

ANNUAL REPORT 2008

ELANY @ 20

EXCESS LINE ASSOCIATION OF NEW YORK

EXECUTIVE DIRECTOR'S REPORT

2008 marked the completion of ELANY's 20th year of operations. Its accomplishments extend beyond processing 2,046,212 insurance transactions for a total gross premium in excess of \$31.4 billion. ELANY, with the assistance and support of many fellow associations, has been a key force in passing at least twenty-one pieces of legislation in New York, six of which involved authorizations for excess line brokers to place types of coverage previously prohibited in the excess line market. In 2008 alone, 1,668 transactions were placed involving these newly authorized types of insurance with total premium exceeding \$50,000,000. Still other efforts, legislative and otherwise, helped eliminate recurrent expenses born by brokers, such as the repeal of the excess line license bond requirement and the cessation of the New York City Fire Patrol assessment. ELANY has also protected the E&S market's rights to charge minimum earned premiums, which rights were challenged in New York twice in the past ten years.

ELANY's efforts have resulted in the rewriting and streamlining of Regulation 41, as well as the elimination of non-critical data reporting elements in excess line affidavits. The Association's role as an intermediary between the E&S community and the New York State Insurance Department allows the brokerage community to function as it should. Brokers are

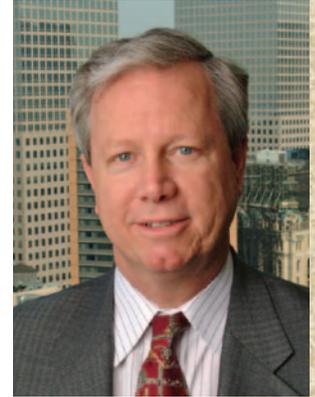
guided by ELANY's education programs, help desk and publications. ELANY acts as a primary point of contact and E&S market information source to the Insurance Department. ELANY's role allows the Insurance Department to focus on consumer protection and solvency, step in where necessary, but avoid overreaction and micromanagement of the excess line broker function.

New York State has collected \$796 million in excess line tax with ELANY's assistance over the past 20 years.

ELANY has also positively influenced the E&S markets in other states. Among other things, ELANY provided assistance in the creation of five other state stamping offices and advocated for fair reciprocal laws to make nonresident E&S licenses available to New York residents. The repeal of license bond requirements for nonresident surplus lines licensees had its genesis at ELANY.

Other achievements and goals of the Association are well stated in the reports of ELANY's Chairman and Committee Chairs.

As we celebrate ELANY's first 20 years of achievements and success in obtaining positive changes for New York's E&S community, we look forward to tackling many challenges that lie ahead in order to realize new benefits, which ELANY can bring to the E&S marketplace. 🌟



Daniel F. Maher
Executive Director

"ELANY, with the assistance and support of many fellow associations, has been a key force in passing at least twenty-one pieces of legislation in New York, six of which involved authorizations for excess line brokers to place types of coverage previously prohibited in the excess line market."

ELANY @ 20

1988

ELANY enacted into law

1989

ELANY opens its doors

1991

ELANY reauthorized

1993

Regulation 41 rewritten

1994

ELANY reauthorized

CHAIRMAN'S REPORT

In 2008, the Excess Line Association of New York (ELANY) completed its 20th year of operation and service to its membership.

The Board of Directors, working in conjunction with ELANY staff, continued to deliver on what I consider to be the primary missions of the Association:

1. Protecting members' ability to write appropriate business within the surplus lines marketplace;
2. Education; and
3. Continuously developing efficiencies in the surplus lines filing process to minimize costs to members.

These core responsibilities have relied heavily on ever-increasing utilization of improvements to the technological tools available to, and/or built by, the Association. I think it is appropriate, given it is our 20th anniversary, to review the "road" we have traveled to provide the state-of-the-art systems we currently enjoy. The timeline throughout this report, is illustrative of the planning, time and coordination necessary to create the various systems that have eased and enhanced your filing processes. It is a journey that started more than 10 years ago with the announcement of ELANY's plan to create a fully electronic reporting and compliance platform.

Milestones of the step-by-step achievements are noted in this Annual Report's timeline. In 2008, ELANY reached a plateau, delivering its fully electronic platform. It was well received by its members, while meeting all reporting requirements of the New York State Insurance Department, mandated by ELANY's enabling legislation.

As you can readily see, a linear, systematic plan and process was created and utilized to develop the truly state-of-the-art filing system. All of these innovations were designed and made to maximize benefits to the membership. It has been quite a journey, but one well worth the trip.

In the legislative arena, we obtained a five-year extension of the ELANY charter passed by

the legislature in 2008. ELANY is, therefore, good to go until June 2014. We were able to accomplish this extension a full legislative year ahead of the scheduled legislative sunset of 2009. This action demonstrates the forward-thinking nature of the Association.

