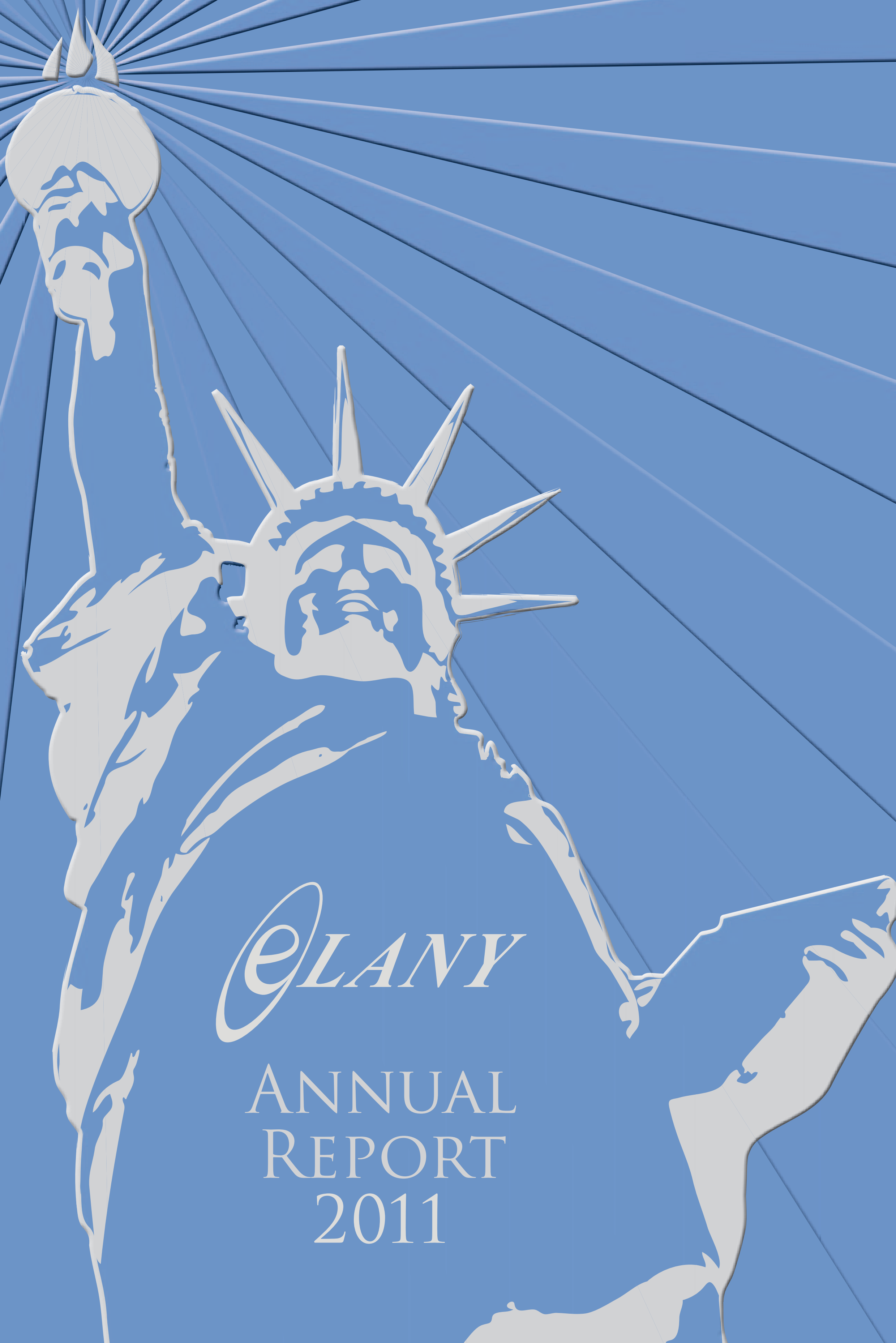
EXCESS LINE ASSOCIATION OF NEW YORK



eLANY

Annual Report 2011

Daniel F. Maher
Executive Director

2011 WAS A TRANSFORMATIVE year for the excess and surplus lines industry on a national level. The market remained soft; although, a significant number of catastrophic losses worldwide are likely to move the needle in 2012. Yet, the greater buzz in the industry was anticipating and implementing changes brought on by the Nonadmitted Reinsurance Reform Act "NRRA," which became effective in July 2011. There are many differing opinions within the industry over what level of success, if any, the NRRA achieved in bringing about simplicity, uniformity or a modernization of the excess and surplus industry's unique state-based regulatory scheme.

To sum it up succinctly smaller, local excess line brokers saw the least impact. If a broker does not handle multistate risks or sophisticated insureds (exempt commercial purchasers), not much has changed. Even determining the home state was a low impact change at best for brokers placing smaller, single-state accounts in one or just a handful of states.

The impact on national and major regional excess line brokers was more immediate, at least with respect to sophisticated and/or multistate insureds. As of July 21, 2011, only one state, the home state of the insured, is permitted to regulate any single surplus lines placement and requires a tax to be paid on that transaction. The sophisticated insureds, who qualify as "exempt commercial purchasers," can release the broker from its duty to conduct a diligent search of the admitted market. Determining the home state of the insured may involve a bit of analysis for some multistate risks, but multistate risks appear to represent less than 5% of total E&S transactions nationwide.

