

ANNUAL
REPORT
2011



The FLSO is 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.

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David Holcombe
CHAIRMAN



Technology has played an integral part in the success of the Service Office. As the first fully “paperless” office of its kind in the country, it has served as a leader within the surplus lines industry for more than a decade. While maintaining that leadership position will always be its best challenge, the Service Office continues to push itself to continually act as an example of a modernized organization.

The Service Office advocates the use of technology as a way to advance business systems, drive productivity and enhance the efficiency of its workforce. As such, the organization has been readily able to adapt to challenges that have risen from difficult market conditions and diverse legislative obstacles.

Of course, we could not reflect on the previous year without acknowledging the effects of the Nonadmitted and Reinsurance Reform Act (NRRA) on the country’s surplus lines industry. The implementation of the NRRA caused states around the country to create new legislative initiatives that would provide revenue protection and regulatory safeguards. In response, the Florida Legislature passed Senate Bill 1816, which provided the ability for Florida to enter into mutual tax sharing agreements with other states as well as granted authority for Florida to collect on 100% of the gross premium on multi-state exposure in which Florida is deemed the “Home State.”

The Service Office spent the summer months working to adapt its technological platforms to adhere to the new multi-state filing requirements, including the ability to collect

multi-state allocation information. Additionally, the Service Office worked diligently to provide quality training to each of its customers on the new filing and compliance requirements.

As provided by SB 1816, Florida entered into the Nonadmitted Insurance Multi-State Agreement (NIMA) with Mississippi and Hawaii for the purposes of collecting and sharing tax revenue on multi-state policies. By the end of 2011, NIMA included 11 different states and is working to implement a Surplus Lines Clearinghouse, using the Surplus Lines Automation Suite pioneered by the Service Office, to collect, allocate and distribute taxes among its member states.

I would like to take this opportunity to thank the members of our Board of Governors for their dedication to this organization and their diligence to see it progress forward. Along with the 2011 year, the FLSO Board of Governors also saw its fill of change. Bruce Bowers completed his tenure with our Board this past year and I would like to take this opportunity to thank him for his service to our organization. He will continue to represent the Florida surplus lines industry through Hull and Company, but his insight and guidance as a member of our Board will be missed.

Additionally, I would like to extend best wishes to Board Member, R.C. Chaffin of SeaCoast Underwriters, who resigned from the FLSO Board of Governors effective April 2012, as he prepares for his position as the 2012-2013 President

of the American Association of Managing General Agents (AAMGA). It has been a pleasure serving with R.C. and I wish him much luck in his future endeavors.

I would also like to welcome Irvin "Skip" Wolf, III of Regional Excess Underwriters in Jacksonville and Michael Franzese of Burns and Wilcox of Tampa to the FLSO Board of Governors. We welcome their leadership and industry expertise to our organization.

Despite our best efforts to embrace change, sometimes we find ourselves faced with obstacles that prove difficult to accept. In 2011, the Service Office and the surplus lines community lost two pivotal members. Thomas Patrick Enright who served as Director, President and Past-President Representative of the Florida Surplus Lines Association (FSLA) as well as a former member of the FLSO Board of Governors, passed away in late January 2011. Tom's fun-loving spirit and passion for this industry lives on through the many who knew him and for his work at Enright & Wilson.

Additionally, the Service Office lost one of its founding FLSO Board Members, Daniel C. O'Leary, III. Dan was an active Board Member since the beginning of the Service Office in 1997, having served as Chairman from 2005 to 2007. Through his leadership and service, Dan helped transform the Service Office into the great organization it is today as the first paperless stamping office in the country. His knowledge, expertise and passion for the Service Office, its staff and all of the industry will be greatly missed.

From the Executive Director

Challenge is best met when a workforce is willing to go outside of their comforts to take steps in a new direction for the sake of progress. For this reason, I would like to thank Executive Director, Gary Pullen and the Service Office staff for their dedication to this organization and Florida's surplus lines industry. Their search for ways to improve business processes and provide creative solutions to everyday obstacles will continue to advance our organization. I thank the Board for again extending

me this privilege as Chairman and am looking forward to a productive and promising year. Thank you for your accomplishments in 2011 and I wish you continued success in 2012.

Sincerely,



David Holcombe
Chairman

Gary D. Pullen
EXECUTIVE DIRECTOR



As the economy continues to rebound from the challenges of a hard hitting recession, many businesses find themselves looking for ways to conduct their day-to-day duties in the most cost and time efficient of ways. Technology provides the most readily adaptable means to introduce various elements of

savings, from time to cost to manpower. Thus, technology serves as the vehicle for many businesses to overcome the constraints of limited time & resources.

Since its inception, the Service Office has been an organization that advocates the use of technology as a way to do

things better. Through the development of specialized software and web-based platforms, we have made great strides to modernize the way we conduct business. With the values of efficiency and effectiveness as our guiding principles, the Service Office constantly looks for ways to improve its existing business systems and maximize the output of its workforce.

Accuracy. Dependability. Accountability.

These are the qualities we push for in the products we develop. Since its release in 2005, the Surplus Lines Information Portal (SLIP) has served as the Service Office's premier filing platform, and it continues to be a model for filing systems of its kind around the country. It is for these and many other reasons that our filing platform was selected by the participants of the Nonadmitted Insurance Multi-State Agreement (NIMA) to be the technology platform for the collection, allocation and distribution of surplus lines taxes as directed by the Nonadmitted and Reinsurance Reform Act (NRRRA). It is the adaptability of our technology and the workforce behind its development that makes a feat of this magnitude possible.

The NRRRA brought much change to our state, as well as the rest of the country, in 2011, beginning with initiatives in the Florida Legislature. In response to the passage of the NRRRA, Florida Senate Bill 1816 was drafted in an effort to address the potential for Florida to enter into a mutual tax sharing agreement with other states, as well as to grant the authority for Florida to collect

on 100% of the gross premium on multi-state exposure in which Florida is deemed the "Home State." As a result of this legislative change, Florida entered into a multi-state tax sharing agreement with Mississippi and Hawaii called the Non-Admitted Insurance Multi-State Agreement (NIMA). This agreement provides for the creation of a Clearinghouse, which will collect premium taxes and distribute them to participating states in accordance with a formula set forth in the agreement.

Additionally, the Florida Legislative Session passed House Bill 1087 in July of 2011, which deregulated various commercial lines and modified diligent effort requirements for specific lines of business as outlined in F.S. 627.062. The bill also provided that agents are required to have the insured sign an additional disclosure form when these coverages are automatically exported. In addition to House Bill 1087, House Bill 99, coined the "Dereg Bill," expanded the newly modified list of commercial coverages beginning October 1, 2011.

In an effort to streamline its filing and payment process, the Service Office merged the Agent SLIP and IPC SLIP filing platforms in July 2011. Through the collaborative effort of the staff and our technology partner, Infinity Software Development, Inc., the Service Office released an enhanced version of the Surplus Lines Information Portal (SLIP) platform that was formatted to support both Florida agents and IPC filers, as well as the modified fields necessary to capture multi-state allocation

From the Executive Director

information as defined in SB 1816.

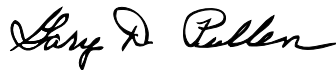
Technology also affords us the opportunity to interact and connect with individuals at great distances as telecommunication is one of the fastest growing markets of this century. In order to provide assistance and information to our customers around the country, the Service Office staff continued to utilize the speed and spread of web-based seminars. Staff provided educational assistance to more than 1,000 customers throughout the year relative to NRRRA changes, compliance requirements, accounting information, our office's SLIP merge, and much more.

While this past year was one of growth and change, it also brought its own set of challenges that affected our organization. In 2011, we lost two individuals who left an unwavering impact on our office. Thomas Enright and Daniel C. O'Leary, III were both active agents within Florida's surplus lines community. Tom served on FLSLSO's Board of Governors from 2003 to 2005 and was a past president of the Florida Surplus Lines Association (FSLA). Dan also served on the FLSLSO Board of Governor's since its inception in 1997, providing leadership and guidance as Chairman in 2005-2007 and led FLSLSO's Automation Committee in 1998. The loss of these two gentlemen leaves a great sadness among many, but their spirit and passion for this industry will live on as their enduring legacies in the insurance community.