On June 13, 2008, with the full support of every New York producer association and support from NAPSLO nationally, ELANY presented the testimony of 17 witnesses in favor of expanding the New York excess line export list. Great progress has been made in this regard. ELANY continues to work on national surplus lines issues with AAMGA, NAPSLO, many fellow state stamping offices and other members of the insurance community.

The surplus lines industry in the United States produced direct written premiums of over \$37 billion dollars according to the 2008 A.M. Best Report on the U.S. Surplus Lines Market. Surplus Lines represents approximately 14% of the entire U.S. commercial lines property and casualty industry. While the financial services industry suffered one of its worse years in history in 2008, it is with great relief that I am able to state that the property and casualty industry, and more particularly the surplus lines industry, has weathered the financial storm without one insurer insolvency. While this is not to say the industry is immune or that no carrier is exposed to financial failure, it is noteworthy that eligible surplus lines insurers have survived when so many banking institutions and venerable Wall Street names have not.

Years of commitment were necessary for us to reach this point...that of being the premier excess lines organization in the country. Our staff is unparalleled in terms of dedication and strategic thinking. I am privileged to work with them and the rest of the Board of Directors. ELANY will continue to act as an industry leader, anticipating ways to best position and protect the excess line industry in light of the ever-changing evolution of the property casualty industry. 🌟



Kevin McGill
Chairman

ELANY @ 20

1995

Assists in creating NV Stamping Office

1996

Part B affidavit eliminated

1st Export list created

Assists in creating PA Stamping Office

Assists in creating MS Stamping Office

Assists in creating FL Service Office

INDUSTRY LIAISON, LEGISLATION & REGULATION COMMITTEE

2008 was a transformational year in the financial services industry. Large government bailouts and subsidies of formerly flourishing institutions have shown us that risk management and industry regulation are integral to our long term success. New terms like “systemic risk” and “too big to fail” have joined the lexicon of insurance agents and brokers. Here is where the excess and surplus lines industry stands:

EXPORT LIST

ELANY and many other groups have worked hard with the New York State Insurance Department to update the “Export List.” The unified approach of the insurance industry in supporting reform and modernization has been integral in our approach. Led by ELANY, we are close to finalizing an expanded export list, which we intend to introduce to excess line brokers in 2009. Thanks to all who participated in this effort.

ELANY EXTENDER

While it might seem self-serving, the continuation of ELANY’s authority was extended until 2014. The continuation of our statutory authority is validation that we are meeting our mission of serving the excess lines community. The extender legislation also allows ELANY to focus on future market goals and objectives without distraction and concern about its continuation.

OPTIONAL FEDERAL CHARTER

The validation of the state regulatory system has never been as obvious as in the past twelve months. The lack of regulatory oversight by the SEC, Office of Thrift Supervision and the Federal Reserve has caused much of the financial harm we are experiencing today. If it wasn’t for stringent oversight by state regulators, the harm at the holding company level could have spread to primary insurers. While some proponents have used the past twelve months to make a case for Optional Federal Charter legislation, many more realize that Washington needs to get its own house in order before it ever considers extending its authority directly over the insurance industry. While Chairman Bernanke of the Federal Reserve has made a strong case for supervision over “Systemic Risk Exposures,” he realizes it must be in conjunction with the current state regulatory system. While the future is cloudy, we will remain vigilant in defending the State system of insurance regulation.

MULTI STATE COMPACT (SLIMPACT)

ELANY continues to support a Multi State Compact as the best method to resolve many of the interstate problems agents and brokers experience when placing multi state E&S risks. Building consensus to enact a “Compact” is a slow-moving process. ELANY will continue to support reform and modernization of the compliance processes in any way possible. 🌊



Thomas J.
Derella
Chairman

“ELANY and many other groups have worked hard with the New York State Insurance Department to update the Export List...we are close to finalizing an expanded list, which we intend to introduce to excess line brokers in 2009.”