In New York, as in many states, a debate occurred over whether to enter into a tax-sharing compact or agreement, and if so, which tax sharing arrangement, SLIMPACT[1] or NIMA[2], should be adopted. Ultimately, provisions to enact NIMA were deleted from the Assembly's and Governor's budget bills in New York. SLIMPACT was passed in the Senate but died a one-house bill. New York's law was amended to eliminate tax allocation rules, except no tax is payable on New York home-stated risks for premium attributable to non-United States exposures. The decision to eliminate tax liability on premium for international exposures was driven by strong industry support.

The SLIMPACT vs. NIMA debate played out in many state legislatures in 2011. Nine states adopted SLIMPACT legislation, and 11 states committed to the NIMA contract approach. No state is actually sharing taxes with another state at this point in time. NIMA is designed to achieve uniform tax sharing only. SLIMPACT was designed to achieve a greater level of uniformity across state lines beyond tax sharing. Neither NIMA nor SLIMPACT can achieve uniformity, simplicity and efficiency in one modern system contemplated by the sponsors of the NRRA unless the states coalesce around one single approach and that approach is widely, if not universally, adopted. New York and the majority of large volume surplus lines

continued on page 9

1 Surplus Lines Insurance Multistate Compliance Compact
2 Nonadmitted Insurance Multistate Agreement

In New York, as in many states, a debate occurred over whether to enter into a tax-sharing compact or agreement, and if so, which tax sharing arrangement, SLIMPACT or NIMA, should be adopted.

Thomas J. Derella
Chairman

As the landscape of the excess and surplus lines marketplace continues to evolve, I am proud to tell you that the Excess Line Association of New York (ELANY) continues to be a beacon of stability to the brokerage community. Looking at the past twelve months, we have continued to be a leader in regulatory/legislative issues, transactional processing and automation, and industry education.

While the federal regulatory landscape continues to be murky, ELANY has continued to be a stalwart of state regulation. While the National Association of Insurance Commissioners (NAIC) continues to push for its version of a multistate tax sharing agreement, ELANY continues to help state legislatures introduce the more common sense approach of the interstate compact known as SLIMPACT. Regardless of the final outcome, ELANY has done its job of representing brokers' interests in a vocal way.

As ELANY continues to address functional/operational efficiencies for the broker marketplace, I am pleased to share with you some data that shows how significant this progress actually is. As of year end 2011, 92% of all affidavits filed in New York were processed electronically. This efficiency has saved individual brokers thousands of dollars and allowed them to focus their energies on new business opportunities to build their business. These efficiencies have also reduced the amount of late filings of affidavits to under six percent. Our online systems continue to evolve. A new module for risk purchasing groups was introduced last year, and 60% of PG filings are now accomplished electronically. Our goal is to have every broker filing electronically within the next few years.

While the National Association of Insurance Commissioners (NAIC) continues to push for its version of a multistate tax sharing agreement, ELANY continues to help state legislatures introduce the more common sense approach of the interstate compact known as SLIMPACT.

ELANY's educational efforts continue to evolve as well. We offered personal and group meetings with brokers to explain our system. We have worked with several automation vendors to integrate our online system into their platforms. We continue to work with other trade associations to support education that is beneficial to our members. Our educational programs will continue to expand, and we hope all brokers take advantage of them when offered.

Finally, I am pleased to inform you that ELANY is in excellent condition from a leadership and financial perspective. We have a tremendous team, led by our Executive Director, Dan Maher, and a Board of Directors, who are vigilant to fairly and professionally represent the interests of the entire brokerage community. Our job is to protect the marketplace, and I believe 2011 was another successful year for everyone involved.

Margaret M. Beirne
Chairman

THE YEAR 2011 WAS THE YEAR FOR catastrophes. The catastrophes started early in the year with an earthquake in New Zealand and ended the year with floods in Thailand. In between, there were more earthquakes, tsunamis, tornadoes and floods. No part of the globe was spared. As companies report year end results, we note results have been impacted by the unprecedented number of catastrophes that occurred during the year. Approximately half the E&S companies on the eligibility list have suffered underwriting losses, and approximately 15% have incurred net losses. Overall, net income has declined from prior years, as in addition to underwriting losses, reserve releases have declined, and the continued low yields provided meager investment returns. While some companies are showing a major swing in surplus, aggregate surplus increased 2%; and all foreign companies on the eligibility list continue to maintain an "A-" or better rating from A.M. Best.

