ANNUAL REPORT 2003

EXCESS LINE ASSOCIATION OF NEW YORK

Rebuilding and recovery in the year 2003 reached far beyond downtown Manhattan… for the industry as a whole, we have seen substantial commitments of new capital, very significant reserve strengthening and new dedication by carriers to core underwriting principles.

—Daniel F. Maher

EXECUTIVE DIRECTOR'S REPORT

Daniel F. Maher

The obvious way to measure 2003 within the context of the Excess and Surplus line insurance world is to discuss the hard market, the increase in pure policy volume and pricing. There are, however, a few incredibly poignant but subtle aspects of the E&S marketplace that are truly noteworthy.

While September 11 will forever be remembered as a horrific day in the history of New York and America, in November of 2003, the PATH trains returned to downtown and the PATH train station at the World Trade Center site re-opened. In the two years past, survival came first, followed by rebuilding and recovery. The E&S industry has been and continues to be a major partner in this rebuilding and recovery.

We all read in the newspapers that Swiss Re and Larry Silverstein are slugging it out in court. Was the trade center attack one occurrence or two? There is, however, a subtle flaw in the reporting because the court documents show Swiss Re's E&S subsidiary, SR International, as the real party in interest. SR International was in good company on that risk. In fact, eight insurers on the Trade Center policy are E&S insurers. Moreover, many other risks which were subject to losses arising out of the Trade Center attack were borne by E&S insurers. The issue of one occurrence versus two aside, the point is that the E&S market suffered seriously as a result of the WTC attack, the largest insured loss in world history. I am proud to say that, in the main, these horrendous losses have been investigated, processed and paid. The industry had large enough financial shoulders to bear these losses and recover. What greater evidence could there be of the valuable role this international marketplace plays in today's global economy? This palpable evidence of the E&S industry's professionalism, dedication and success should be remembered as a defining moment in E&S history, no less so than Lloyd's of London's response to the San Francisco earthquake of 1906.

Rebuilding and recovery in the year 2003 reached far beyond downtown Manhattan. The entire P&C industry has had three years to get back to underwriting fundamentals and "rightprice" their risk taking. While many issues still exist financially, not the least of which is reinsurance recoverable questions, for the industry as a whole, we have seen substantial commitments of new capital, very significant reserve strengthening and new dedication by carriers to core underwriting principles.

In 2003, the U.S. economy in general showed a number of signs of recovery with the stock market once again picking up, positive economic growth and some improvement in employment statistics.

In 2003, ELANY also was rebuilding. While I will leave it to the Committee Chairs to highlight specifics in their reports, I'm compelled to note that the five-fold increase in premium volume since I first arrived at ELANY in 1997 left us little choice but to grow substantially and grow we did. We have been able to absorb a 400% increase in volume and we've done so by a staffing increase of less than 100%. Through a variety of efficiencies, we drove the processing cost per item to the lowest unit cost in ELANY history.

We had clearly outgrown our previous headquarters and we spent a good portion of 2003 seeking out potential new facilities, negotiating terms and designing a new physical plant to make our long-term plan to convert to an electronic filing system as seamless as possible. On January 23, 2004, we moved to our new headquarters. It was designed to facilitate our efforts to provide additional services to our members and to continuously redesign the compliance process to reduce the burdens it puts on licensees.

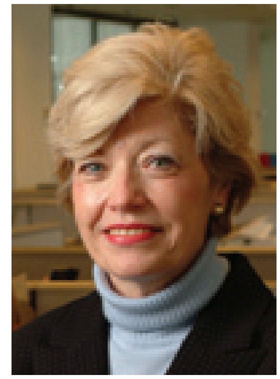
Come on up and see us if you're in the neighborhood!

As a result of the explosion in premium volume, the Association's fund balance increased well beyond its immediate needs. ELANY requested that the stamping fee be reduced by 25% and we have just been advised by the New York State Insurance Department that effective July 1, 2004, the stamping fee can be reduced from 0.4% to 0.3%.

