



2000 ANNUAL REPORT

EXCESS LINE ASSOCIATION OF NEW YORK



CHAIRMAN'S REPORT



Guy Migliaccio

This is my first report as Chairman of the Excess Line Association. I have been privileged to serve on the ELANY Board for the past several years working on the issues affecting all of our businesses.

For the first time in its eleven-year history, ELANY finds itself in the midst of a market turn that is creating greater demands as the level of excess and surplus lines placements activity continues to increase.

The market correction that began in the latter part of 1999 has taken firm hold. While the current environment is nothing like the hard market of the mid-1980's, increases in commercial line rates are generally accelerating worldwide.

Insureds may face double-digit rate hikes despite good loss experience, while insureds with poor loss experience face even higher increases. There is less flexibility than last year both on price and coverage terms, and renewals as expiring have all but disappeared.

Indeed, the range of increases within a given group of peer firms has been widening, a clear indication that underwriters are taking a long, hard look at the profitability of each account and pricing accordingly. They are very much writing to the risk.

Multiyear deals are becoming even harder to negotiate. When offered, they come with new, tighter requirements, e.g., prepayment of premiums and graduated annual increases, and they are notably more expensive.

Rate increases vary by coverage line, company size, and class of risk. The greatest impact is being felt by:

- Property insureds with high catastrophic exposures;
- Liability risks with poor loss experience; such as medical malpractice, commercial auto (the rise in commercial auto is hitting the trucking industries hard), and workers compensation.

In 2000, ELANY processed over 81,000 documents, generating premium volume that was up

9% over the prior year. There is every indication we can expect record volume activity for the current year as well. To meet these demands, ELANY is seeking authority to process documents electronically. In this regard, I am pleased to announce that Jay Hilton, a well-respected and very knowledgeable information technology specialist, has joined the association. In the very short time since coming on board, Jay has already set a future course for the association's technology needs. The goal is to meet the increased volume requirements more quickly and cost effectively, and to facilitate the exchange of documents between members and the association.

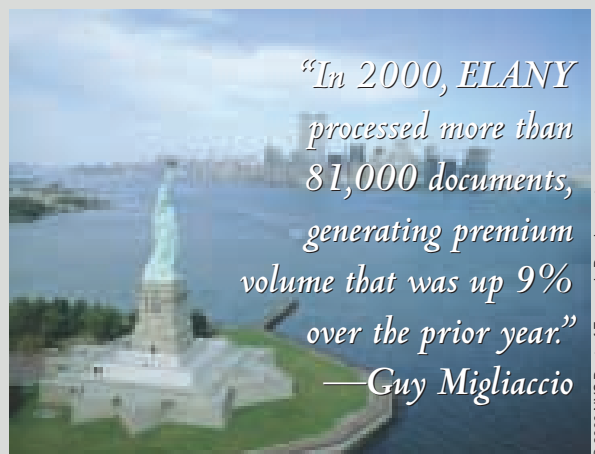
While it is unclear to what extent the Internet will affect our industry, your association has already begun to deal with what lies ahead.

It was approximately one year ago that the ELANY Board took steps to establish an e-commerce committee. The e-commerce agenda includes:

- Education/compliance;
- E-filings for ELANY members;
- E-products/sales opportunities;
- E-commerce distribution issues.

The E-Commerce Committee is made up of experts and insurance professionals in addition to the ELANY Board.

The association is dedicated to providing efficient business processes. Continuous improvement, timeliness, cost consciousness and accuracy are our operating precepts. We are ever mindful of the need to meet your requirements and the requirements of your customers and insureds. We welcome and encourage your thoughts and suggestions in this regard. ●



EXECUTIVE DIRECTOR'S

R E P O R T

The cover of this annual report was created in recognition of New York's major role in the growing economies of the United States and the world.

ELANY and its members are participants in the evolving global economy and in some cases a force for positive change on the micro level.

In the year 2000, the association continued to steer a course pursuing its proactive agenda, while simultaneously reacting to a number of external forces.

Externally, the market has hardened a bit, to the relief and satisfaction of the industry in general. For the sake of long-term industry financial security, pricing needed to improve. I expect pricing will continue to improve over the next four to eight quarters. The effects of changes in product pricing and of the hardening market on the association are reflected by the transaction volume and total stamped premium increases noted in Les Ross' report.

ELANY also devoted significant time and resources to analyzing the impact of the Gramm-Leach-Bliley Act (GLB) on the E&S community. This federal law will have a significant impact on the E&S community as well as the industry at large. Protecting the non-public personal information of your clients is a new duty imposed upon you as a licensee. Even though ELANY assisted in developing an excess lines exception adopted in New York and by the NAIC and NCOIL for their privacy models, it is not a panacea. While the impact of privacy regulation will be greater upon personal lines than commercial lines, the compliance burdens on brokers will be much more substantial than is currently perceived.

GLB also impacts the E&S market in mandating uniform or reciprocal nonresident licensing for all agents, brokers and E&S brokers. In year 2000,

ELANY worked with other state stamping offices, NAPSLO, PIWA and the IBANY to bring to the attention of regulators and legislators unique licensing issues affecting the E&S market.

As a result of these efforts, states are looking at the elimination of the bond requirement, among other burdens to the E&S market. In 2000, the New York Senate passed an ELANY drafted bill to eliminate the license bond among other changes. The assembly did not act on the bill, so ELANY has this issue at the top of its 2001 agenda.