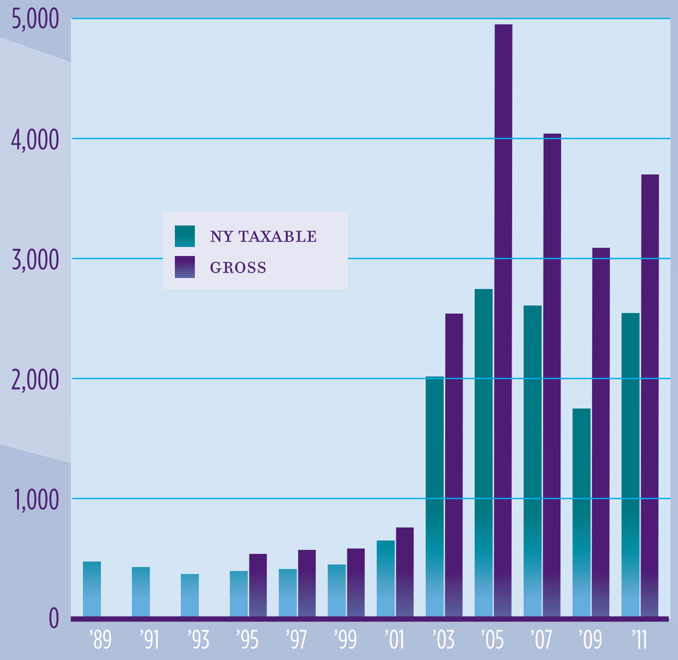
While some companies are showing a major swing in surplus, aggregate surplus increased 2%; and all foreign companies on the eligibility list continue to maintain an "A-" or better rating from A.M. Best.

The 12th amendment to New York Regulation 41 was promulgated in April 2011. The amendment increased the minimum policyholders' surplus, which excess and surplus lines insurers must maintain, to $35 million at January 1, 2012 for companies already eligible and $45 million by January 1, 2013. Additionally, eligible insurers will need to increase policyholders' surplus by $1 million every three years beginning in January, 2016. All new applicants must have a minimum policyholders' surplus of $45 million.

The intent of the NRRA, which took effect July 21, 2011, was to simplify the tax collection process and authorize the establishment of national eligibility requirements. Instead, it has created a hodge-podge of tax collection requirements and an unsettled process of eligibility requirements. The implementation of the NRRA has necessitated that ELANY change some of the documentation that was requested in the past. The alien companies are receiving a "free pass" by just being listed on the NAIC's Quarterly Listing of Alien Insurers, and this is prompting some alien companies to discontinue providing the documents ELANY requires for a full review. ELANY has scaled back the requalification documents for the foreign companies for 2012 and is pleased with the responses received. ELANY will continue to review the companies on the Eligibility List and bring to the Department's attention any concerns regarding a particular result. We urge all excess line licensees to contact ELANY to discuss concerns regarding any eligible company's financial condition.

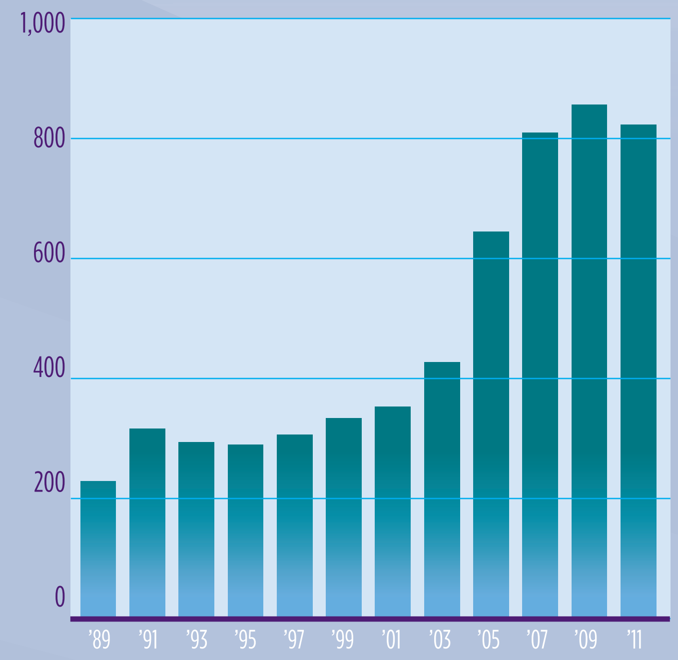
In 2011, ELANY added two foreign companies and two alien companies to the eligibility list. Three foreign companies and one alien company voluntarily withdrew. The ELANY eligibility list now contains 99 foreign companies and 39 alien companies. ELANY's Information Resources and Security Committee will continue to address the many changes and challenges that face the industry. We will continue this due diligence with input from the broker community, the Department of Financial Services and the knowledgeable staff at ELANY.

TOTAL PREMIUMS (IN MILLIONS)

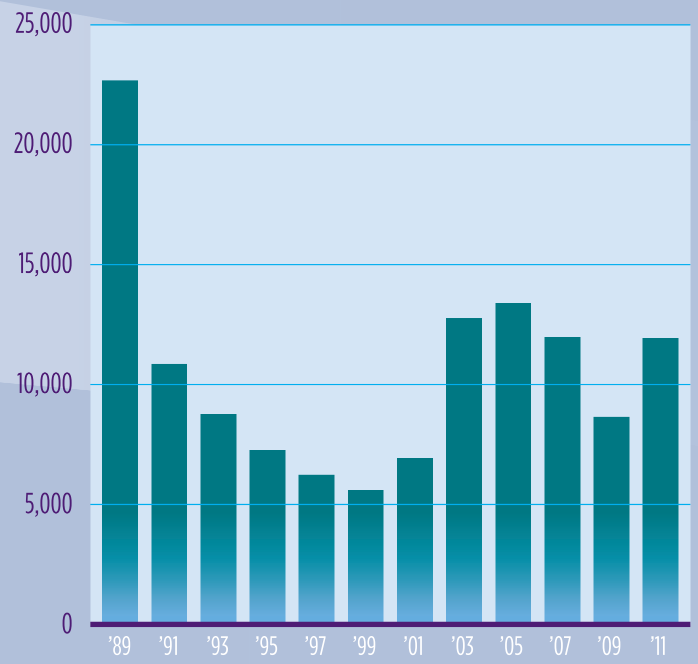


Tax allocation began in 1994.