ELANY@20

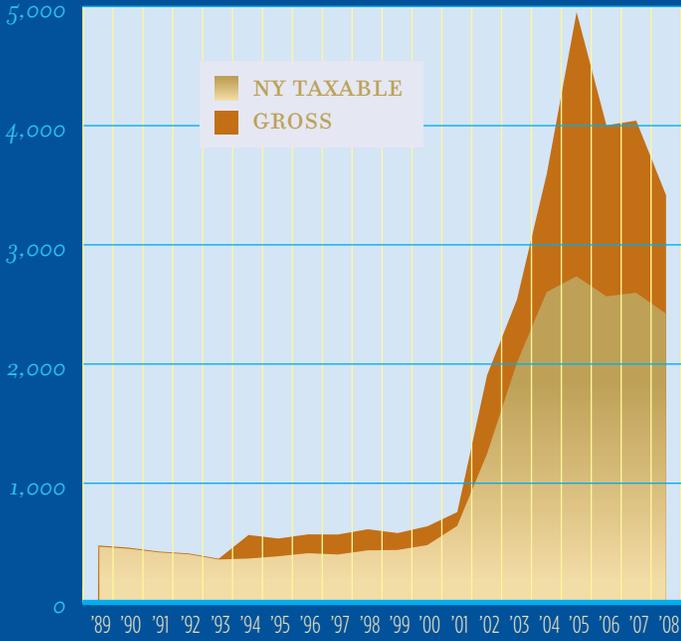
1997

Prize
Indemnification
Legislation

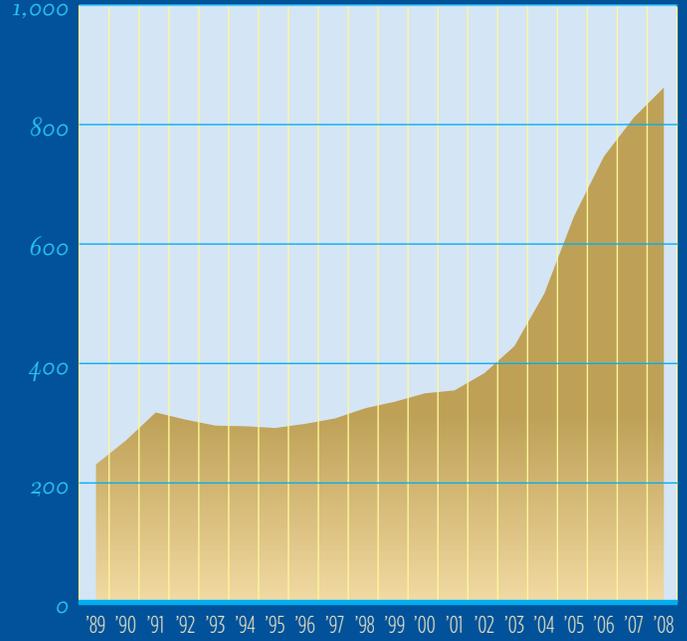
Contract
Frustration
Legislation

Binding
Authority
Legislation

TOTAL PREMIUMS (IN MILLIONS)

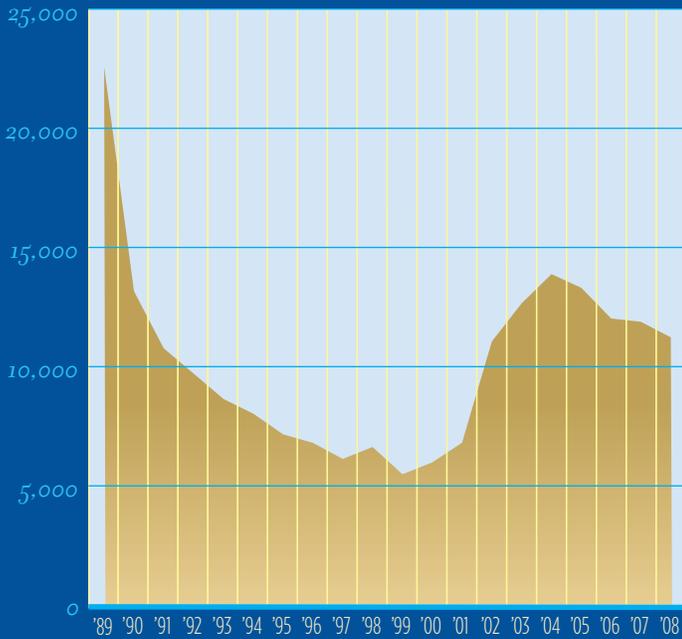


ELANY ACTIVE MEMBERS

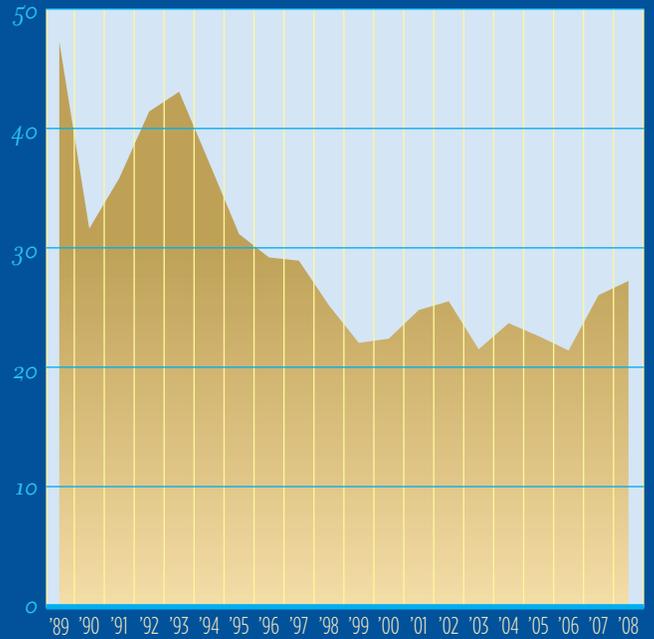


Tax allocation began in 1994.

