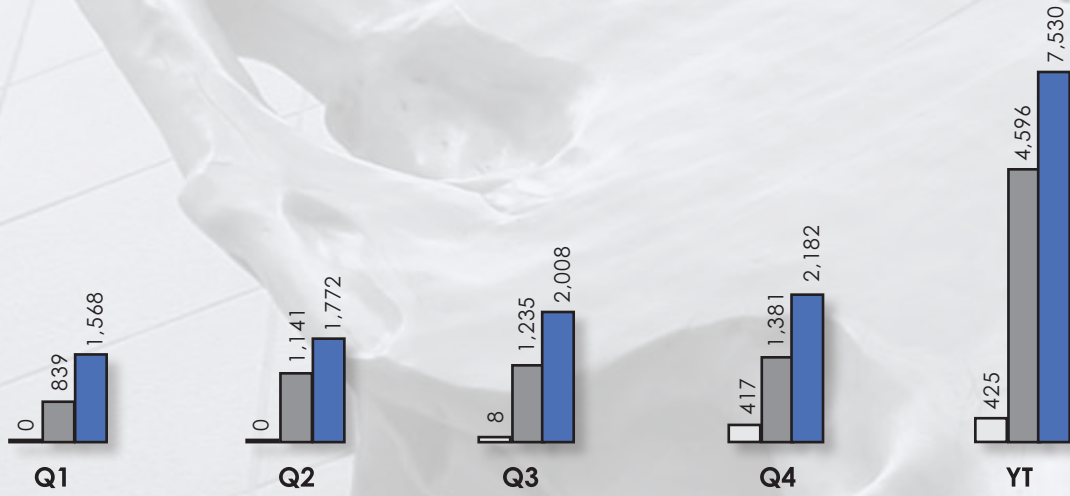
COVERAGE CODE	PREMIUM
1000 - Commercial Property	\$889,022,659
5000 - Commercial General Liability	\$506,286,449
1005 - Commercial Package (Property & Casualty)	\$187,324,566
2002 - Homeowners-HO-3	\$137,565,589
5001 - Commercial Umbrella Liability	\$106,482,043
7003 - Miscellaneous E&O Liability	\$54,178,406
5006 - Excess Commercial General Liability (Not Umbrella)	\$47,018,044
6001 - Miscellaneous Medical Professionals	\$44,656,801
6000 - Hospital Professional Liability	\$35,451,575
6003 - Physician/Surgeon	\$34,534,865
5002 - Directors & Officers Liability (Profit)	\$33,737,540
1013 - Windstorm &/Or Hail	\$31,678,008
1001 - Builders Risk	\$30,006,641
2009 - Dwelling Property	\$24,879,826
5012 - Pollution & Environment Liability	\$23,576,989
8002 - Commercial Auto Physical Damage	\$22,241,775
4001 - Inland Marine (Personal)	\$21,535,559
1204 - Workers Compensation-Excess Only	\$20,584,060
4000 - Inland Marine (Commercial)	\$18,722,382
5005 - Employment Practices Liability	\$16,180,088
1010 - Flood	\$15,924,812
7000 - Architects & Engineers Liability	\$15,361,922
6002 - Nursing Home Professional Liability	\$14,835,483
2005 - Condo Unit-Owners HO-6	\$14,832,896
2008 - Dwelling Flood	\$14,479,198
TOTAL	\$2,361,098,176

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of policy transaction submitted. All other policy premium amounted to \$366,066,097. This information was current as of 5/1/2004. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