—Margaret M. Beirne

CHAIRMAN'S REPORT

Margaret M. Beirne



2003 was a record year. As I reflect on the past 2 years as Chairperson of ELANY, I can't help but note the unprecedented growth in the E&S market overall, and particularly in New York. As the admitted market discarded non-core and underperforming books of business, the E&S companies stepped up to the plate and provided much needed capacity. ELANY's calendar year premium volume increased almost 61% in 2003 to $2,015.8 million, compared with $1,253.9 million in 2002 and $649.0 million in 2001. The increased premium is a reflection of the pricing environment as the documents processed lagged behind the premium growth. While premium volume increased almost 61% in 2003, the total documents processed only increased 40%. As a result of the explosion in premium volume, the Association's fund balance increased well beyond its immediate needs. ELANY requested that the stamping fee be reduced by 25% and we have just been advised by the New York State Insurance Department that effective July 1, 2004, the stamping fee can be reduced from 0.4% to 0.3%.

On the regulatory front, ELANY, along with a number of representatives of the P&C industry, was successful in working with the Insurance Department to allow the 8th Amendment to Regulation 41 to expire at its natural expiration. The amendment would have required excess line brokers to place excess line insurance policies only with those eligible carriers who had consented to prorate TRIA premiums, except in certain specific situations. As most policies in today's market are subject to a 25% minimum earned policy provision, this would have prohibited applying the 25% minimum earned to the TRIA premium as well. In consideration for allowing the amendment to expire, ELANY issued a bulletin outlining a "Best Practices" approach to the earn-out of TRIA premiums.

ELANY was also successful in its efforts with the NYS Insurance Department in getting the Department to allow ELANY to accept Part C affidavits by facsimile. While the Part C sent by fax must still be signed, original wet signatures are no longer required on the filed copy.

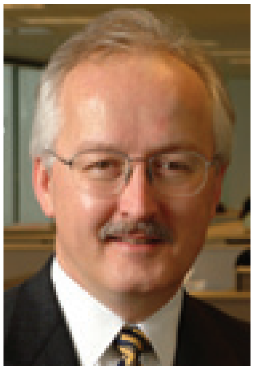
A major accomplishment in 2003 was the passage of the reciprocal producer licensing law. ELANY has been promoting passage of such legislation for several years and was actively involved in drafting the language that was incorporated into the final bill. The language defines what transactions are subject to the NY excess line law and which transactions are subject to the surplus lines laws of other states providing clear guidance to licensees. ELANY members are now able to obtain nonresident E&S licenses in most states and out of state E&S brokers can obtain a New York license.

Finally, ELANY has completed the move to new, more spacious headquarters at One Exchange Plaza, also known as 55 Broadway. The upgraded computer system has been designed to facilitate the current workflow and also anticipates the implementation of an electronic filing process.

With the expiration of my term as Chairperson, I offer thanks to the ELANY Board and staff for their tireless efforts in making certain that the Association operates in a timely and efficient manner. The Association is dedicated to meeting your needs and those of your customers and insureds. We welcome your thoughts and suggestions.

INDUSTRY LIAISON LEGISLATION AND REGULATION COMMITTEE

Kurt Bingeman, Chairman



Legislators and regulators, responsible for the oversight of our industry, continue to need clear and balanced input on industry practices in order to better understand the impact of their actions. To that end, the ELANY Board visited with legislators in Albany as part of our annual visit and legislative reception, as well as joining with PIWA and other trade groups at their events to engage in a continuing dialogue regarding current industry issues.

In 2003, a three-year effort by the industry and the Insurance Department helped achieve reciprocal licensing legislation for insurance producers in New York. The legislation included specific language by ELANY to give meaningful direction to excess line brokers when placing multi-state risks.

The Federal TRIA program and resulting Department regulations adopted on an emergency basis limiting minimum earned premiums prompted ELANY, a number of trade associations and various non-admitted insurers to question the propriety and soundness of these regulations. This industry group, in negotiations with the Insurance Department, ultimately resolved the issues. The regulation expired and we are working under a "Best Practices" rule. Twenty-five percent (25%) minimum earned TRIA premiums, as outlined in ELANY Bulletin No. 2003-19, are not viewed as excessive by the Insurance Department.