NEW YORK TAXABLE PREMIUMS PER STAMPED INSURANCE DOCUMENT



PROCESSING COST PER STAMPED ITEM



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

1998

ELANY Reauthorized

Binding authority expansion legislation

Employer sponsored group excess insurance

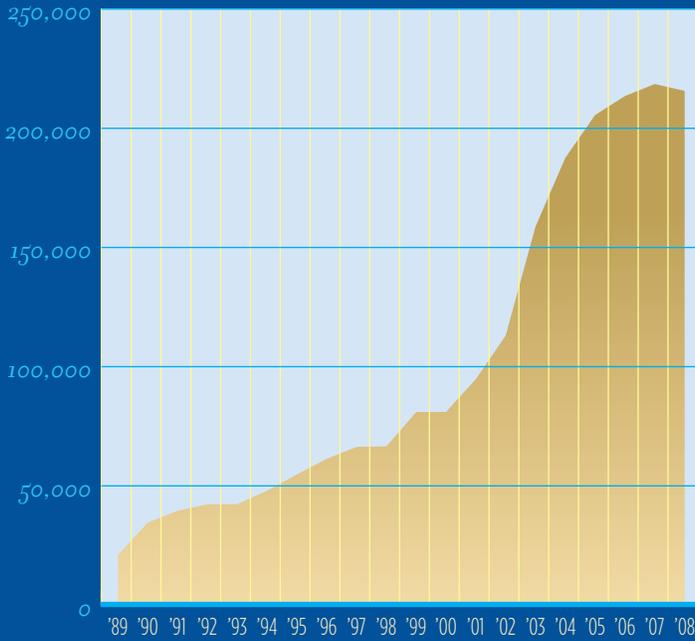
1999

E&S insurer/ authority to operate NY offices

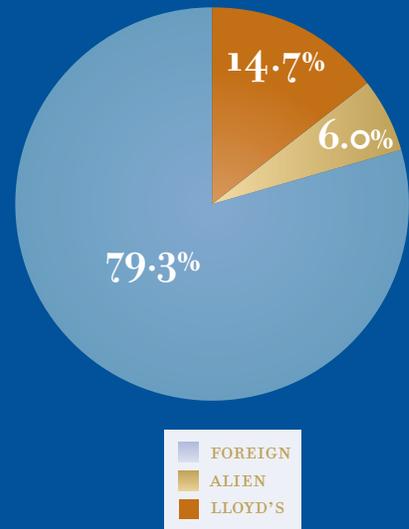
2000

Service Contract Reimbursement Insurance Legislation

POLICIES & ENDORSEMENTS PROCESSED

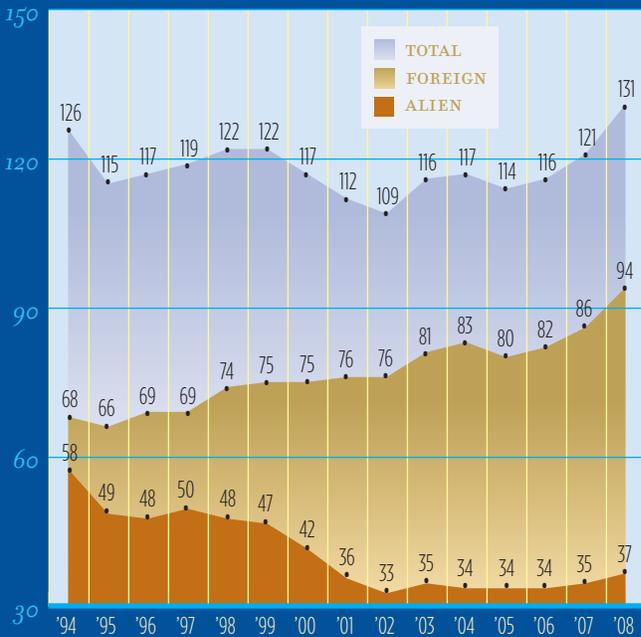


PERCENTAGE OF YEAR 2008 NY TAXABLE PREMIUM DISTRIBUTION*



*Figures are on a risk attaching basis

ACTIVE ELIGIBLE E&S INSURERS



This year ELANY added 8 foreign companies and 3 alien companies. One alien company voluntarily withdrew and no foreign companies were removed. Since 1994, eligible foreign companies increased by 26 while eligible alien companies decreased by 21. The total of 131 eligible companies in 2008 is the largest total in the past 15 years.