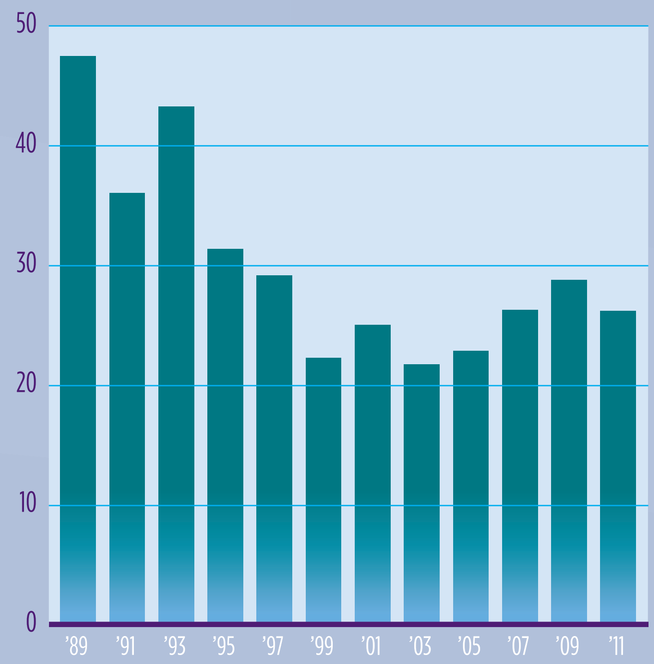
ELANY ACTIVE MEMBERS



NEW YORK TAXABLE PREMIUMS PER STAMPED INSURANCE DOCUMENT

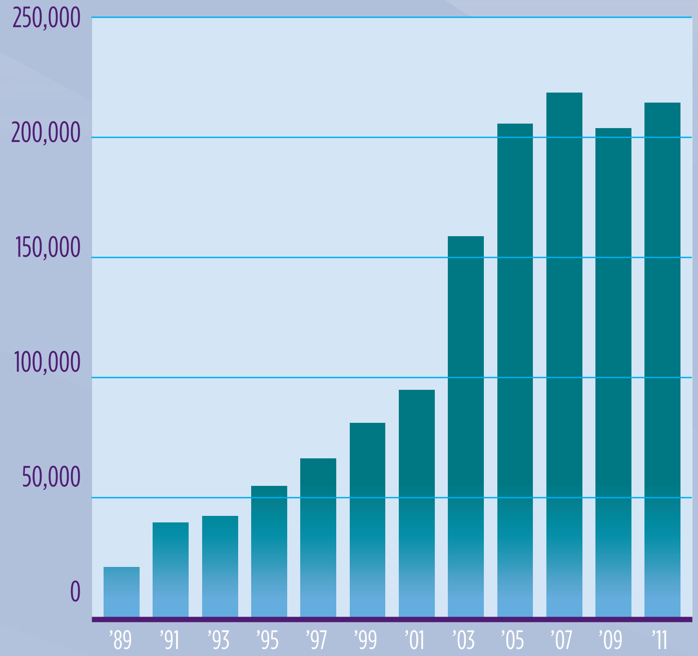


PROCESSING COST PER STAMPED ITEM

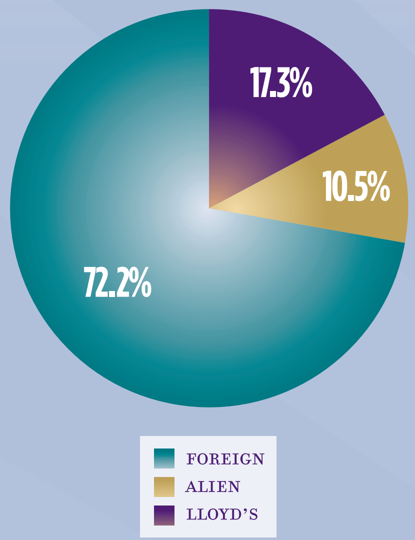


All figures and statistics are based on calendar year premium except where otherwise noted.