I wish to take this opportunity to thank our Chairman, David Holcombe and all of the members of the FLSLSO Board of Governors for the leadership and guidance they have so willingly provided for the betterment of our organization. We welcome our incoming Board Members Irvin "Skip" Wolf and Michael Franzese, and are grateful for the experience and accomplishments within the industry that they bring to our Board.

The achievement of innovative solutions is accomplished through people; if you believe in them and allow them to make full use of their talents, they will accomplish great things. I thank the Service Office staff for their diligence to think outside the box and to provide our customers with creative and innovative responses to their needs. As we face the challenges that shape the many facets of our industry, we remain strong in our commitment to serve you, the Florida surplus lines insurance community.

Sincerely,



Gary D. Pullen
Executive Director

Our mission is to protect public revenues and serve our customers' interests by facilitating compliance and providing assistance and information regarding the Florida surplus lines marketplace.

Marketplace Monitoring

MARKETPLACE MONITORING

The ability of the Service Office to collect and sort policy information as submitted by surplus lines agents and Independently Procured Coverage (IPC) filers gives it the unique capability to monitor the activities of Florida’s surplus lines marketplace. It does so in an effort to facilitate statutory compliance among its members, promote the credibility of a viable marketplace and to protect public revenues.

To ensure fairness and conformity with the law, the Service Office employs two programs that monitor and evaluate data submissions in order to oversee the credibility of the surplus lines marketplace. On the agent level, the Service Office facilitates compliance of Florida’s surplus lines community relative to the sales and reporting



of surplus lines insurance contracts through its Compliance Review Program.

The program utilizes the expertise and experience of contract analysts in reviews that compare a sampling of a surplus lines agent’s policies to the transactions submitted to the Service Office. Inconsistencies found within the review process may be due to improper training of staff or lack of quality controls in the submission of policy information. Locating these errors offers the Compliance Review team insight into areas where support and training are necessary in order to improve timely and accurate data submissions. As such, the Compliance Review Program serves as a means of educational assistance geared toward the enhancement of Florida’s surplus lines marketplace.

The Compliance Review program completed 405 reviews during 2011, uncovering 445 unfiled policies by 86 agents which represented \$2,411,501 million in unfiled premium and \$166,926 in taxes, fees, assessments, and penalties. An Industry Comparison Report is issued to each agent at the end of the compliance review, which scores them in fields such as data validation, regulatory requirements and financial elements. The overall score for agents receiving reviews in 2011 was 93.3%.

A second program, the Variance Analysis Program, analyzes high volumes of data through the Service Office’s internal data management system in order to pair surplus lines agent or IPC filings to their matching insurer filings. The Variance

COMPLIANCE REVIEW

- 2011
Collected on 445 policies with more than \$2.4 million in unreported premium and \$166,926 in taxes, fees, and penalties.
- 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.

staff compares the premium amount, policy number and effective date of Florida surplus lines policies submitted by agents and Independently Procured Coverage (IPC) filers against policies submitted by eligible Florida surplus lines insurers.

When discrepancies are found, the Variance staff works to determine which entities' data is incorrect and assists the responsible party in correcting the erroneous information and remitting the applicable taxes, fee, assessments, and interest penalties. During 2011, the Variance staff collected on a total of 285 polices, which resulted in the location and collection of more than \$38.5 million in unreported premium and more than \$2.3 million in taxes, fees, assessments and interest penalties.

Beginning in 2010, the Variance team expanded their data pool to include Lloyd's of London filings and in 2011, they furthered this interest through the development of the Lloyd's binding authority module. Because the Lloyd's market is unique to all other markets and produces several policy numbers during each stage of the broking process, special methods for tracking these types of policies were required. The Lloyd's binding authority module was created in order to sort Lloyd's data for the purposes of reconciliation.

Another monitoring program that the Service Office employs on the agent level is the Agent Report Card. Similar to the Compliance Review Program,

2011

Collected on **285 policies** with more than **\$38 million in unreported premium** and more than **\$2.3 million in taxes, fees, and penalties.**

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.**

VARIANCE ANALYSIS

the Agent Report Card serves as an educational tool geared to inform Florida licensed surplus lines agents of their strengths and weaknesses relative to compliance based on industry. This tool helps to better instruct member agents regarding filing compliance by offering grades in four categories of compliance including: percentage of transactions with no outstanding transactions-in-question (TIQ), percentage of submission accepted versus total number of submission, percentage of affidavits submitted timely, and percentage of transactions submitted timely. The overall industry score for 2011 for the Agent Report Card was 92.59%.

Following this same logic, the Insurer Report Card was also introduced in 2011, which ranks insurers in three categories including: accepted and

rejected submissions, accuracy and timeliness. The overall industry score for 2011 for the Insurer Report Card was 94.14%.

Monitoring the market affords the Service Office with a means to promote stability and health of a growing marketplace. Through its various programs, the Service Office is continually investing in the long term growth of its members while supporting compliance with industry standards in order to create a credible, open and honest marketplace.

Efficiency n. (ef·fi·cien·cy)

a productive use of resources that provides the ability to do something well or achieve desired results without wasted energy.

Total reported premium
submitted by IPC filers
\$503,517,946

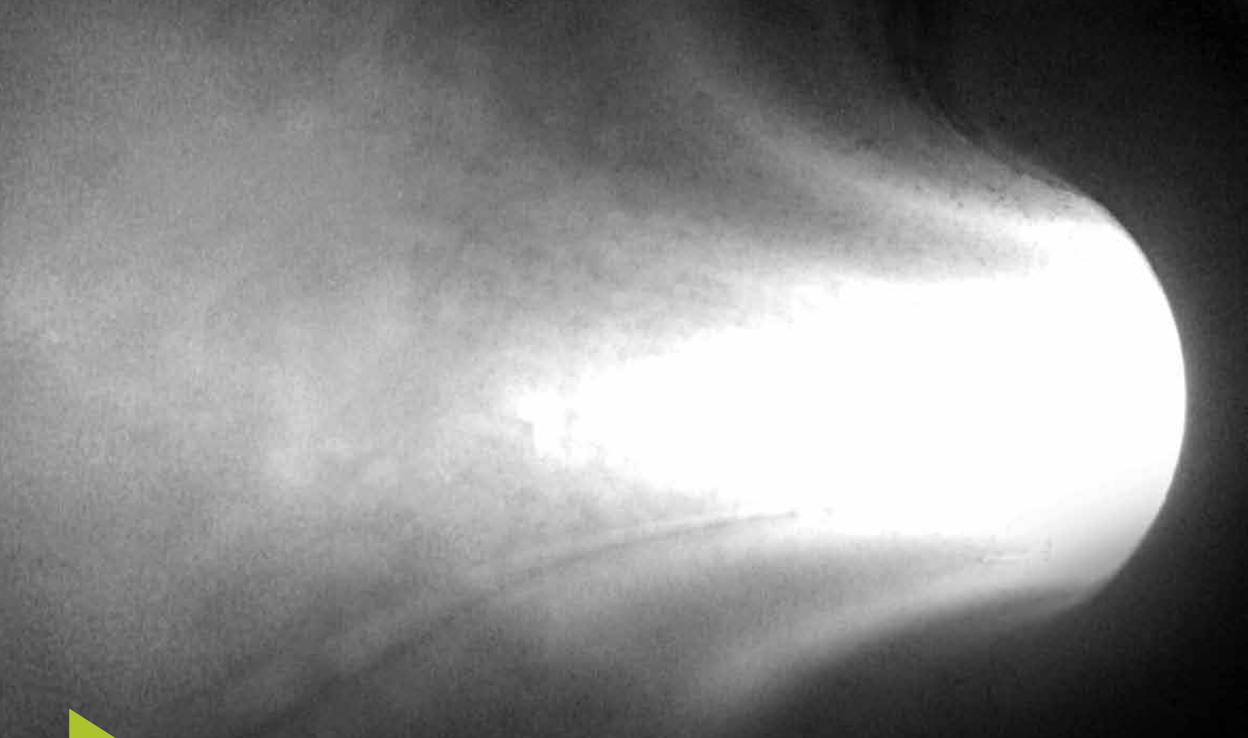
Total reported taxes
submitted by IPC filers
\$23,490,772

Total number of IPC policies processed
14,980

As of December 31, 2011,

1,212 total active agents





In 2011, there were 190 eligible insurers in Florida: 58 were alien and 132 were foreign insurers. Two insurers were added to the eligibility list while two were removed by consent order.