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

2001

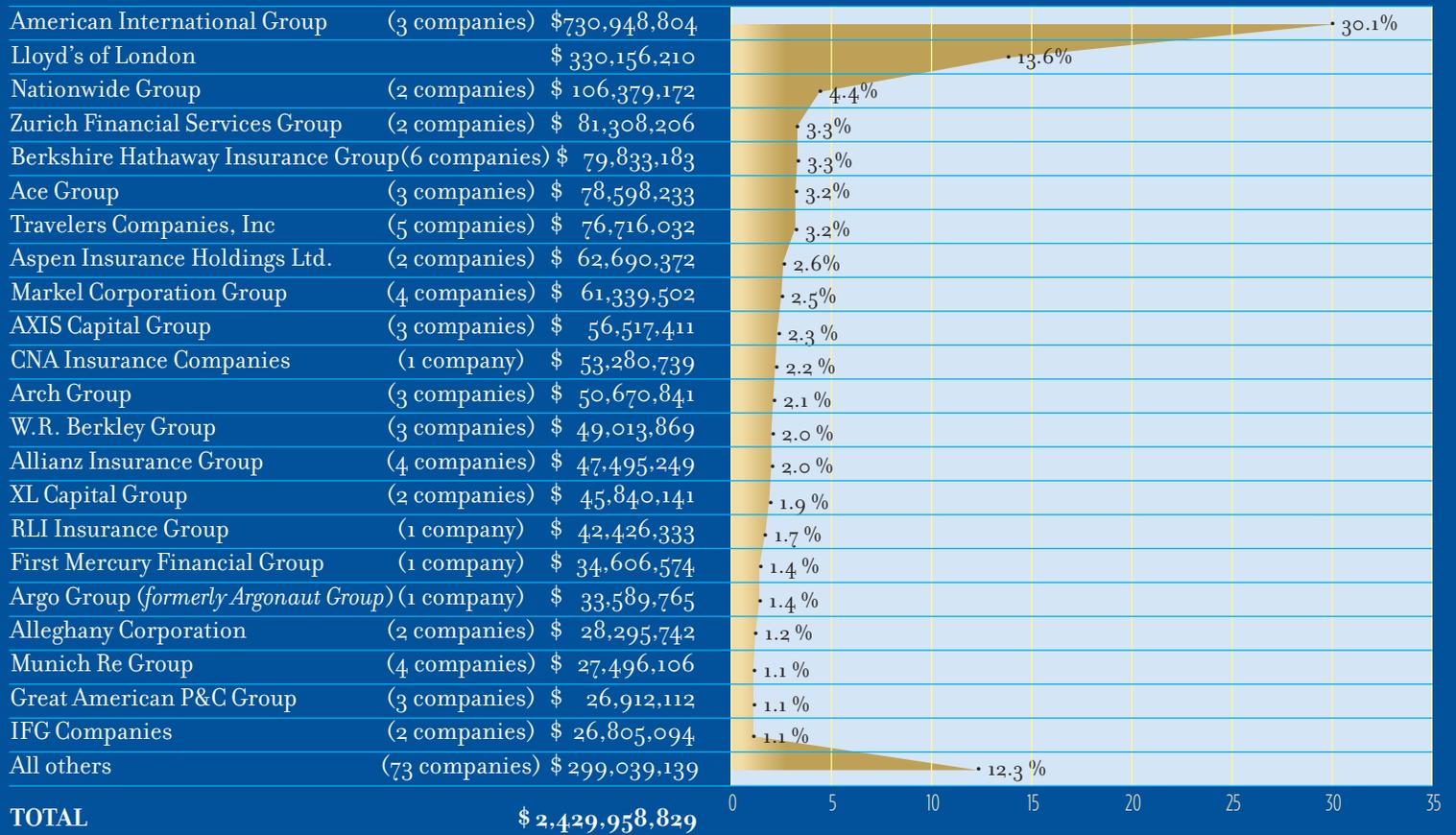
Created Part A affidavit software on CD

ELANY Reauthorized with broadened e-filing authority

License Bond requirement repealed

NCOIL Resolution to repeal E&S license bond requirements

2008 NEW YORK TAXABLE PREMIUM BY INSURANCE GROUP



TOP 10 PERILS*

PERIL	NEW YORK PREMIUM	2007 RANKING
1. General Liability	\$ 790,248,719	1
2. Errors and Omissions	\$ 336,264,913	2
3. All Risk	\$ 330,877,305	3
4. Umbrella Liability	\$ 136,279,223	4
5. Multiple Peril	\$ 124,857,680	5
6. Fire	\$ 95,302,122	6
7. Environmental Impairment	\$ 93,595,817	8
8. Miscellaneous Professional	\$ 82,399,232	7
9. Inland Marine	\$ 49,171,619	9
10. Fidelity and Surety	\$ 48,995,754	10
SUBTOTAL	\$ 2,087,992,384	
All Others	\$ 129,703,153	
TOTAL	\$ 2,217,695,537	

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

*Figures are on a risk attaching basis.