POLICIES & ENDORSEMENTS PROCESSED

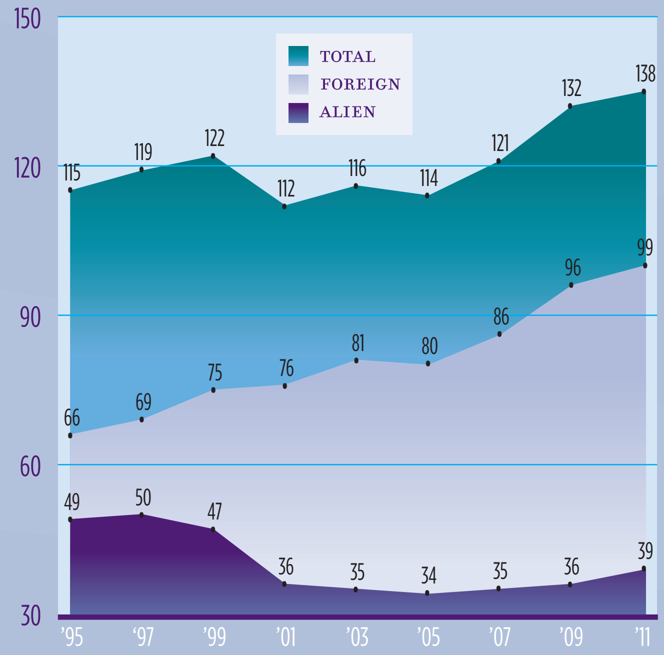


PERCENTAGE OF YEAR 2011 NY TAXABLE PREMIUM DISTRIBUTION BY ELIGIBLE INSURERS*

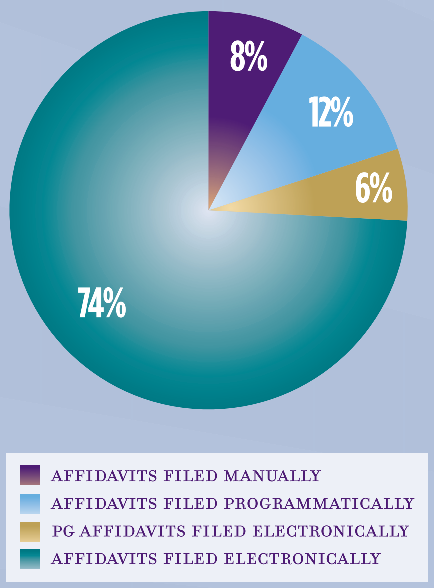


*Figures are on a risk attaching basis.

ACTIVE ELIGIBLE E&S INSURERS



2011 ELECTRONIC AFFIDAVIT SUBMISSIONS

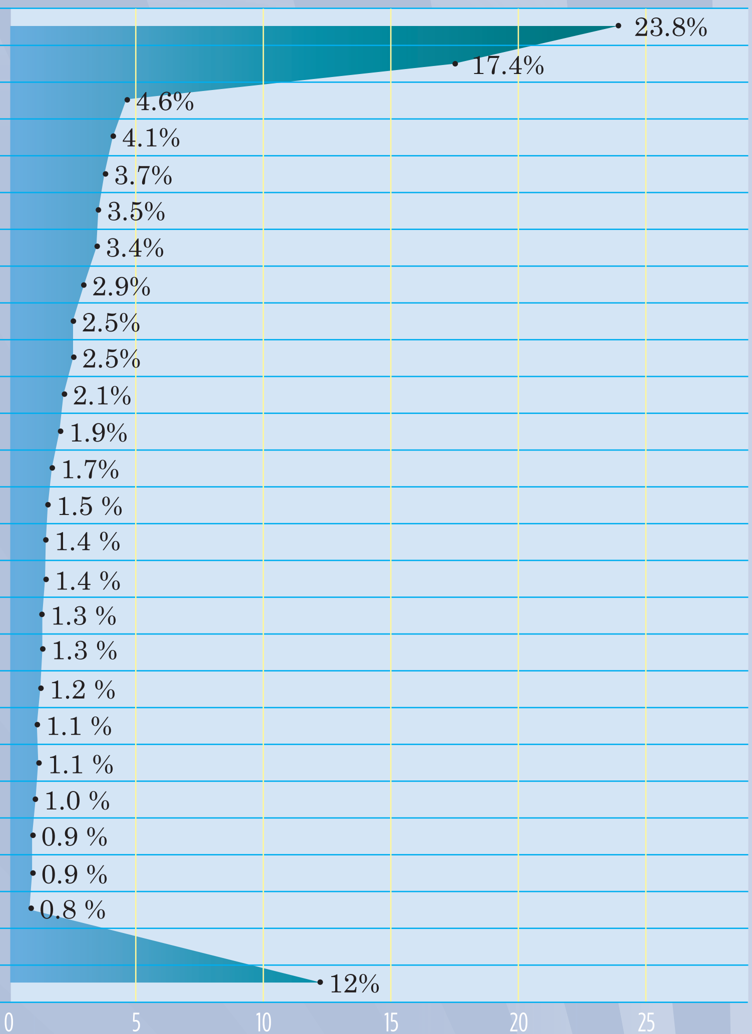


This year ELANY added 2 foreign companies and 2 alien companies.
Three foreign companies and 1 alien company voluntarily withdrew.
Since 1995, the total number of companies increased from 115 to 138. However, while foreign companies increased by 33, the alien companies decreased by 10 with a total of 99 foreign companies and 39 alien companies.