There were 186 newly licensed surplus lines agents and FLSO members in 2011. Of those, 58 were resident agents and 128 were nonresident agents.

Since its inception, 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.

As an organization progresses forward, adaption to changing environmental factors such as customer needs, market conditions, regulatory hurdles, and technological advancements remains a key component of success. In order to serve its diverse customer groups, the Service Office uses several forms of contact including email, website upgrades, filing platform enhancements, and telecommunications to assist its customers. With so many industry changes in the past year, these forums became leading support systems for Service Office customers.

With the 2010 passage of the Nonadmitted and Reinsurance Reform Act (NRRRA), various upgrades were necessary to meet new filing and invoicing requirements. The Service Office worked vigorously with its partner, Infinity Software Development, Inc. to modify and enhance the Surplus Lines Information Portal (SLIP) and in early July, the Service Office released the first wave of SLIP enhancements. These included the ability for surplus

lines agents and IPC filers to file multi-state policy information.

Additional enhancements were released in October which included a newly designed billing report, updates to help files, and improvements to Agent SLIP's electronic payment proficiency. Modifications were also made to the FLSO Tax/Fee/Assessment Calculator to include multi-state calculations, allowing customers to estimate tax, fee, and assessment amounts for both single and multi-state policies filed with Florida.

The 2011 year also marked several transitions for IPC customers as the Agent and IPC SLIP filing platforms were merged into a single filing application. Through this system merge, IPC customers received the capability to batch file which provided an easier filing method for high volume submitters. The invoicing process was also moved to a quarterly basis, and in an effort to streamline the payment and collection process, an electronic payment module for IPC filers was introduced in SLIP during the 4th quarter of 2011.

"As we merged Agent SLIP and IPC SLIP into a singular platform, we altered and updated several of our procedures including the move to quarterly invoicing, the ability to batch file and electronic invoicing," stated IPC Collections Coordinator, Tiffany Maruniak. "As change can be challenging, we express our appreciation to our customers for their patience throughout this process."



The Service Office also welcomed 186 new agents to the surplus lines community during 2011. Each of these newly licensed agents received a "New Agent Packet", consisting of the Agent's Procedures Manual, Annual Report, The Advisor newsletter, accounting tips and other helpful brochures. Providing these useful tools and important education information to new agents is an essential way that the Service Office assists new agents with their first steps into the non-admitted market.

As statute requires, any surplus lines insurer seeking eligibility in the Florida marketplace must first submit an application to the Service Office for review and completion. In 2011, two insurers submitted eligibility requests, of which, both applications were reviewed by Service Office staff and forwarded to the Florida Department of Financial Services/Office of Insurance Regulation (DFS/OIR). Both insurer applications were approved as of December 31, 2011 and the insurers were added to Florida's Eligibility List.

The 2011 year also marked the first full year that "birthday eCards" were used to remind agents to renew their self-appointment during their birth month. Agent and Insurer Services Assistant Director, Tom Terfinko explained, "As customer compliance is a driving factor for our organization, we are constantly looking for new ways to help our customers stay up-to-date and informed about the regulations that support a surplus lines license. We have received very positive feedback on the birthday

eCards, and it's a service we will continue to use."

As is customary, the Service Office distributed its annual customer satisfaction survey among its principle customer groups which include surplus lines agents, surplus lines insurers, surplus lines agent submission contacts, agency accounting contacts, and Independently Procured Coverage (IPC) filers. Each survey provides the Service Office with insight regarding the level of customer satisfaction on existing products, programs and services and helps to determine potential needs for the future. Feedback from each customer group was included in the Service Office's annual strategic planning process and used to develop many staff objectives for 2012. The combined satisfaction rating for the office's current services and programs was more than 97% satisfaction over all five customer groups.

During 2011, 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.



The FLSO participated in three community service events during 2011, which included the Dale Pullen Scholarship Fund Golf Tournament, Kids Incorporated Holiday Happiness program, and the Big Bend Hospice Annual Holiday Drive.

As customer compliance remains a key focus for many of the Service Office's programs, the staff works diligently to connect their customers with the right resources and tools. Since its inception in 1998, the Service Office has laid the groundwork for a close working relationship between its staff and its customers, and will continue to serve as a source of advice and information for its industry members, member agents and state government.

In its role as the definitive resource for surplus lines information, the Service Office works to stimulate awareness of

Florida's surplus lines insurance market as a viable option for consumers and retail agents. Piggy-backing off the successful "Ask Us" communications campaign from 2009-2010, the Service Office launched a new public relations drive focused on its ability to provide assistance and service to its customers.

The 2011 "Let Us" campaign promoted the Service Office's facet of being a provider of advice and counsel by directing customers to view the various services and programs geared to enhancing industry knowledge. The Service Office employed numerous promotional efforts through the "Let Us" campaign including interactive web banners and

OUTREACH



graphic icons on the FLSO website, industry publication advertisements, promotional email signatures and a new tradeshow booth design.

As attending tradeshow and industry conferences affords the Service Office the opportunity to meet and greet its customers as well as to promote awareness of the industry, staffers attended a host of industry tradeshows and conferences in 2011. The Florida Association of Insurance Agents (FAIA) annual convention provided the opportunity for the Service Office to display its new booth design, as well as the Association of Insurance Compliance Professionals (AICP) annual convention and the Florida Surplus Line Association (FSLA) conference.

"It's always such a pleasure to attend conferences and tradeshows because it gives us the opportunity to meet our customers face-to-face," commented Lisa French, Senior Insurance Analyst. "We develop such long-term relationships with so many of our agents and their support staff that having the chance to meet them in person is wonderful."

In addition to trade shows, the Service Office also attended several industry conferences and roundtable discussions in an effort to stay abreast of the latest developments in the surplus lines marketplace on both state and national levels. These conferences allowed for staff to maintain a solid and constant foundation of counsel for industry members and member agents. These

included the 2011 State of Florida's Insurance Market Summit, the National Association of Insurance Commissioners (NAIC) Spring, Summer and Fall National Meetings, the Florida Insurance Council (FIC) Annual Insurance Summit, American Association of Managing General Agents (AAMGA) Annual Convention, and the Surplus Lines Law Group.

In its capacity as a speaker and subject matter expert, the Service Office delivered industry presentations to a variety of organizations in 2011 including the Florida Surplus Lines Association (FSLA) and the Florida Association of Insurance Agents (FAIA). Additionally, the Service Office lent its expertise to the Department of Financial Services by providing office representatives to participate on the Florida Surplus Lines Law Licensing Examination Committee during its annual test review.

Reaching out to Florida's surplus lines insurance market for the purpose of spreading industry knowledge exists on several different levels. In its various capacities and traditional roles, the Service Office continues to invest its efforts into opportunities and experiences that will allow the organization to interact with others, exchange ideas and promote the continued success of the market.

Texting.

Twitter.

Email.

The World Wide Web.

The world of information sharing has radically changed over the past decade, and as such, the Service Office has evolved its telecommunication strategies to serve its widely diversified audience.