Other issues we have addressed this year include Premium Finance and Minimum Earned Premiums, Claims Made Forms, the NYSID inquiry into the use of PSAs and the NYC Fire Patrol Assessment. In addition, the staff continues to work with the Department on the implementation of reciprocal non-resident E&S licensing.

Last year's unfinished business becomes part of this year's agenda: this includes the expansion of the Export List, Electronic Filing and Multi State Tax Allocation/Filing. Proposals have resurfaced regarding the creation of a Non-admitted Insurance Tax Clearing House (NITCH). These proposals are being considered by several of the state stamping offices and trade associations.

We joined in several meetings/discussions on the need to reform Labor Law Section 240/241. A Mock Trial at the Annual Members' Meeting was presented to crystallize the difficulties with these laws.

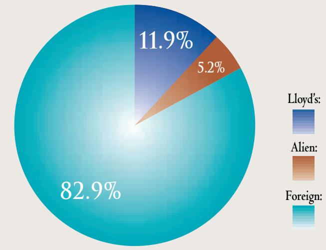
ELANY attended industry meetings with legislators and provided testimony at the Insurance Department hearings regarding the proposed expansion of NYPIUA to underwrite casualty insurance for various businesses, including Contractors.

We remain active with a broad base of industry groups including the NAIC, NCOIL, NAPSLO, AAMGA, PIWA, and IBANY. Education for the retail brokers through PIA and IIABA continued as Executive Director Dan Maher, fellow board member David Isenberg and I presented our "Basics of the E&S Market for NY Retail Brokers". The 3-hour CE course was offered in Albany, Buffalo, Rochester, Syracuse, Binghamton and at the PIA Rap meetings in Manhattan and Long Island. We also provided a 3-hour CE course for the opening of the PIA of NY & NJ Convention in Atlantic City, offering a comparison of E&S rules in the two states.

ELANY participated in the Western States Surplus Lines Conference, as well as the Surplus Lines Law Group. We made an investment in the future of the industry through donations in support of the Derek Hughes/NAPSLO Educational Foundation and the AAMGA University.

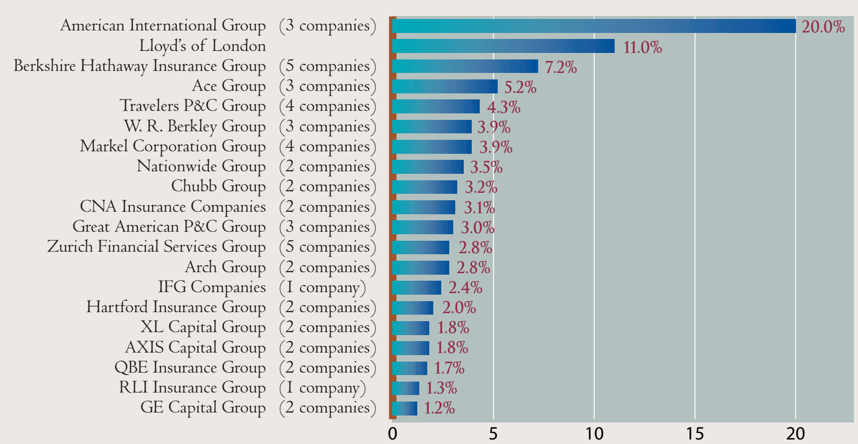
ELANY will continue to address the issues effecting the surplus lines industry as they continue to evolve.