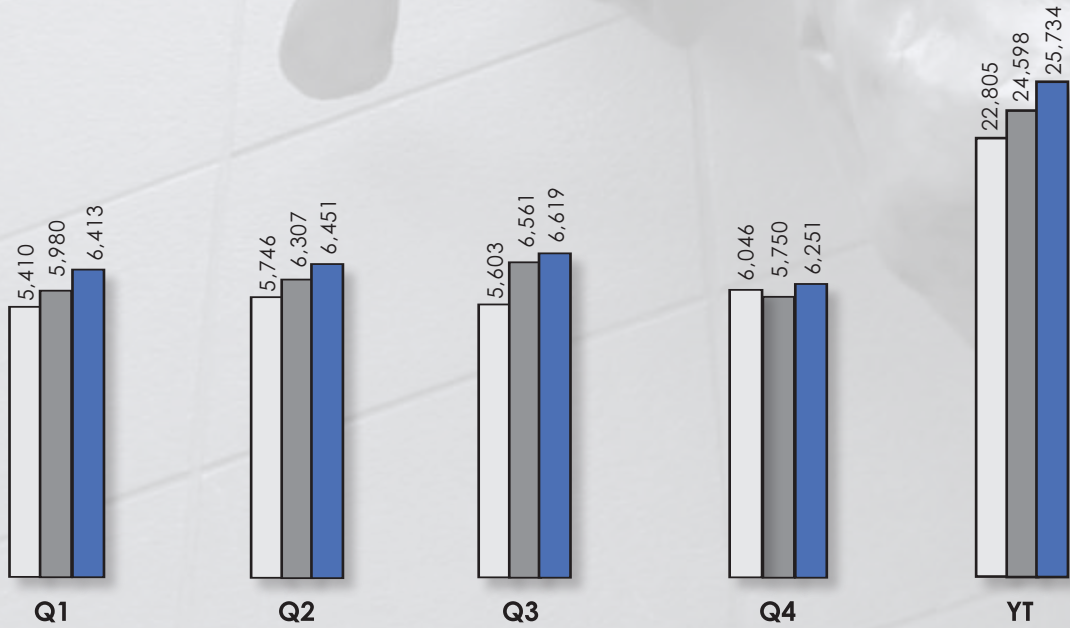
IPC, Internet & Diskette Submissions



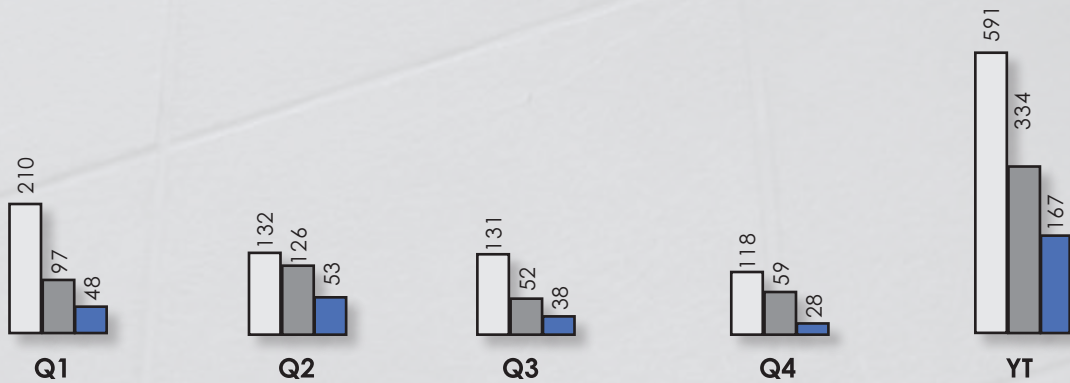
IPC Submissions



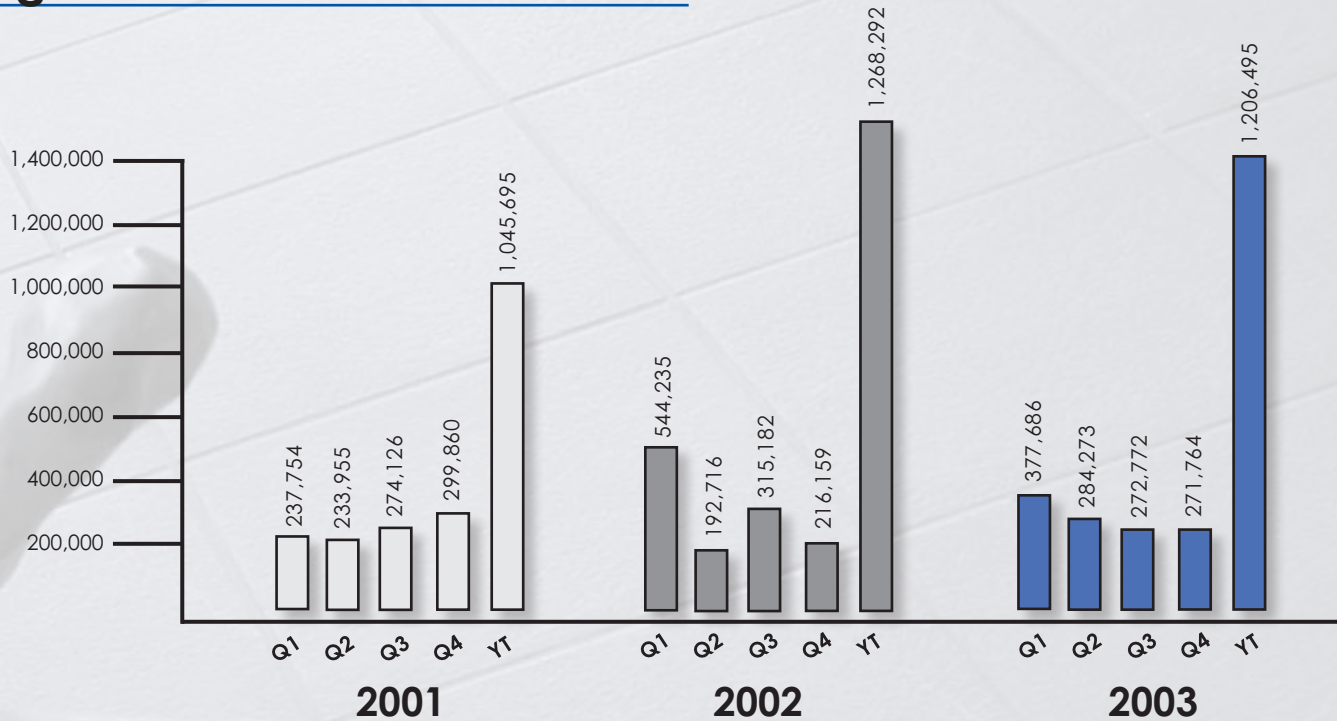
Internet Submissions



Diskette Submissions



Agent Transaction Submissions



Premium Comparisons

	Agent Premium	IPC Premium	Total Premium	
2001	Q1	\$ 294,313,899	\$ *	\$ 294,313,899
	Q2	\$ 352,450,348	\$ *	\$ 352,450,348
	Q3	\$ 334,236,146	\$ 810,632	\$ 335,046,778
	Q4	\$ 384,102,237	\$ 22,432,729	\$ 406,534,967
	YT	\$ 1,365,102,630	\$ 23,243,361	\$ 1,388,345,992
2002	Q1	\$ 426,160,669	\$ 44,087,617	\$ 470,248,286
	Q2	\$ 504,518,715	\$ 48,621,673	\$ 553,140,388
	Q3	\$ 521,557,611	\$ 80,453,875	\$ 602,011,486
	Q4	\$ 499,169,430	\$ 59,313,592	\$ 558,483,022
	YT	\$ 1,951,406,425	\$ 232,476,757	\$ 2,183,883,182
2003	Q1	\$ 495,333,069	\$ 102,746,621	\$ 598,079,690
	Q2	\$ 642,393,759	\$ 81,079,646	\$ 723,473,405