At the center of the Service Office's distribution efforts lies FLSO.com. The website serves as a central repository of informational resources available to customers across the country 24 hours a day. It provides staff with an effective, flexible means of distributing news stories and marketplace information around the clock. As such, staff used the website to publish 44 news items to its main page, apprising website visitors of industry issues and Service Office activities.

During the 4th quarter, the Service Office released upgrades to its website, which included a new navigation menu and an enhanced Frequently Asked Questions module. Additionally, staff created specialized "home pages" for each of its major customer groups, providing easy access to popular tools and services. The new customer home pages are constructed to highlight the most relevant information and were designed to be bookmarked for quick reference by each unique customer type.

"Creating landing pages for each of our customer groups allows us to cater services and programs to a specific audience member," commented Senior Information Architect, James Farmer. "By pushing resources to our customers directly, it allows them to find what they're looking for more efficiently."

Staff also harnessed the flexibility provided by web technology to create dedicated pages for hot button items, including the passage of Senate Bill 1816 by the Florida Legislature in response to the

INFORMATION



"Three seconds. That's the amount of time the average person will take to review any document, any ad, any article before moving on to something else"

NRRA and the passage of Senate Bills 99 and 1087 which deregulated the export of certain coverage codes to the surplus lines market. These focused sections of FLSO.com offered users a clear, concise overview of industry actions taken.

The passage of Senate Bill 1816 by the Florida Legislature brought major changes to the surplus lines industry and tested the Office's ability to inform its customers of new requirements and procedures. Staff successfully used a variety of resources, including its website, electronic news bulletin service, quarterly newsletter, webinars, and education classes to keep their customers informed and ahead of the information curve in a year of big changes.

In addition to the website, the Service Office also used a direct method of delivering information to its customers through the eNews and eAlert electronic bulletin services. In 2011, staff delivered eight eNews and 25 eAlerts informing them of various industry information including: the release of enhancements to Agent SLIP, the creation of a web page dedicated to the NRRA, the availability of a Report Card for Insurers, the 2011 Continuing Education schedule, passage of pertinent legislation including Senate Bills 1816, 1087, and 99, and the establishment of the Non-Admitted Insurance Multi-State Agreement (NIMA) and much more.

In keeping with the focus on using technology to deliver information both timely and efficiently, the Service

Office's newsletter, *The Advisor*, was delivered electronically via email to surplus lines agents, accounting contacts, agency submitters, insurers and interested subscribers on a quarterly basis. In keeping with the Service Office's charge to be the definitive resource for the Florida surplus lines marketplace, the quarterly newsletter delivered informational articles relative to industry updates, assistance on prevailing compliance and filing issues, as well as new product and program releases.

"Three seconds. That's the amount of time the average person will take to review any document, any ad, any article before moving on to something else," Jessica Brown, Operations Specialist provided. "That means we have three seconds to grab our customers' attention and deliver information that is accurate, meaningful, and timely. That is the challenge we set for ourselves."



146,292 VISITOR SESSIONS to FLSO website

OFFERS FREE ONLINE RESOURCES (news releases, bulletins, forms, market and trend reports, Florida Statutes, etc.)

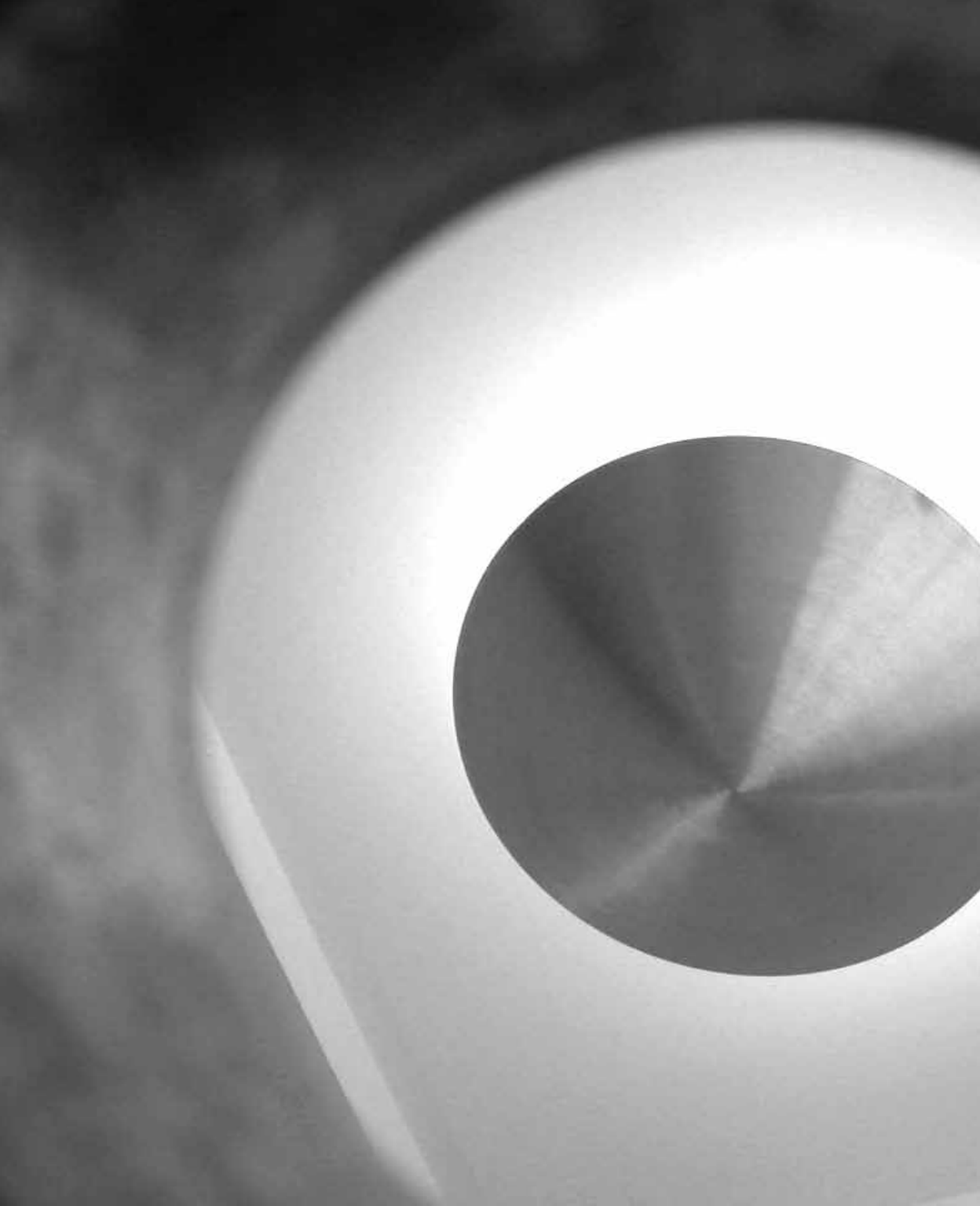
FREQUENTLY ASKED QUESTIONS

MARKET DATA REPORTS

FLORIDA ELIGIBLE SURPLUS LINES INSURER FINANCIAL DATA

ONLINE AGENT AND INSURER SLIP TUTORIALS

[HTTP://WWW.FLSO.COM](http://www.flsso.com)



FSLSO was established by the
Florida Legislature in 1997, under
the "Dana Roehrig Act."

Total reported premium
submitted by member agents
\$3,309,005,476

Total reported taxes
submitted by member agents
\$146,317,019

FSLSO has 22 employees with more than 292 combined years of insurance experience.



EDUCATION

The Service Office continued to use the viability of the World Wide Web as a mechanism to train its various customers around the country in 2011. With the inception of the Nonadmitted and Reinsurance Reform Act (NRRRA), the countries' surplus lines industry looked for training opportunities that were both widely accessible and timely. The availability of web-based seminars, or webinars, became a popular tool for educating member agents and their support staff of the changes brought about through the NRRRA.