PERCENTAGE OF YEAR 2003 PREMIUM DISTRIBUTION BY ELIGIBLE INSURERS*



**Figures are on risk attaching basis.*

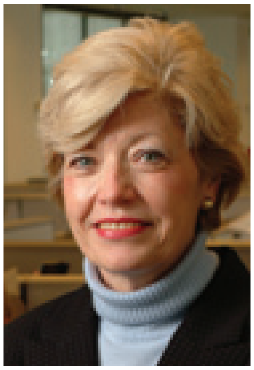
2003 NEW YORK PREMIUM BY INSURANCE GROUP



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

INFORMATION RESOURCES AND SECURITY COMMITTEE

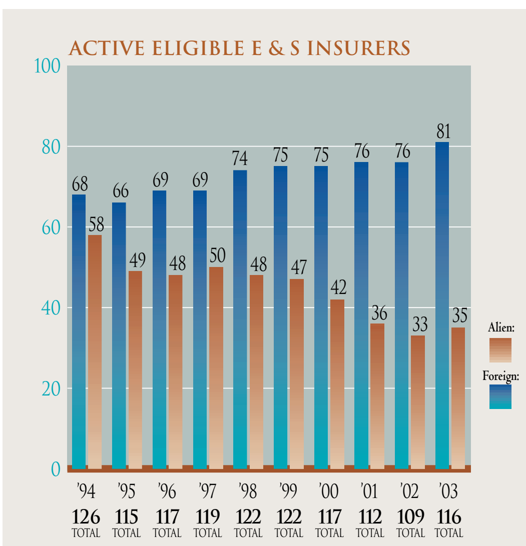
Margaret M. Beirne, Chairman



The Information Resources and Security Committee monitors the solvency of insurers on ELANY's list of companies eligible to write surplus lines business in New York. While results vary among individual insurers, property-casualty writers are showing considerable improvement in underwriting results and profitability in their 2003 financial statements. Pricing increases, tighter underwriting restrictions, and an improving equity market helped stem the decline in the industry's surplus. For the first time in three years, the industry will experience an increase in surplus.

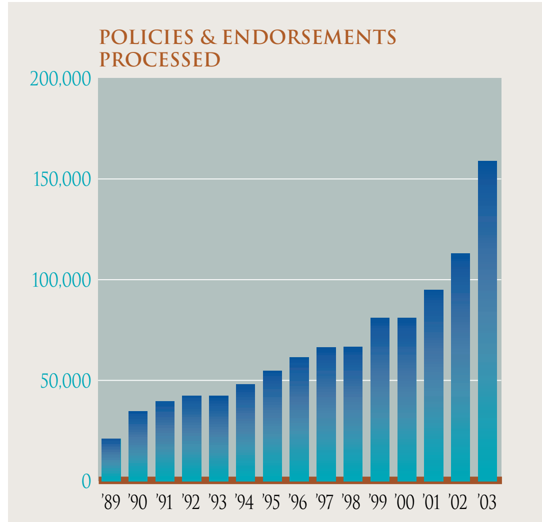
The new Bermuda start-up companies launched after 9/11 brought much needed reinsurance capacity to an ailing industry. These companies have since raised additional capital and expanded into other lines of business. Despite a sluggish IPO market on Wall Street, a number of companies have been successful in raising capital to support and expand their underwriting. Several of the start-ups now have surplus line operations onshore, and we are now witnessing a new round of start-ups with an interest in entering the surplus lines marketplace. Following the number of companies that have ceased operations over the last two years, this clean unencumbered capital is welcomed.

The industry's trend in 2003 was to sell renewal rights to books of business and focus on core businesses. The year started with the sale of the Kemper books to Hartford, Zurich, St. Paul, Axis, Argonaut and Old Republic. Travelers bought the renewal rights to Royal & Sun Alliance's commercial lines business and to Atlantic Mutual's inland marine and ocean cargo book. Atlantic Mutual's commercial lines business was sold to OneBeacon Insurance Company. CNA announced the sale of its group benefits and life businesses to Hartford, and Hartford announced it would exit the reinsurance business. Each transaction reduced the number of players in that particular line of business, and the acquiring company left behind the legacy issues.