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

2011 NEW YORK TAXABLE PREMIUM BY INSURANCE GROUP

Chartis Group	(3 companies)	$	605,325,626
Lloyd's of London		$	442,291,294
CNA Insurance Companies	(1 company)	$	116,190,669
Swiss Re	(4 companies)	$	105,267,100
Nationwide Mutual	(2 companies)	$	94,358,405
Zurich Financial Services Group	(2 companies)	$	89,402,849
Allianz Insurance Group	(4 companies)	$	85,894,088
W.R. Berkley Group	(5 companies)	$	72,999,205
Aspen Insurance Holdings Ltd.	(2 companies)	$	63,440,821
Travelers Companies, Inc	(5 companies)	$	62,799,722
Fairfax Financial Group	(4 companies)	$	53,436,890
Ace Group	(3 companies)	$	47,693,366
Berkshire Hathaway Insurance Group	(6 companies)	$	42,032,941
Ironshore Inc	(2 companies)	$	39,390,718
AXIS Capital Group	(2 companies)	$	36,051,866
Markel Corporation Group	(4 companies)	$	35,448,915
Arch Group	(3 companies)	$	33,654,146
XL Capital Group	(2 companies)	$	32,520,214
Chubb Group of Insurance Companies	(2 companies)	$	30,769,568
Liberty Mutual	(3 companies)	$	28,266,724
Argo Group	(1 company)	$	26,888,387
Munich Re Group	(4 companies)	$	24,921,625
IFG Companies	(2 companies)	$	23,287,621
RLI Insurance Group	(1 company)	$	22,581,536
HCC Insurance Holdings Group	(1 company)	$	19,296,222
SUBTOTAL		**$**	**2,234,210,518**
All other	(69 companies)	$	310,571,790
TOTAL		**$**	**2,544,782,308**



TOP 10 PERILS*

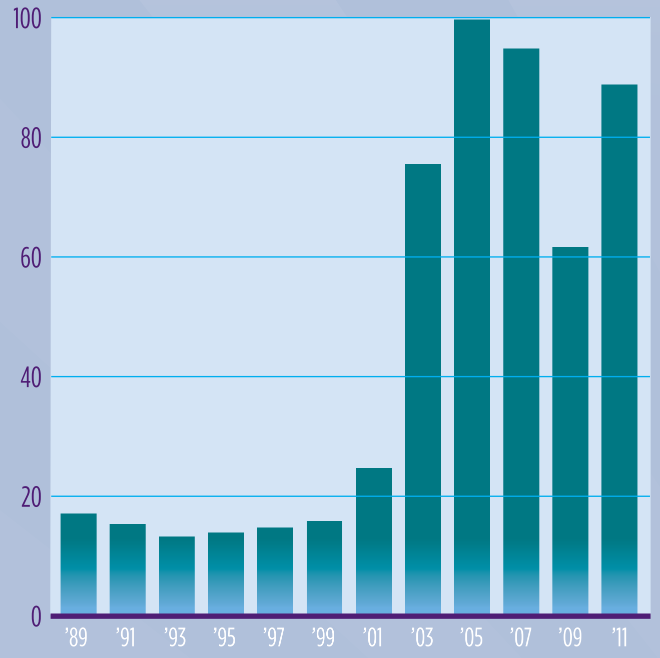
	PERIL	NEW YORK TAXABLE PREMIUM		2010 RANKING
1.	General Liability	$	799,072,371	1
2.	Errors and Omissions	$	708,614,702	2
3.	All Risk	$	278,763,607	3
4.	Multiple Peril	$	148,379,643	5
5.	Umbrella Liability	$	89,199,397	7
6.	Environmental Impairment	$	74,326,023	8
7.	Fire	$	72,362,178	6
8.	Miscellaneous Professional	$	63,736,157	9
9.	Additional Property Coverage	$	56,270,339	10
10.	Credit Insurance	$	40,757,749	4
	SUBTOTAL	**$**	**2,331,482,166**	
	All Others	$	134,390,603	
	TOTAL	$	2,465,872,769	

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

*Figures are on a risk attaching basis.

E&S TAX (IN MILLIONS)*

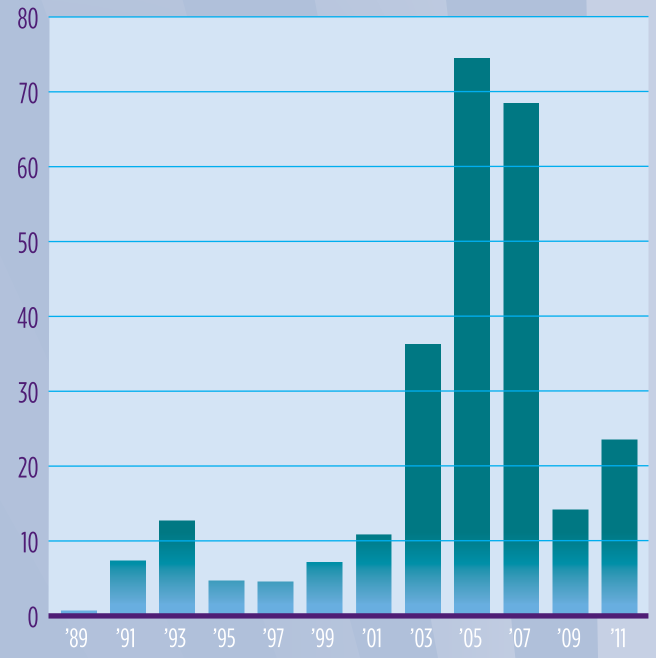
Table/Graph Revised 5/2013.



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

PURCHASING GROUP ACTIVITY (IN MILLIONS)*

Table/Graph Revised 5/2013.