"Webinars provide a means for us to train our customers on a nationwide scale," commented Public Information Manager, Ashlee Weber. "That type of accessibility is important as it allows us to turn out

information and training opportunities to our customers in a way that is both time sensitive and cost-effective."

Webinars were used for training courses throughout the year, with the highest attended programs held during the second quarter with back-to-back sessions on the NRRRA. During the months of May and June, the Service Office released multiple NRRRA-focused webinar classes to its various customer groups including surplus lines agents, surplus lines insurers and Independently Procured Coverage (IPC) filers. These training courses provided information concerning filing changes effective July 1, 2011, common questions, and possible filing scenarios to best prepare customers prior to implementation of the provisions of the NRRRA.



As increasing the compliance levels of its customers remained a high priority, the Service Office used the far-reaching capabilities of its webinar program to deliver various training seminars on surplus lines licensee regulations and requirements. The Compliance Review Program continued its "Compliance Corner" webinar series from 2010 with new offerings such as "What to Expect and How to Prepare for a Compliance Review," "Understanding Taxes, Fees and Assessments," "Welcome Newly Licensed Surplus Lines Agents," and "Diligent Effort Form vs. Surplus Lines Disclosure Form."

"We started the Compliance Corner in 2010 as a way to deliver quarterly training to our agents and their support staff," stated Compliance Outreach Coordinator, Felicia Meredith. "Due to its success, we continued this program in 2011 with new offerings that focused on areas that we felt agents needed a refresher. It has been, and continues to be, a great way to educate our resident and nonresident agent community."

Other departments within the Service Office also used the webinar platform to train their customers, providing offerings to accounting contacts, IPC filers, agency support staff and eligible surplus lines insurers. Following the IPC and Agent SLIP merge in the second quarter of 2011, the IPC staff created several training seminars on topics ranging from creating a company account to making online payments.

Overall, the Service Office's webinar program delivered 15 presentations in 2011 and hosted more than 1,000 attendees.

Not to be overlooked, the Service Office's traveling classroom continued to deliver quality training programs to agents around the state of Florida. In an effort to create a more diversified classroom experience, the Service Office partnered with subject matter experts to provide two newly approved education courses entitled, "Navigating the Niche 2011 and the Florida Surplus Lines Service Office" and "Understanding Insurer Financials and the Florida Surplus Lines Service Office."

"Navigating the Niche 2011 and the Florida Surplus Lines Service Office" was a four-hour course that featured material taught by LIG Marine Managers President, Ian Greenway. This unique offering provided a hands-on practical guide on creating, identifying and customizing policies and underwriting for target market groups for both personal and commercial lines. This course was taught to 59 students in Ft. Lauderdale and Tampa.

Also on the roster for 2011, "Understanding Insurer Financials and the Florida Surplus Lines Service Office" utilized the expertise of classroom instructor, March Fisher of Citizens Property Insurance Corporation. This three-hour course provided a detailed overview of the National Association of Insurance Commissioner's (NAIC) Annual Financial Statements with regards to property

and casualty insurer solvency. This course helped agents become more knowledgeable about the components of insurer financial statements and how they relate to the financial stability of insurance companies. This course was taught in Orlando and Miami to 36 students.

In combination with these efforts, the Service Office also continued to support its various online course offerings including the Surplus Lines 60-Hour Pre-Licensing Qualification Course which remained the only online offering of its kind in the state of Florida. Together with its remaining three online classes, "Surplus Lines Rules and Regulations," "Illegal Insurance Entities; Knowing the Difference," and "The Retail Agent's Role in the Surplus Lines Market," the online education section hosted a total of 51 additional students.

Through webinars, classroom education and online classes, the staff of the Service Office reached more than 1,100 students in Florida and across the country. In fulfillment of its statutory charge, the Service Office utilized a wide variety of methods to provide its customers with the education needed to function at a high level in a changing marketplace.



FLSO offered *four continuing education classroom courses* throughout 2011.

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSLO management. This was reiterated within the satisfactory audit opinion received on the Florida Surplus Lines Service Office's financial statements for the fiscal years ended December 31, 2011 and December 31, 2010. 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 \$74 million, a 1.9% slide in 2011 compared to a decline of 3.7% in 2010. As a result of the continuing decline in the surplus lines premiums during the 2011 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 \$164,358,139 and \$2,969,950 respectively. These billed amounts represent a \$13,163,413 decrease in surplus lines taxes to the state of Florida and a decrease of \$582,801 in charges for services.

During the year ending December 31, 2011, the Service Office generated \$2,972,299 in revenues, a decrease of \$605,964 from the previous year. With respect

to the operating expenses, the Service Office spent \$459,338 during the year ending December 31, 2010, a decrease of \$673,517 from year 2009. Revenues and expenditures created a decrease in total net assets to \$25,696,971 from \$27,763,751 representing a decrease \$2,066,780 over the prior year.

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



Statement of Net Assets

Current assets

Cash and cash equivalents	\$11,854,417
Accounts receivable	---
Accrued interest income	37,896
Investments	1,140,000
Total current assets	13,032,313
Property and equipment, net	5,158,079
Deposits	11,810
Total Assets	\$26,089,059

Current liabilities

Accounts payable and accrued expenses	\$381,382
Amounts held for the account of others	10,706
Total current liabilities	\$392,088
Net assets:	
Invested in capital assets, net of related debt	5,158,079
Unrestricted	20,538,892
Total Net Assets	25,696,971
Total Liabilities and Net Assets	\$26,089,059

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues

Charges for services	\$2,940,328
Interest and finance charges on service fees	3,954
Other income	28,017
Total operating revenues	2,979,299

Operating expenses:

Administrations and support	\$2,238,817
Education and outreach	909,196
Agent and insurer services	1,630,590
Depreciation and amortization	472,033
Total operating revenues	5,250,636
Operating Loss	(2,278,337)

Nonoperating revenues (expenses)	
Investment interest	\$167,811
Rental income	87,300
Rental expenses	(43,554)
Total nonoperating revenues (expenses)	<u>211,557</u>
Decrease in net assets	<u>(2,066,780)</u>
Net assets at the beginning of year	<u>27,763,751</u>
Net assets at end of year	<u>\$25,696,971</u>



Statement of Cash Flows

Operating activities	
Operating loss	(\$2,278,337)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	472,033
Changes in operating assets and liabilities	
Accounts receivable	15,802
Accounts payable and accrued expenses	(3,848)
Amounts held for the account of others	<u>78</u>
Net cash provided by operating activities	<u>(\$1,794,272)</u>
Financial activities	
Purchase of property and equipment	(\$1,027,338)
Other receipts	<u>43,746</u>
Net cash used in capital and related financing activities	<u>(\$983,592)</u>
Investing activities	
Investment income	\$163,034
Purchases of investments	(7,153,387)
Sales of investments	<u>6,880,000</u>
Net cash provided by investing activities	<u>(110,353)</u>
Net change in cash and cash equivalents	(2,888,217)
Cash and cash equivalents at beginning of year	<u>14,742,634</u>
Cash and cash equivalents at end of year	<u>\$11,854,417</u>



Premium Comparisons

2011	Agent Premium	IPC Premium	Total Premium
Q1	\$802,117,914	\$130,177,716	\$932,295,630
Q2	\$1,148,600,156	\$176,726,980	\$1,325,327,136
Q3	\$643,713,675	\$73,327,551	\$717,041,226
Q4	\$661,426,467	\$92,284,500	\$753,710,967
YT	\$3,255,858,212	\$472,516,747	\$3,728,374,959

2010	Agent Premium	IPC Premium	Total Premium
Q1	\$815,802,642	\$143,893,016	\$959,695,658
Q2	\$1,168,447,666	\$186,011,514	\$1,354,459,180
Q3	\$630,952,155	\$113,942,731	\$744,894,886
Q4	\$665,716,575	\$115,290,352	\$781,006,927
YT	\$3,280,919,039	\$559,137,614	\$3,840,056,651

2009	Agent Premium	IPC Premium	Total Premium
Q1	\$840,508,107	\$143,758,327	\$984,266,434
Q2	\$1,238,594,252	\$214,142,616	\$1,452,736,868
Q3	\$638,420,073	\$107,482,649	\$745,902,722
Q4	\$667,643,511	\$121,237,836	\$788,881,348
YT	\$3,385,165,944	\$586,621,428	\$3,971,787,372

For all premium comparisons, the transaction information in this annual report is extracted from data submissions received from surplus lines agents, Independently Procured Coverage (IPC) filers and insurers. The transaction information is based upon the effective date of policy transactions submitted as of 6/4/12. All figures have been rounded to the nearest dollar amount.