Asbestos, tort reform, reserve strengthening, and reinsurance recoverables continue to be problematic for many companies. The strong pricing environment will encourage more companies to strengthen reserves, not only for asbestos but also workers compensation, Directors & Officers, and medical malpractice. Virtually all of the major insurers strengthened reserves last year, ranging from $50 million to close to $3 billion. Reinsurance recoverables have grown significantly and have become an increasing source of tension between the reinsured and reinsurer. Downgrades continued to outpace upgrades in 2003 for the third consecutive year. Cedants have begun asking for collateral or rating triggers as the credit quality of reinsurers declines.

ELANY currently has 116 companies on the eligibility list compared with 109 companies in 2002. During the year, ELANY added 5 alien and 6 foreign companies to the eligibility list and removed 3 alien and 1 foreign company. With the exception of 6 companies that are rated "B++" or lower by A.M. Best, all other companies are rated "A-" or better on ELANY's eligibility list.



The Information Resources & Security Committee is responsible for screening all new applicants, in addition to monitoring the financial strength and viability of those companies currently on the list of Eligible E&S Insurers. ELANY places great emphasis on this responsibility, as insureds covered under policies issued by surplus lines carriers do not have access to any guaranty fund protection. The Committee benefits from the expertise of ELANY's staff, who coordinate their efforts with the New York State Insurance Department, and from feedback from the member brokers. While the work of the Committee continues to serve ELANY, its members and the State, it is important to note that this oversight process is intended as a complement, not a substitute, for the due diligence of each broker.

OPERATIONS AND PROCEDURES COMMITTEE

David Isenberg, Chairman

The hard market in 2003 caused business volume at ELANY to soar by any relevant standard of measurement. The increase in the calendar year transaction count exceeded 45,000 in 2003. This is a remarkable increase, particularly when you consider that the total annual transaction count in 1997 was 66,000 transactions. The transaction count increase in 2003 alone surpassed the total number of transactions processed in some past years. Premium volume, likewise, exceeded average past year premium volume by a multiple of at least 4.

The ELANY management team met the increase in volume by expanding staff when necessary, pursuing some new efficiencies in processing, substantially increasing education presentations to both retail producers and excess license brokers while training numerous new licensees. In short, ELANY "geared up" to handle the welcomed increase in volume from its members.

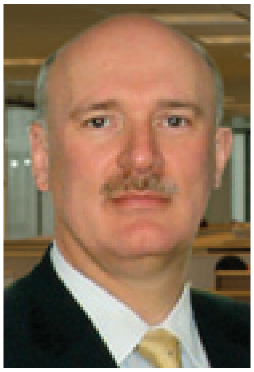
The hard market was not the exclusive operations issue for ELANY in 2003. With the expiration of its office lease approaching for space which ELANY had outgrown, the management team conducted an extensive search for an appropriate new headquarters. The new space would be designed and outfitted for technology to accommodate the Association's ultimate goal to institute an electronic filing system. The move to One Exchange Plaza, which was completed in January 2004, lays the foundation for an electronic filing system but has already born dividends through a variety of technology upgrades, which have already been implemented.

The ELANY website at www.elany.org continues to be a premier tool for distributing valuable information and advice to members.

ELANY is proud of its efforts to bring appropriate advice and counsel to its members and the E&S community at large, and to serve the interests of the E&S community in enhancing its reputation.