	Q3	\$ 601,272,940	\$ 111,839,825	\$ 713,112,765
	Q4	\$ 571,033,563	\$ 121,464,850	\$ 692,498,413
	YT	\$ 2,310,033,331	\$ 417,130,942	\$ 2,727,164,273

*FLSO began IPC data collection in September of 2001

For all submission comparisons, 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 5/1/2004.

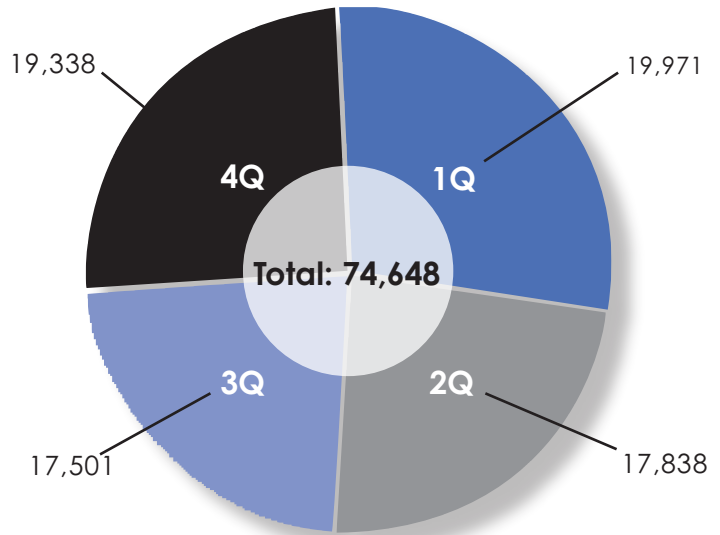
Variance Statistics

2003		No. of Policies Collected	Premium Amount	Tax	Tax Penalties	Service Fees	Service Fee Penalties
	Q1	36	\$ 15,013,011	\$ 750,951	\$ 45,314	\$ 45,039	\$ 2,988
Q2	21	\$ 10,351,570	\$ 517,582	\$ 59,023	\$ 31,055	\$ 4,256	
Q3	47	\$ 23,346,496	\$ 1,127,937	\$ 76,552	\$ 67,676	\$ 6,384	
Q4	33	\$ 6,444,788	\$ 322,239	\$ 38,178	\$ 19,334	\$ 2,678	
YT	137	\$ 55,155,865	\$ 2,718,709	\$ 219,067	\$ 163,104	\$ 16,306	

Compliance Reviews

2003		Reviews Done	No. of Policies Reviewed	No. of Transactions Reviewed
	Q1	69	417	517
Q2	72	271	319	
Q3	53	582	623	
Q4	56	311	377	
YT	250	1,581	1,836	