Compliance Review Activities

Average Score by Quarter

2011	Reviews Done	# of Policies Reviewed	# of Transactions Reviewed	Average Score by Quarter			
				2011	2010	2009	
Q1	90	2,180	2,563	Q1	91.2	93.6	93.2
Q2	110	2,475	2,805	Q2	94.0	93.8	91.8
Q3	102	2,522	2,880	Q3	95.7	90.6	89.6
Q4	103	2,374	2,871	Q4	92.4	94.3	91.4
YT	405	9,551	11,119	YT	93.3	92.9	91.5

Compliance Review Unfiled Policies

2011	# of Agents	# of Unfiled Policies	Total Premium Collected On	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	20	105	\$826,217	\$32,156	\$3,776	\$826	\$110	\$13,147	\$1,288
Q2	31	165	\$682,592	\$32,246	\$5,615	\$700	\$123	\$9,188	\$1,457
Q3	19	72	\$503,669	\$23,846	\$4,853	\$479	\$102	\$5,993	\$1,190
Q4	16	103	\$399,023	\$18,951	\$5,044	\$412	\$112	\$4,109	\$1,203
YT	86	445	\$2,411,501	\$107,199	\$19,288	\$2,417	\$447	\$32,437	\$5,138

Variance Analysis Activities

2011	# of Unfiled Policies	Premium Amount	Taxes	Tax Penalties	Service Fee	Service Fee Penalties	Assessments	Assessment Penalties
Q1	48	\$5,267,086	\$232,207	\$14,241	\$4,996	\$482	\$90,759	\$4,540
Q2	53	\$7,841,095	\$328,874	\$15,144	\$6,955	\$488	\$149,613	\$6,292
Q3	103	\$13,793,355	\$397,929	\$54,406	\$9,634	\$1,833	\$327,743	\$48,359
Q4	81	\$11,644,466	\$433,930	\$17,498	\$9,378	\$644	\$168,664	\$7,464
YT	285	\$38,546,002	\$1,392,940	\$101,289	\$30,963	\$3,447	\$736,779	\$66,655

Total Taxes, Fees & Assessments Billed

2011	Citizens Property Insurance Corp. (Assessment)	Florida Hurricane Catastrophe Fund (Assessment)	Division of Emergency Management (EMPA Surcharge)	Department of Financial Services (Premium Tax)	Florida Surplus Lines Service Office (Service Fee)
AGENT	\$29,714,554	\$38,812,895	\$930,506	\$144,793,549	\$2,575,063
IPC	\$3,907,448	\$4,795,939	\$16,241	\$19,564,590	\$394,887
Total	\$33,622,002	\$43,608,834	\$946,747	\$164,358,139	\$2,969,950

Agent \$216,826,567

IPC \$28,679,105

Total \$245,505,672

Effectiveness n. (ef·fec·tive·ness)
 achieving the desired or intended
 result which also produces
 a favorable and successful
 impression on people.

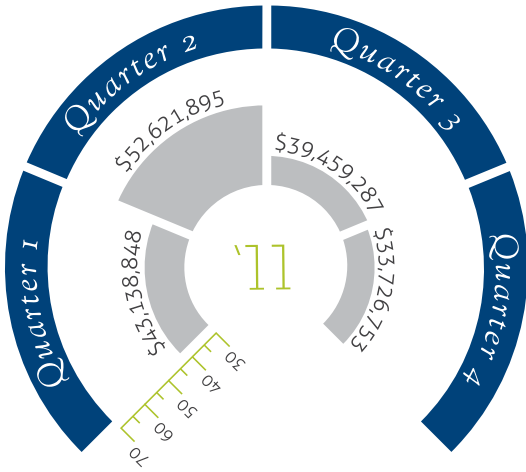
Agent Report Card

2011	Transactions without TIQs	Transactions Submitted Timely	Accepted Submissions	Affidavits Submitted Timely
Q1	98.39	86.75	99.34	89.53
Q2	98.51	86.26	99.41	87.96
Q3	99.93	81.55	99.40	88.92
Q4	99.91	81.96	99.43	84.17
Average	99.19	84.13	99.40	87.65

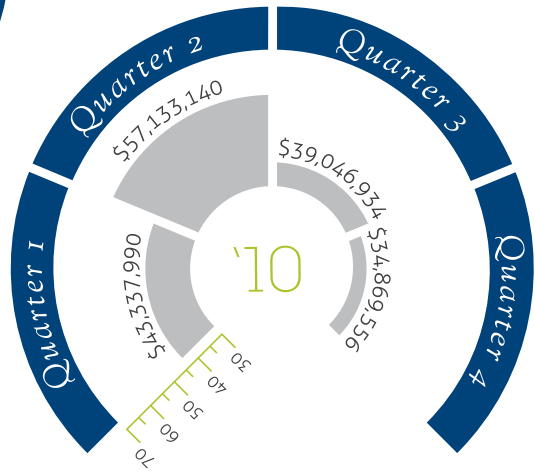
2010	Transactions without TIQs	Transactions Submitted Timely	Accepted Submissions	Affidavits Submitted Timely
Q1	99.51	69.81	99.35	76.36
Q2	98.08	71.70	99.41	77.93
Q3	97.30	80.21	99.39	77.94
Q4	98.64	86.98	99.41	75.31
Average	98.38	77.18	99.39	76.89

2009	Transactions without TIQs	Transactions Submitted Timely	Accepted Submissions	Affidavits Submitted Timely
Q1	99.72	71.56	95.65	87.10
Q2	99.74	71.55	98.95	82.05
Q3	99.75	70.08	98.75	81.29
Q4	99.74	71.17	99.04	75.82
Average	99.74	71.09	98.10	81.57