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

TOP 10 INSURERS*

	INSURER	NEW YORK TAXABLE PREMIUM	%
1.	Lexington Insurance Company	$ 502,881,830	20%
2.	Lloyd's Underwriters	$ 426,027,171	17%
3.	Columbia Casualty Company	$ 101,621,869	4%
4.	Steadfast Insurance Company	$ 94,583,634	4%
5.	Scottsdale Insurance Company	$ 90,865,007	4%
6.	Swiss Re International SE	$ 79,649,109	3%
7.	Interstate Fire & Casualty Company	$ 73,462,705	3%
8.	Chartis Specialty Insurance Company	$ 69,384,678	3%
9.	Aspen Insurance UK Limited	$ 53,472,717	2%
10.	Travelers Excess & Surplus Lines Company	$ 47,911,399	2%
	SUBTOTAL	**$ 1,539,860,119**	**62%**
	All Others	$ 926,012,650	38%
	TOTAL	**$ 2,465,872,769**	**100%**

The top 10 insurers accounted for 62.4% of total premiums written in 2011, compared to 62.6% in 2010, 57.3% in 2009 and 60.5% in 2008.

*Figures are on a risk attaching basis.

Thomas J. Derella
Chairman

THE INDUSTRY LIAISON, LEGISLATION & Regulation Committee of ELANY continues to work on issues that will help make the market more efficient. In 2011, ELANY focused on state legislation to implement and conform New York law to the NRRA (Nonadmitted Reinsurance Reform Act). ELANY also committed itself to an action plan regarding 2012 legislative efforts.

The first bill we are supporting is Senate Bill 6552, which does the following:

1) expands the superintendent's authority regarding export list criteria;

2) permits a broker to treat an admitted quote as a declination when the price is 25% higher than an excess line quote for comparable coverage; and

3) provides that a diligent search of the admitted market is valid for a new one-year policy and two consecutive renewals.

We believe these are reasonable changes that will help the broker community to better handle their E&S business.

The second piece of legislation being supported by ELANY would permit the incorporation of Domestic Excess Line Insurance Companies in New York.

Six states have enacted laws to permit an insurance company to incorporate an insurer under their laws for the purpose of underwriting excess and surplus lines (E&S) risks through E&S licensed brokers.

Since 1998, when Illinois enacted the first such legislation, five additional states have followed suit. These states are Arkansas, Delaware, New Hampshire, New Jersey and Oklahoma. To date, at least 17 insurers have opted to incorporate under these statutes with additional insurers planning to do so.

The primary motivations for insurers to utilize these statutory provisions are:

1) Historically, an insurance group would have two surplus line insurers. The first would underwrite E&S business in 49 states but could not do so in its state of incorporation where it was licensed. This required a second surplus line insurer to be incorporated in a different state so it could underwrite E&S risks in the one state where the other insurer could not.

2) Insurers, who underwrite an E&S multistate risk under the E&S laws of the insured's home state but have risk exposures in a state where the insurer is licensed, have an exposure that a court, where the insurer is licensed, will not apply the E&S law but might apply the law relating to licensed insurers.

3) Incorporating as a Domestic Excess Line Insurer gives such an insurer immediate eligibility in the state of New York, which is a coveted yet sometimes hard to obtain underwriting territory.

This legislation will attract insurers as it has done in other states because it will allow such insurers to operate more efficiently and create more certainty regarding judicial venues.

The legislation is intended to attract new business to the state with the concomitant economic benefits new businesses create and avoid the departure of businesses and employment to other states which might otherwise remain as New York domestic excess line insurance companies if such legislation is enacted.

In 2011, ELANY focused on state legislation to implement and conform New York law to the NRRA (NONADMITTED REINSURANCE REFORM ACT).

Janet Pane
Chairman

TRENDS IN TECHNOLOGY CONTINUE to change the way firms in the financial services industry communicate, operate and relate to their customers and each other. Given the constant change in the legislative and regulatory arena, it has become increasingly important to streamline compliance communication and create integrated solutions that bring efficiency to the insurance sector.

The Nonadmitted Reinsurance Reform Act (NRRA) was intended to simplify an overly complex and often conflicting set of state regulations on multistate E&S insurance transactions. The truth is, it has fallen to each state to implement the necessary changes on their own.

ELANY operates a first-rate web portal, by which its members can efficiently comply with the excess line law. This electronic platform is fundamental to the manner in which revisions and additions to New York laws and regulations are delivered to members so they can properly conduct their business. Members can turn to ELANY through a self-serve portal and access the ELANY Education Video Library to learn about the changes brought about by implementation of the NRRA. The electronic filing system is currently utilized for 92% of all filing transactions. In 2011, it was updated to bring the New York excess line affidavits in line with the new laws and regulations designed to implement the NRRA.

In an ongoing effort to ease the burden on brokers, ELANY is constantly striving to improve the use of technology to automate the filing process. By the increasing use of the electronic system, whether submitted through the web interface or programmatically, ELANY is capturing important data related to these transactions to analyze and measure the positive impact the E&S market brings to New York State. This, in turn, helps ELANY obtain legislation and regulatory reform for the good of the E&S marketplace.

While modernization is no small undertaking, data collection and analysis will help us identify potential solutions, and over time allow us to introduce uniformity with other broker and state systems to eliminate redundant keying of information by our brokers, improving efficiency and reducing costs.

Members can turn to ELANY through a self-serve portal and access the ELANY Education Video Library to learn about the changes brought about by implementation of the NRRA. The electronic filing system is currently utilized for 92% of all filing transactions.