2003 Website Visitor Sessions



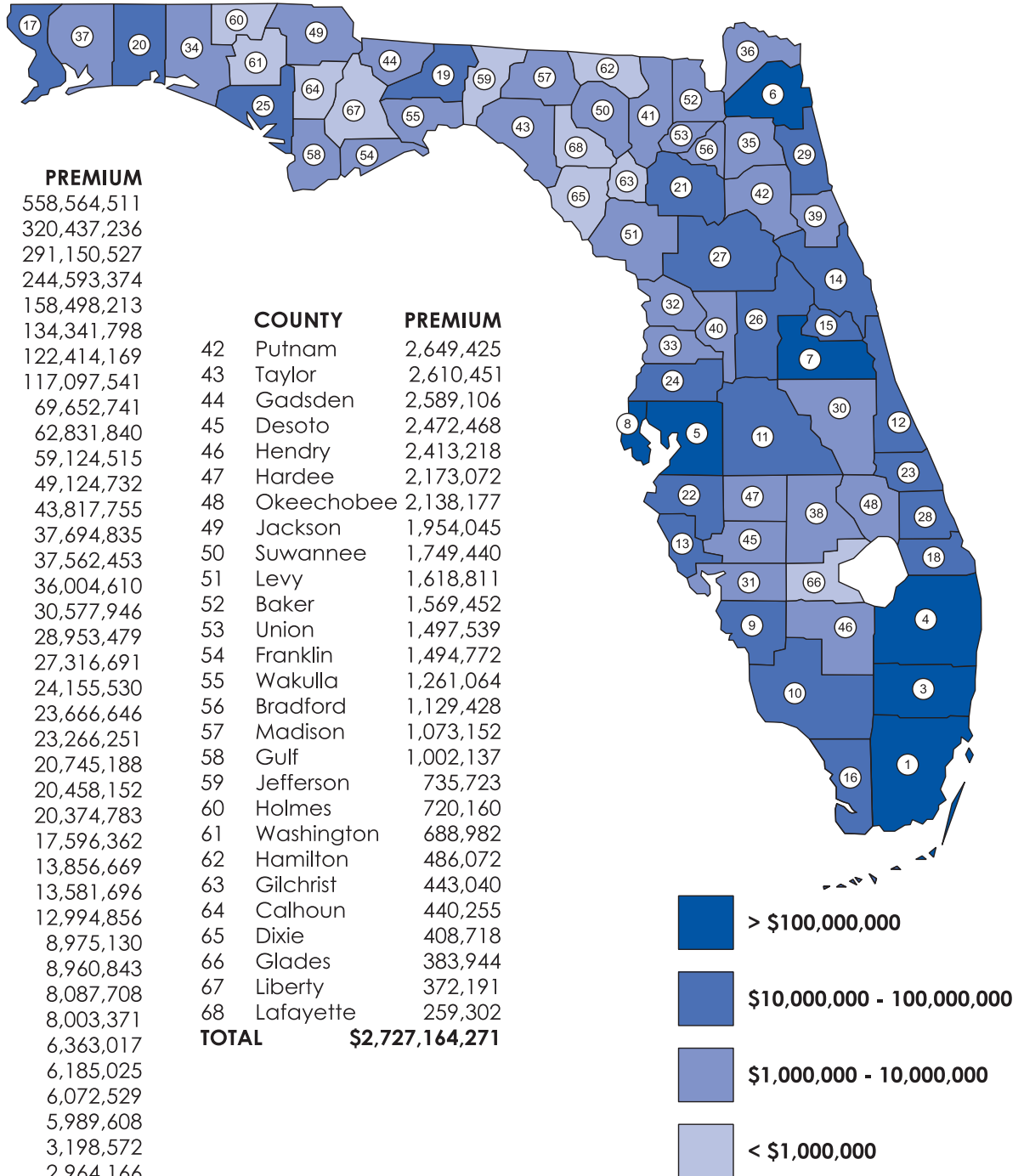
CR Unfiled Policies

2003		No. of Agents	No. of Policies Collected	Total Premium	Taxes	Tax Penalties	Service Fees	Service Fee Penalties
	Q1	4	187	\$ 1,365,242	\$ 59,544	\$ 2,432	\$ 3,975	\$ 191
Q2	0	—	—	—	—	—	—	
Q3	5	71	\$ 9,818,783	\$ 354,898	\$ 52,070	\$ 29,456	\$ 4,378	
Q4	2	21	\$ 349,599	\$ 17,480	\$ 2,186	\$ 1,049	\$ 131	
YT	11	279	\$ 11,533,624	\$ 431,922	\$ 56,688	\$ 34,480	\$ 4,700	



2003 Premiums by County

The FLSO has 657 licensed member agents, of which 464 submitted business in 2003.



* This includes one or more counties as reported

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. This information was current as of 05/01/2004. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

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