2009–2011 Generated Department of Financial Services Taxes

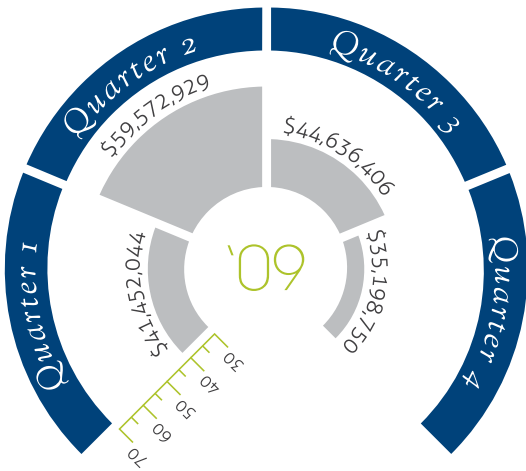


2011 total \$168,946,784



\$174,387,620 2010 total

2009 total \$180,860,129

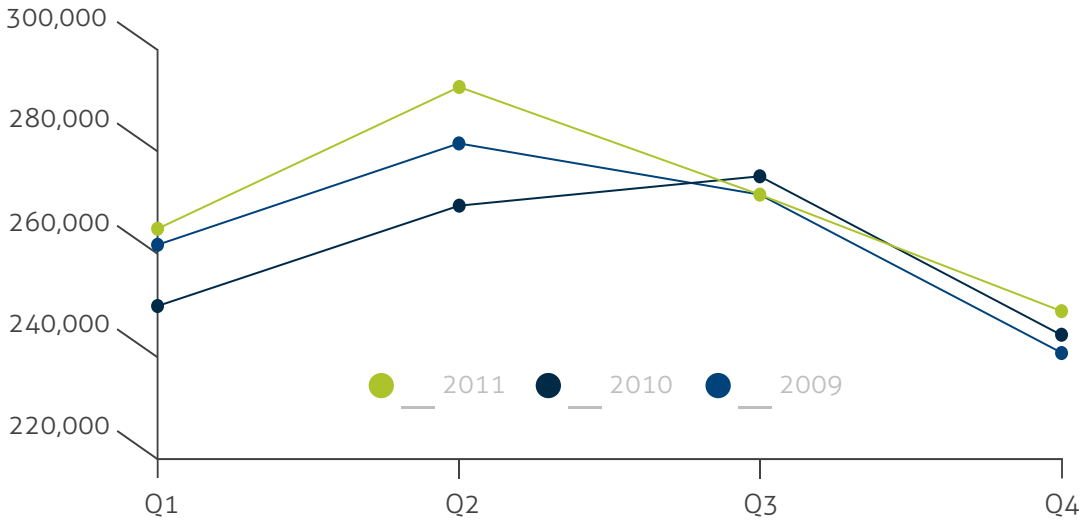


2009–2011 Generated Service Office Fees



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 7/12/2012. All figures have been rounded to the nearest dollar amount.

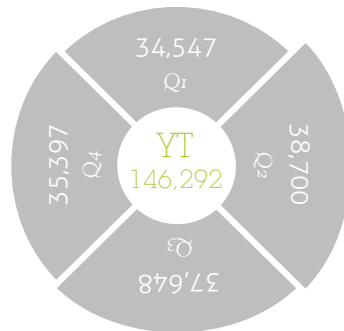
Agent Transaction Submissions



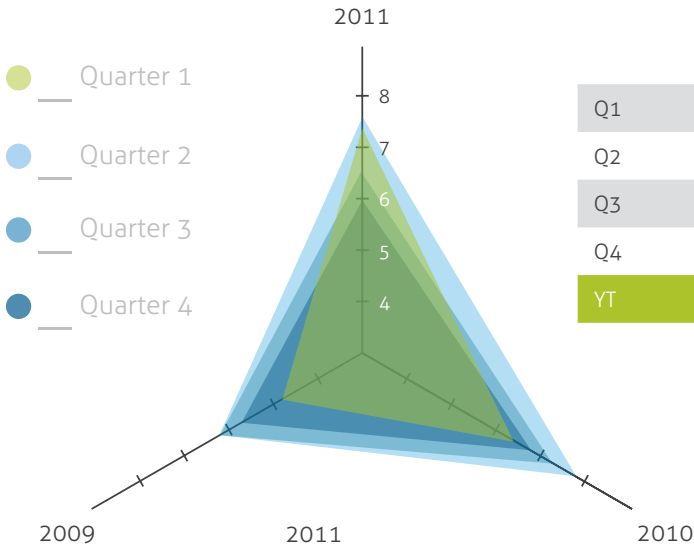
Agent Transaction Submissions Data

	2011	2010	2009
Q1	263,824	249,879	261,030
Q2	292,898	268,735	282,678
Q3	268,028	277,056	270,126
Q4	247,699	244,641	243,748
YT	1,072,449	1,040,311	1,057,582

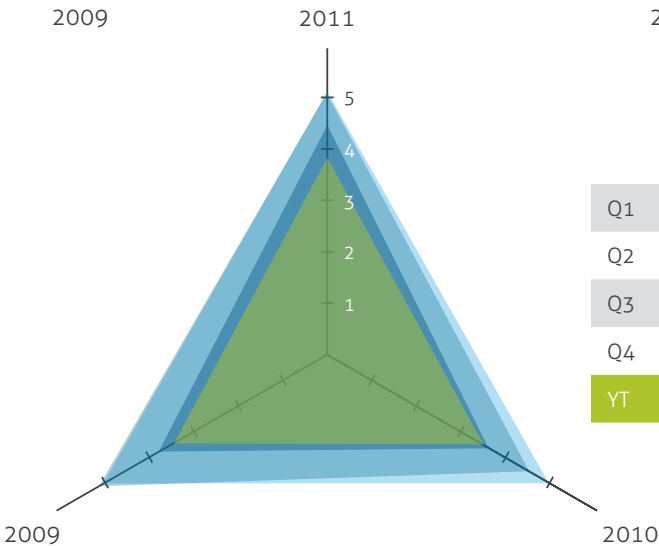
2011 Website Visitor Sessions



Agent and Insurer Submissions via SLIP and FTP



	2011	2010	2009
Q1	73,745	63,144	48,619
Q2	75,438	78,698	62,615
Q3	65,530	72,835	62,015
Q4	60,430	68,159	57,748
YT	275,143	282,836	230,997



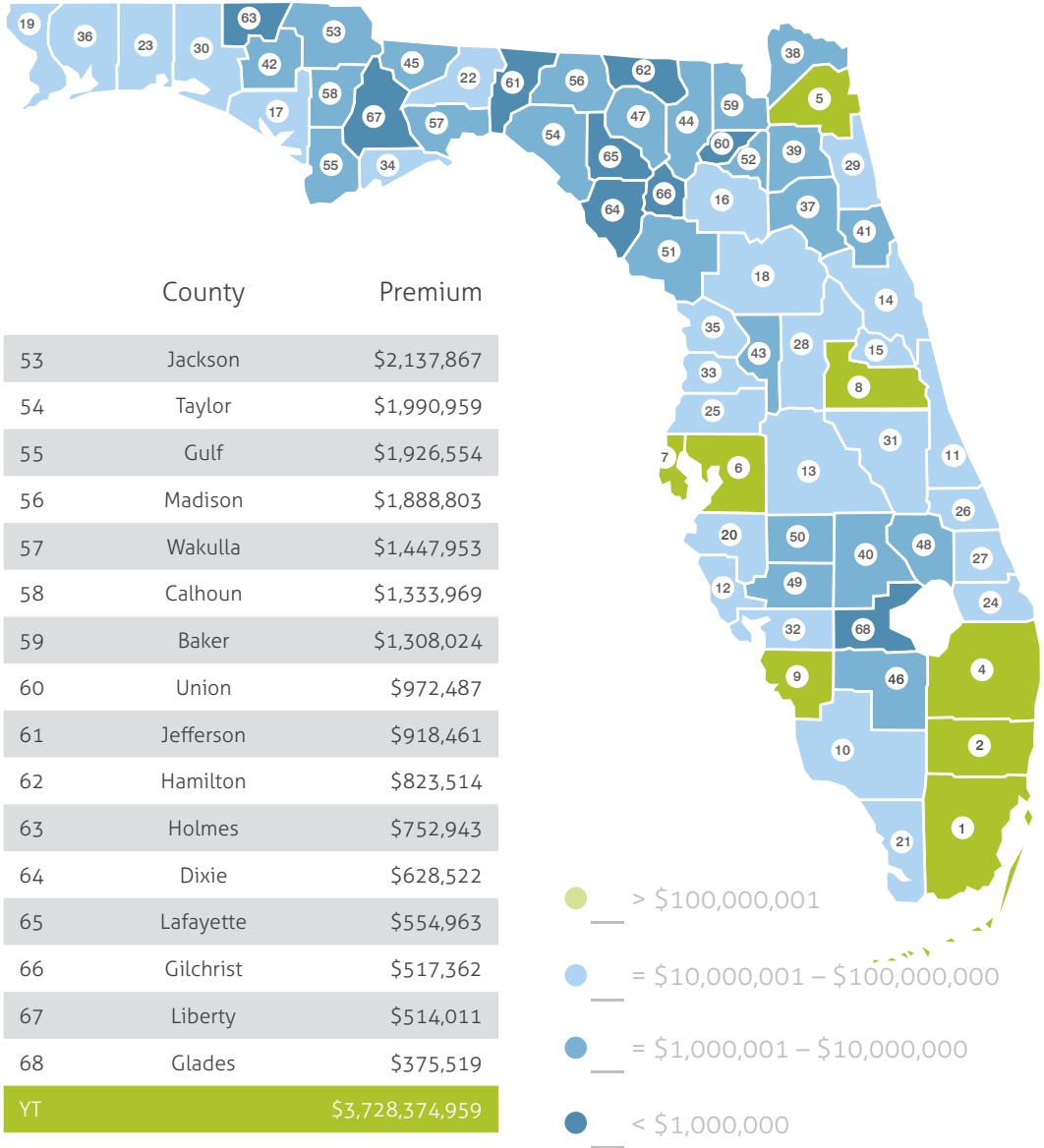
IPC Only Submissions

	2011	2010	2009
Q1	3,867	3,564	3,579
Q2	5,123	5,049	5,022
Q3	5,132	4,544	5,158
Q4	4,307	3,699	3,773
YT	18,429	16,856	17,532

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 7/12/2012. All figures have been rounded to the nearest dollar amount.