FINANCE COMMITTEE

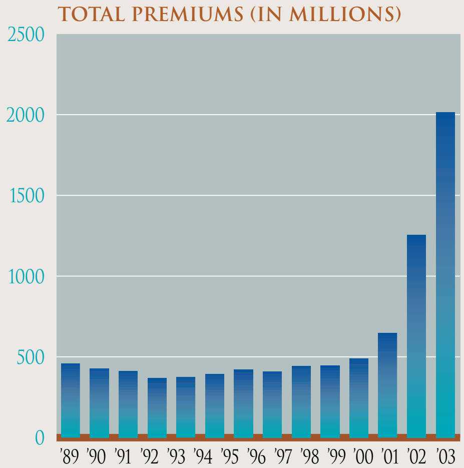
Donald Privett, Chairman

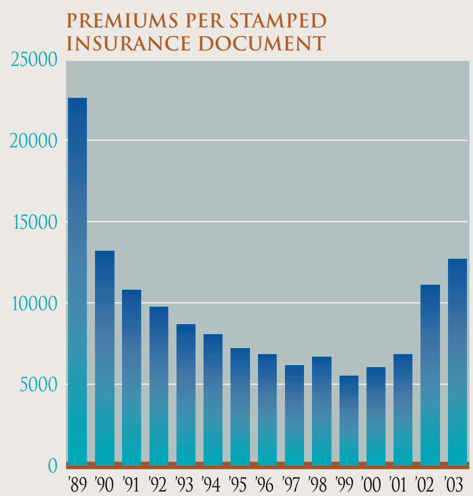


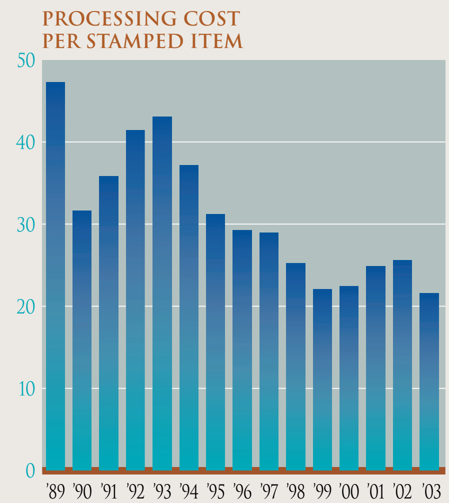
The continuing increase in revenues throughout the year 2003 came as a surprise. It was expected there would have been a leveling off of rates and a corresponding leveling off of stamping fees. Stamping fees climbed to a record $8,063,361, a 61% increase from the year 2002.

In 2003, property rates were dropping; however, rate increases in general liability and professional lines continued throughout the excess lines market as the total volume of non-admitted placements continued to grow. Property rates dropped as a result of the positive effect of the Federal TRIA terrorism legislation, which became effective in November 2002.

Early in the year, the Board of Directors of ELANY recognized that revenues would most likely exceed expenses by a significant amount. The Board reacted by requesting a 25% stamping fee reduction, which was subsequently approved by the New York State







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Insurance Department to become effective mid-year 2004.

In 2003, documents processed by ELANY increased substantially, rising 40.5% to a record 158,770, compared to a 19.2% increase in 2002 and a 17% increase in 2001.

New York taxable premium volume in calendar year 2003 escalated by 60.8% to $2,015,800,000 from the 2002 total of $1,253,900,000. Gross premium volume for the calendar year exceeded $2.5 billion.

Total expenses have continued to be controlled by ELANY's Executive Director and staff. Expenses grew by 17.7%, which is considered to be excellent when taking into consideration that document processing had increased by 40.5%. ELANY management and staff deserve credit for managing the increased workload without a proportional increase in expenses.

The expense increase also reflects numerous initiatives related to data processing, plus the use of contract and temporary staffing to handle the increased workflow.

The actual processing cost for a document has dropped significantly from $25.74 in 2002 to $21.56 in 2003. This is the lowest processing cost in ELANY's history.

The fund balance at December 31, 2003 increased by $5,034,603 to $9,940,701.

2003 REVENUES

Stamping Fees	$8,063,361
Investment & Miscellaneous Income	394,282
TOTAL	**$8,457,643**

2003 EXPENSES

Payroll	$1,331,615
Computer Charges	139,498
Rent & Utilities	214,818
Professional Fees	221,208
Postage/Printing/Stationery	104,298
All Other	1,411,603
TOTAL	**$3,423,040**
FUND BALANCE	**$9,940,701**

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.