Executive Director's Report

continued from page 1

states will be hard pressed to consider any proposal which does not deliver a fair tax revenue sharing arrangement, a system which eases the reporting burden on brokers and greater uniformity.

Along with the NRRA, which was enacted as part of the Dodd Frank Wall Street Reform and Consumer Protection Act, the new Federal Insurance Office (FIO) was created. While the powers of that office are quite limited, state legislators are wary over the propensity of federal operations to grow and seek new responsibilities and territories over time. A real concern exists that the federal government will encroach on the traditional state-based system of insurance regulation and ultimately emasculate it. This concern has a real basis in fact given the support in some segments of the insurance industry for federal regulation of insurance.

It is somewhat ironic that the greatest strength of the state-based system is also its greatest weakness. Setting standards to address local issues creates many positive results, but the inability of states to agree on standards and uniform administration for procedural, non-substantive issues is crushingly inefficient. Many are concerned that the federal alternative to state-based regulation is a one-size-fits-all approach, or worse, a complicated new layer of additional regulation. In light of these concerns, ELANY will continue its efforts in working to modernize the state-based regulatory system.

Gary Hollederer
Chairman

DOING MORE WITH LESS. A PHRASE that has become all too common in the insurance industry, regardless of the role you play.

A daunting task at times, faced with the dilemma of handling more transactions while controlling expenses and without sacrificing the quality of service, has been the norm in the recent past.

ELANY, your New York stamping office, has not been unscathed. However, through the foresight and management provided by the leadership team, they have accomplished what the Board believes to be an outstanding job. Highlights of this year's financial statements include a fund balance that has been managed effectively through expense control.

Total revenue for 2011 was $5,265,937 representing an increase of approximately 3% over the previous year. The majority of this increase has been derived by stamping fees. Due to the conservative approach taken on funds invested and the sluggish economy, interest income was flat. Expenses were up by .6% to $5,574,370. Depreciation expense, which has been the result of heavy investment in automation over the past number of years and which has had an impact on net worth, will not be a factor next year.

The number of transactions processed totaled 214,478, an increase of approximately 3% over last year. The cost for processing a transaction in 2011 decreased 2% from 2010 to $25.99.

It is believed that 2012 will be filled with uncertainty both at State and Federal levels. With the continuing effort of the ELANY staff, the end result will be a well run, disciplined organization that will remain financially viable.

The following briefly highlights 2011 financial results:

2011 REVENUES

Stamping Fees	$4,975,987
Investment & Miscellaneous Income	289,950
TOTAL	**$5,265,937**

2011 EXPENSES

Payroll	2,025,226
Depreciation	1,002,621
Computer Charges	378,567
Rent & Utilities	338,332
Professional Fees	321,752
Postage/Printing/Stationery	50,833
All Other	1,457,039
TOTAL	**$5,574,370**
FUND BALANCE	**$19,259,461**

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.

The number of transactions processed totaled 214,478, an increase of approximately 3% over last year. The cost for processing a transaction in 2011 decreased 2% from 2010 to $25.99.

ELANY

ELANY

BOARD OF DIRECTORS

THOMAS J. DERELLA
Chairman
The Kingstar Company, Inc.

JOSEPH F. CALIGIURI
Vice Chairman
Lighthouse Specialty Brokers, Inc.

GARY HOLLEDERER
Treasurer
Russell Bond & Co., Inc.

JOHN A. BUCKLEY
Secretary
NIF Services of New York Inc.

LANCE BECKER
Arthur J. Gallagher Risk Management Services, Inc.

DAVID ISENBERG
DC White Agency

JANET PANE
Willis North America, Inc.

DONALD PRIVETT
Privett Special Risk Services, LLC

ROBERT SHAPIRO
Global Facilities, Inc.

KEVIN McGILL
Immediate Past Chairman
Wells Fargo Insurance Services of New York, Inc.

JOHN MCPARLAND, CPA
Independent Accountant
McGladrey & Pullen, Inc.

EXCESS LINE ASSOCIATION STAFF

Daniel F. Maher, *Executive Director*
Nancy Born, *Office Manager*
Theresa Hetherington, *Stamping Office Manager*
Eugene Nunziata, *Education/ Communications Director*
Brian Persaud, *IT Manager*
Fazeda Ahamad-Raghunandan, *Examiner*
Benedict Bardeguez, *PC Analyst/Helpdesk*
Areina Battle, *Examiner*
Christian Carbajal, *Examiner*
Lorraine Chin, *Examiner*
Eusebio Del Valle, *Examiner*
Melissa Downey, *Examiner*
Kesana Francis, *Examiner*
Jenny Kyi, *Examiner*
Catherine Leonard, *Examiner*
Donald Lipkins, *Scanning Technician*
Traci Martin, *Examiner*
Darlene Moreta, *Administrative Assistant*
Bryan Nebel, *Examiner*
Deanna Olah, *Stamping Office Supervisor*
Beth Pfluger, *Stamping Office Supervisor*
Nicole Pugliese, *Examiner*
Ivan Rodriguez, *PC Analyst/Helpdesk*
Keith Vittore, *Examiner*
Branan Whitehead, *Stamping Office Supervisor*

Excess Line Association of New York
One Exchange Plaza
55 Broadway, 29th Floor
New York, New York 10006-3728
Tel: 646-292-5500
E-mail: elany@elany.org
Website: www.elany.org

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