2011 Premiums by County

	County	Premium		County	Premium
1	Miami-Dade	\$736,596,181	27	St. Lucie	\$29,792,312
2	Broward	\$351,803,587	28	Lake	\$22,525,110
3	Multiple Counties	\$326,722,109	29	St. Johns	\$19,957,747
4	Palm Beach	\$317,336,702	30	Walton	\$18,279,087
5	Duval	\$239,717,773	31	Osceola	\$17,657,059
6	Hillsborough	\$217,849,242	32	Charlotte	\$15,363,683
7	Pinellas	\$186,342,410	33	Hernando	\$14,462,634
8	Orange	\$150,880,803	34	Franklin	\$14,020,987
9	Lee	\$108,401,057	35	Citrus	\$12,884,649
10	Collier	\$79,727,521	36	Santa Rosa	\$12,742,916
11	Brevard	\$68,631,388	37	Putnam	\$8,864,222
12	Sarasota	\$61,191,516	38	Nassau	\$8,019,280
13	Polk	\$61,087,463	39	Clay	\$8,013,471
14	Volusia	\$54,888,043	40	Highlands	\$5,824,432
15	Seminole	\$50,757,385	41	Flagler	\$5,532,944
16	Alachua	\$48,648,573	42	Washington	\$5,255,249
17	Bay	\$44,836,181	43	Sumter	\$4,062,548
18	Marion	\$42,909,556	44	Columbia	\$4,011,869
19	Escambia	\$41,685,582	45	Gadsden	\$3,995,380
20	Manatee	\$41,578,083	46	Hendry	\$3,960,890
21	Monroe	\$40,422,062	47	Suwannee	\$3,879,403
22	Leon	\$40,255,208	48	Okeechobee	\$3,778,788
23	Okaloosa	\$37,136,677	49	Desoto	\$3,042,108
24	Martin	\$36,612,391	50	Hardee	\$3,019,035
25	Pasco	\$35,665,278	51	Levy	\$2,703,294
26	Indian River	\$34,648,385	52	Bradford	\$2,302,794



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 6/4/12. 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 or service.

Top 25 Coverages

Coverage	Premium	Policy Count
1000 - Commercial Property	\$1,737,593,316	126,240
5000 - Commercial General Liability	\$466,982,693	150,291
1005 - Commercial Package (Property & Casualty)	\$242,681,085	79,052
2002 - Homeowners-HO-3	\$135,285,389	51,050
7003 - Miscellaneous E&O Liability	\$86,069,970	8,294
1013 - Windstorm &/or Hail	\$77,916,635	1,889
5006 - Excess Commercial General Liability (Not Umbrella)	\$76,413,256	6,403
6001 - Miscellaneous Medical Professionals	\$65,770,072	2,505
1010 - Flood	\$56,406,052	1,080
1006 - Condominium Package (Commercial)	\$46,447,590	1,606
5001 - Commercial Umbrella Liability	\$41,327,183	3,253
2009 - Dwelling Property	\$40,278,688	18,429
5012 - Pollution & Environment Liability	\$36,186,527	2,411
2012 - Windstorm	\$29,517,110	438
7002 - Lawyers Professional Liability	\$28,510,478	656
2005 - Condo Unit-Owners HO-6	\$27,338,365	24,405
6000 - Hospital Professional Liability	\$21,709,537	98
1008 - Difference In Conditions	\$21,376,631	4,782
3006 - Personal & Pleasure Boats & Yachts	\$20,956,701	6,510
8004 - Garage Liability	\$19,922,400	7,297
5002 - Directors & Officers Liability (Profit)	\$19,389,562	351
9000 - Commercial Aircraft Hull &/or Liability	\$19,238,041	118
6003 - Physician/Surgeon	\$18,841,731	478
4000 - Inland Marine (Commercial)	\$18,412,909	4,355
2015 - Excess Flood - Residential	\$17,538,819	5,730
YT	\$3,372,110,738	507,721

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 \$356,264,221. All figures have been rounded to the nearest dollar amount. This information was current as of 6/4/12. 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.

Insurer Name	Premium	Policy Count
Lloyd's Underwriters At London	\$765,587,436	304,725
Lexington Insurance Company	\$395,811,547	15,014
QBE Specialty Insurance Company	\$179,346,563	3,510
Scottsdale Insurance Company	\$151,192,029	47,029
Landmark American Insurance Company	\$145,188,432	19,232
Westchester Surplus Lines Insurance Company	\$95,744,312	1,130
Arch Specialty Insurance Company	\$92,726,727	1,860
Illinois Union Insurance Company	\$65,625,393	758
Steadfast Insurance Company	\$64,163,418	2,010
Chubb Custom Insurance Company	\$54,816,711	3,269
Alterra Excess & Surplus Insurance Company	\$50,078,452	5,922
Axis Surplus Insurance Company	\$49,479,073	8,103
Columbia Casualty Company	\$48,990,195	3,228
Ironshore Specialty Insurance Company	\$48,526,987	1,241
Empire Indemnity Insurance Company	\$48,278,080	1,127
Mt. Hawley Insurance Company	\$47,279,782	2,061
Chartis Specialty Insurance Company	\$47,055,272	1,276
Princeton Excess And Surplus Lines Insurance Company	\$47,015,910	1,655
Geovera Specialty Insurance Company F/K/A USF&G	\$46,928,431	29,315
Century Surety Company	\$46,724,691	15,467
Lantana Insurance Limited	\$40,209,504	11,263
Rockhill Insurance Company	\$39,908,847	3,793
Nautilus Insurance Company	\$38,930,324	17,077
Voyager Indemnity Insurance Company	\$36,567,897	12,889
Colony Insurance Company	\$36,486,479	8,502
YT	\$2,682,662,491	521,456

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 \$1,045,712,468. All figures have been rounded to the nearest dollar amount. This information was current as of 6/4/12. 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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International Speedway Corporation
Daytona Beach

Michael J. Franzese

Burns and Wilcox

Tampa

Lorna W. Palmer

Vice Chairwoman

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St. Petersburg

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MacNeill Group, Inc.

Sunrise

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Tallahassee

Irvin "Skip" Wolf III

Regional Excess Underwriters, LLC

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Florida Department of Financial Services

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*Assistant Director of Agent and
Insurer Services*

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Insurance Analyst

Jessica Brown

Operations Specialist

Jim Day

Database/Network Administrator

Chris Dunn

Compliance Review Analyst

James Farmer

Senior Information Architect

Trevor Flanagan

*Assistant Database/
Network Administrator*

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

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Accounting Specialist

Sheila Pearson

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Brian Sadler

Information Systems Support/Developer

Kara Steele

Variance Specialist

Ashlee Weber

Public Information Manager

Bryan Young

Insurance Analyst

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or call toll-free 800.562.4496.

Use this valuable resource to expand your
knowledge and awareness of Florida's
surplus lines insurance marketplace.

Florida Surplus Lines Service Office

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