2002

Bulletins, newsletters, converted to email

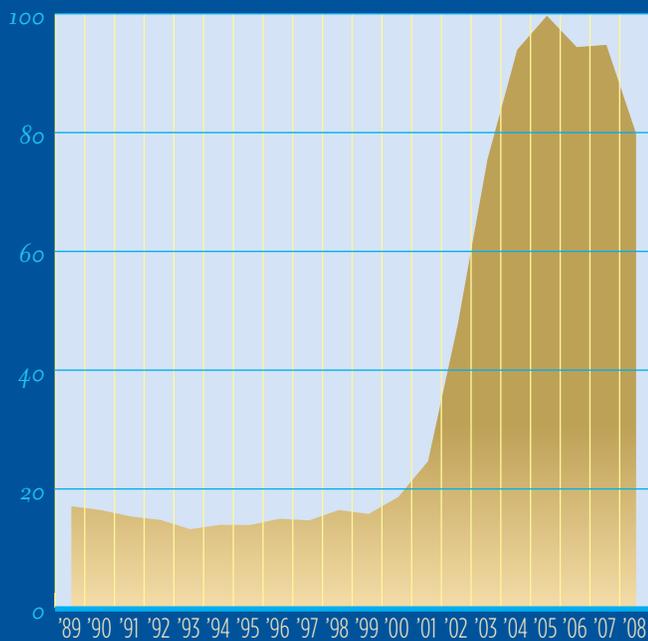
ELANY.org Website launched

Authority to procure professional liability for nursing homes, et al

Repeal double tax on reinsurance of excess line policies

E&S TAX (IN MILLIONS)

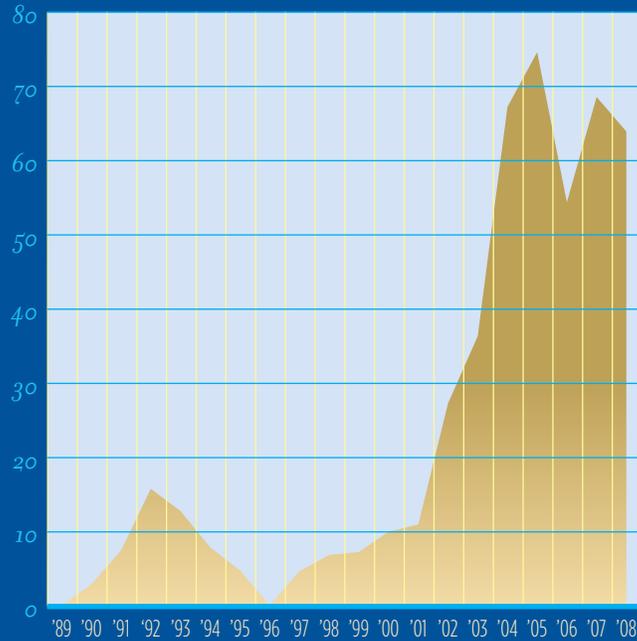
Table/Graph Revised 5/2013.



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

PURCHASING GROUP ACTIVITY (IN MILLIONS)

Table/Graph Revised 5/2013.



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

TOP 10 INSURERS*

INSURER	NEW YORK PREMIUM	%
1. Lexington Insurance Company	\$ 413,023,784	19%
2. Lloyd's Underwriters	\$ 325,965,493	15%
3. American International Specialty Lines Insurance Company	\$ 162,898,719	7%
4. Scottsdale Insurance Company	\$ 96,467,780	4%
5. Steadfast Insurance Company	\$ 78,675,463	4%
6. Illinois Union Insurance Company	\$ 64,117,927	3%
7. Travelers Excess & Surplus Lines Company	\$ 58,927,395	3%
8. Columbia Casualty Company	\$ 52,453,237	2%
9. Arch Specialty Insurance Company	\$ 45,201,420	2%
10. Interstate Fire & Casualty Company	\$ 44,473,496	2%
SUBTOTAL	\$ 1,342,204,714	61%
All Others	\$ 875,490,823	39%
TOTAL	\$ 2,217,695,537	100%

The top 10 insurers accounted for 60.5% of total premiums written in 2008, compared to 61.7% in 2007, 55.1% in 2006, and 62.2% in 2005.