2003 STATISTICS*

**The following statistics are on a year 2003 risk attaching basis.*

TOP 10 INSURERS

	Insurer	New York Premium	%
1.	Lexington Insurance Company	$ 286,606,384	14%
2.	Lloyd's Underwriters	$ 250,144,134	12%
3.	American International Specialty Lines Insurance Company	$ 111,053,596	5%
4.	National Fire & Marine Insurance Co.	$ 100,881,677	5%
5.	Illinois Union Insurance Company	$ 99,504,003	5%
6.	Scottsdale Insurance Company	$ 71,249,564	3%
7.	U.S. Underwriters Insurance Company	$ 68,998,589	3%
8.	Columbia Casualty Company	$ 62,907,617	3%
9.	Admiral Insurance Company	$ 60,893,091	3%
10.	Arch Specialty Insurance Company	$ 54,721,292	3%
	SUBTOTAL	**$ 1,166,959,947**	**56%**
	All Others	$ 930,140,174	44%
	TOTAL	**$ 2,097,100,121**	**100%**

The top 10 insurers accounted for 55.6% of total premiums written in 2003, compared to 54.2% in 2002, 60.5% in 2001, and 62.9% in 2000.

PURCHASING GROUP ACTIVITY

Of the $2.097 billion in premiums written and reported to ELANY, $36 million of written premium was attributable to purchasing groups. Past years' premiums attributable to purchasing groups were as follows:

2003 . . . .$36,365,169	2001 . . .$10,992,045	1999 . . . .$ 7,289,724
2002 . . . $27,301,283	2000 . . .$10,024,822	

ELANY ACTIVE MEMBERS

ELANY had 429 active licensees submit business in 2003.

TOP 10 PERILS

	Peril	New York Premium	2002 Ranking
1.	General Liability	$ 788,401,660	1
2.	Errors and Omissions	$ 334,685,179	2
3.	All Risk	$ 281,568,765	3
4.	Umbrella Liability	$ 214,677,111	4
5.	Multiple Peril	$ 108,855,598	5
6.	Additional Property Coverage	$ 85,906,982	6
7.	Fire	$ 57,676,331	7
8.	Miscellaneous Professional	$ 44,155,717	9
9.	Inland Marine	$ 43,456,526	8
10.	Environmental Impairment	$ 25,032,644	—
	SUBTOTAL	**$ 1,984,416,513**	
	All Others	$ 112,683,608	
	TOTAL	**$ 2,097,100,121**	

E & S TAX

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

2003 . . . .$75,495,604	2001 . . .$24,674,333	1999 . . .$15,784,439
2002 . . . .$47,675,088	2000 . . .$18,647,436	1998 . . .$16,452,984

BOARD OF DIRECTORS

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DAVID ISENBERG
Vice Chairman
DC White Agency

DONALD PRIVETT
Treasurer
Privett Special Risk Services, LLC

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Association Counsel
LeBoeuf, Lamb, Greene & MacRae, LLC

JOHN McPARLAND, CPA
Independent Accountant
RSM McGladrey, Inc.

EXCESS LINE ASSOCIATION STAFF

Daniel F. Maher, *Executive Director*
Nancy Born, *Office Manager*
Theresa Hetherington, *Stamping Office Manager*
Richard Schlesinger, *Financial Director*
Carmen Allende, *Examiner*
Lori Cangialosi, *Coder*
Lorraine Chin, *Coder/Data Entry Operator*
Joanna D'Amico, *Secretary*
Serena Diaz, *Examiner*
Rosabel Garcia, *Examiner*
Noreen Hansen, *Examiner*
Jenny Kyi, *Coder/Data Entry Operator*
Lillian Muniz, *Data Entry Operator*
Rebecca Muniz, *Coder*
Carlos Padilla, *Examiner*
Keizia Parks, *Examiner*
Breanna Pay, *Examiner*
Erna Perz, *Senior Coder*
Beth Pfluger, *Stamping Office Supervisor*
Dana Rathje, *Examiner*
Marilynn Rosado, *Coder/Mail Clerk*
Margaret Sheehan, *Executive Secretary*
Tiffany Sheppard, *Coder*
Jacqueline Washington, *Data Entry*

Valeriy Berlyand, *IT Consultant*
Marshall Pinnix, *Consulting Financial Analyst*

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