*These statistics are on a year 2008 risk attaching basis.

2004

Moved headquarters and established state of art operations

Reciprocal E&S licenses authorized

ELANY stamping fee reduced

Legislation mandating notice to wholesalers on premium financed policies

Online affidavit software launched

Authorization removing limitations on minimum earned premium when financed



Margaret M. Beirne
Chairman

For the past 20 years, ELANY has monitored the financial stability and solvency of all excess and surplus lines carriers in New York.

In 1989, when ELANY drafted the first list of eligible companies, there were 37 foreign and 62 alien insurance companies. Over the years, many of the alien companies withdrew from the U.S. market for a variety of reasons, such as increased regulatory requirements and disenchantment with their results on U.S. business. Today, there are 94 foreign and 37 alien companies. Of the original 62 alien insurers in 1989, only eight are still on the eligibility list today.

Prior to ELANY's formation, excess and surplus lines carriers had to establish a trust fund and provide minimal documentation to the New York State Insurance Department to gain eligibility. There was a lack of respect in the regulatory community for the excess and surplus lines market at that time. ELANY established more formal procedures for the eligibility review process and requests considerably greater financial information. The review process itself has evolved over the years from a basic analysis of the statutory financial statement of the individual company to an in-depth review of the E&S company, affiliated companies and audited GAAP statements and 10-Ks of the holding company. The financial results of the eligible company and its parent are monitored on a regular basis.

ELANY's review process enabled it to identify several troubled carriers in advance of regulatory actions. While the majority of companies which seek eligibility obtain it, the few companies that were denied eligibility are now in liquidation, runoff, or have been sold to new owners, with one or two exceptions. Some insurers were forced to surrender eligibility due to financial troubles. Still others suffered through some hard years and recovered.

Who can forget the turmoil and uncertainty at Lloyd's in the mid-90s? Today, Lloyd's continues to be a thriving market; and while the number of syndicates has been greatly reduced, the current syndicates are now larger and better capitalized. Additionally, most of the capital is provided by corporate sponsorship rather than the individual names. Lloyd's had been the largest E&S insurer in New York until 2002, when Lexington Insurance Company surpassed it. Lexington still holds first place with 22.5% of the market in 2008. In total, the three eligible AIG companies wrote 30% of all New York E&S business in 2008, compared with Lloyd's 13.6%.

Following the tragedy of 9/11, we witnessed the rapid formation of several Bermuda markets. The Class of 2001 was funded by insurance companies, brokers and major banking institutions. While the companies originally provided reinsurance capacity, they are now publicly traded and most have launched E&S carriers. Following the hurricane season of 2005, we saw the formation of the Class of 2005. These companies, however, were funded by private equity and hedge funds. The companies wrote a more diversified spread of business and provided capacity to a market that had suffered tremendous losses as a result of the Katrina, Rita and Wilma storms. Unlike the Class of 2001 which has established E&S carriers, the Class of 2005, with one exception, has not.

Congress continues to debate federal versus state regulation. The implosion of AIG, at the holding company level, is a good indicator that insurance companies are best governed under state regulation. Despite the woes at AIG Holdings, the insurance company operations remain solvent and viable.

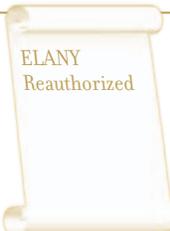
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ELANY @ 20

2005

ELANY stamping fee reduced

Implemented ImageRight replacing paper files



2006

Approval to stamp copies/non originals of insurance documents

Electronic return of stamped documents

Revamped website

OPERATIONS & PROCEDURES COMMITTEE

ELANY has become well recognized as an advocate for the E&S industry over its 20 years of operations. In our role as a service organization charged with the accumulation and monitoring of data pertinent to the New York Excess Lines industry, a flexible and agile business model is required, the foundation of which is a dedicated staff that relies on state of the art technology.

ELANY has proved, through the years, that it has been up to the challenge. As you might imagine, providing services that meet the requirements of the New York State Insurance Department without putting demands on the members that unnecessarily affect their individual style, has been a continuing challenge. In our early days, it was recognized that automation was going to be the key to successfully accomplishing this goal.

2008 was a good year to be Chairman of the Operations Committee, the year in which the Association rolled out its fully electronic filing platform. The system was first made available to brokers in March. By December, over 60% of all transactions were completed using ELANY's electronic platform.

The charts and exhibits contained in this report show that through the years, the Association has consistently kept pace with the increase in documents processed, while controlling the cost of processing. Since staffing in

a service organization can be a significant cost, state of the art automation has been, and continues to be, a key to providing cost-effective service to the membership.

Although automation has been a focus, there have been a number of operational actions the Association has implemented over the years that continue to provide the New York State Insurance Department with required information, while reducing the compliance burden on the membership. Although not an all-inclusive list, these achievements include elimination of the insured affidavit, streamlined record keeping, electronic filing of documents, retrieving year-end documents electronically and an interactive website.

Much has been accomplished successfully in ELANY's first twenty years. Going forward, demands placed on the members as the industry continues to evolve require ELANY to continue to be aggressive in its efforts to efficiently and effectively manage data. The value of a quality, dedicated staff, working with advanced technology, allows us to maximize cost efficiencies associated with processing transactions. With the continued efforts of the management and staff and the guidance of the diverse volunteer Board, we are confident that ELANY will continue to provide a valuable role to the E&S industry. 🌟

9



Gary
Hollederer
Chairman

INFORMATION RESOURCES AND SECURITY COMMITTEE, *continued from page 8*

To strengthen the solvency of carriers on the eligibility list, ELANY has proposed, and the New York State Insurance Department has agreed with, increasing the required minimum surplus for eligibility to \$45 million from \$15 million. At year end 2008, 82% of all New York eligible insurers met the \$45 million policyholders' surplus requirement, and those carriers underwrite 97% of reported premium. Of the 22 companies that do not meet the new standard, 14 have affiliated insurers that are

also eligible, which suggests minimal market disruption should occur as this new standard is implemented.

ELANY's Information Resources and Security Committee has addressed the many changes that have faced the industry over the past 20 years. It is our intent to continue this due diligence with input from the broker community, the New York State Insurance Department, and the knowledgeable staff at ELANY. 🌟

ELANY @ 20

2007

2005 End of Year reports made available online

Fire Patrol Assessments/eliminated

Salary Protection Insurance Legislation

ELANY new back office software implemented

NCOIL Resolution in support of SLIMPACT

AUDIT AND FINANCE COMMITTEE REPORT



Joseph Caligiuri
Chairman

2008 certainly represents one of the worst years in modern history for the American economy, in general, and the financial services industry, more particularly. Therefore, it is with relief that I can report the property and casualty insurance industry has suffered but fared much better than any other aspect of the financial services industry. ELANY is well situated and prepared for a market downturn, as it completes its 20th year of operations.

The two stamping fee cuts in recent years have substantially reduced ELANY revenue. To counter balance this revenue reduction, ELANY has invested significantly in new technology to create efficiencies for ELANY, but more importantly for its members. The significant

investment reveals itself as depreciation expense in the ELANY financial statements.

New York excess and surplus lines business was off in 2008, with a year-over-year decrease of approximately 7% in taxable premium and a 15% decrease in gross premium. As a result, ELANY ran a slight deficit in 2008 and is prepared to run manageable deficits through the end of the market downturn.

Revenues were \$5,844,986, off in 2008 by \$677,000, while expenses were up \$182,000 to \$5,881,576, driven higher by a substantial increase in depreciation expense.

ELANY's conservative investment posture helped ELANY avoid realizing a net investment loss to its overall portfolio.

The following briefly highlights 2008 financial results:

2008 REVENUES

Stamping Fees	\$5,148,605
Investment & Miscellaneous Income	696,381
TOTAL	\$5,844,986

2008 EXPENSES

Payroll	1,997,340
Depreciation	1,137,935
Computer Charges	439,864
Rent & Utilities	332,233
Professional Fees	276,962
Postage/Printing/Stationery	72,198
All Other	1,625,044
TOTAL	\$5,881,576
FUND BALANCE	\$21,556,756

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

ELANY @ 20

"...the property and casualty insurance industry has suffered but fared much better than any other aspect of the financial services industry."

2008

Fully electronic filing system launched



Assists in creating MN Stamping Office

End of Month/ End of Year reports available online



BOARD OF DIRECTORS

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Association Counsel

Dewey & LeBoeuf LLP

JOHN McPARLAND, CPA

Independent Accountant

McGladrey & Pullen, Inc.

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Daniel F. Maher, *Executive Director*

Nancy Born, *Office Manager*

Theresa Hetherington, *Stamping Office Manager*

Richard Schlesinger, *Financial Director*

Eugene Nunziata, *Education/Communications Director*

Brian Persaud, *IT Manager*

Genita Armstrong, *Examiner*

Benedict Bardeguéz, *PC Analyst/Helpdesk*

Areina Battle, *Examiner*

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Lorraine Chin, *Examiner*

Jose De Los Santos, *PC Analyst/Helpdesk*

Eusebio Del Valle, *Examiner*

Melissa Downey, *Examiner*

Kesana Francis, *Examiner*

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Deanna Olah, *Stamping Office Supervisor*

Beth Pflugger, *Stamping Office Supervisor*

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Branan Whitehead, *Stamping Office Supervisor*

Oyetola Zubairu, *Executive Assistant*