GLB also provides the banking industry substantial access and freedom to sell insurance products and affiliate with insurers. The true impact from this change will occur slowly but will be very significant in the long run. As noted by Margie Beirne in her committee report, the industry is consolidating. Who would have believed ten years ago that Citigroup would indirectly control 3% of the New York E&S market?

ELANY devoted significant resources in year 2000 to planning and developing a member-friendly approach to electronic commerce. Our Chairman, Guy Migliaccio, and Operations Committee Chairman, Dave Isenberg, offer you some details in this regard. Nothing, however, was more significant to ELANY than the hiring of a true professional I.T. Manager, which ELANY has obtained in Jay Hilton.

On the legislative and regulatory fronts, other than those matters discussed above, the Governor signed into law ELANY-promoted legislation authorizing excess line brokers to place service contract reimbursement insurance with non-admitted carriers.

I would be remiss if I failed to mention here the resignation of ELANY's Legislative Committee Chairman, Garry Humphrey, which became effective on March 1, 2001. Garry embodied everything that is good in our industry, and I speak for the Board and myself when I say this. He has been a consummate professional and gentleman, sharing his knowledge and experience freely for the betterment of the industry. The Board, the staff and I will miss him greatly; however, we wish him and his beautiful wife Lynn good health and much happiness in their future. ●



Daniel F. Maber, Jr.

"I expect pricing will continue to improve over the next four to eight quarters. The effects of changes in product pricing and of the hardening market on the association are reflected by the transaction volume and total stamped premium increases..."

—Daniel F. Maber, Jr.



COMMITTEE REPORTS

INFORMATION RESOURCES AND SECURITY COMMITTEE



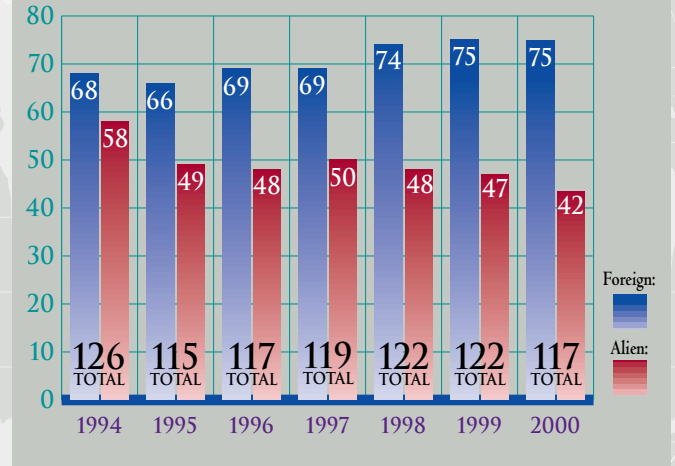
Margaret M. Beirne
Chairman

The Information Resources and Security Committee has been monitoring the changes in the marketplace over the past year. We continue to observe consolidation, very competitive pricing despite a hardening market and expanded coverages being offered by admitted carriers.

While consolidation has resulted in fewer carriers, these companies are now larger and well capitalized. ELANY has noted the emergence of both new entrants and expansion in the surplus lines arena. Citigroup, Berkshire Hathaway and Markel have all expanded their surplus lines writings in New York through acquisitions. The combination of these three groups would make them the third largest writer in New York.

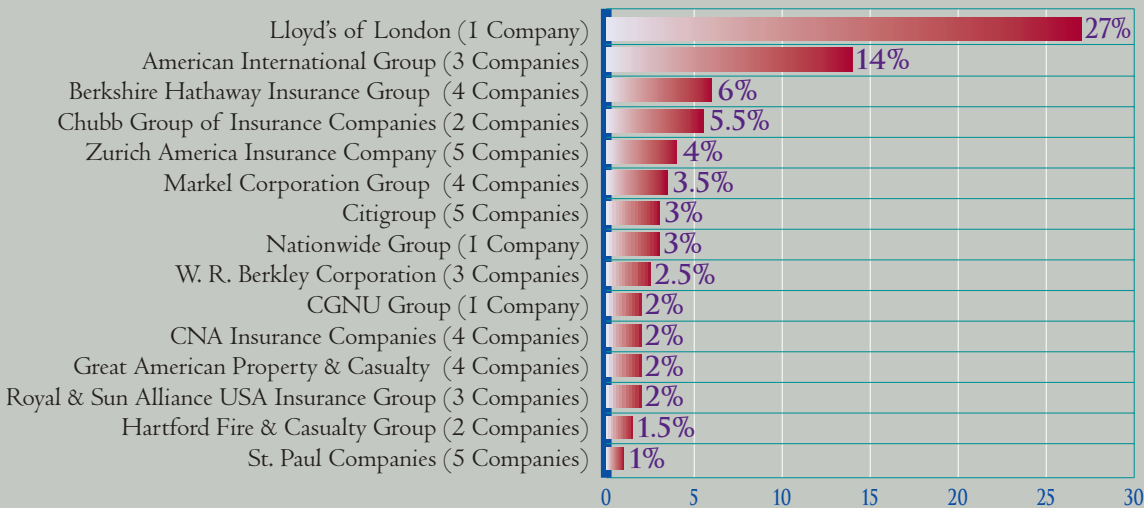
The perception that surplus lines carriers may not be as financially secure as the admitted carriers is challenged as the insurers on ELANY's list are, in the main, members of financially sound insurance conglomerates. All New York eligible insurers

ACTIVE UNAUTHORIZED INSURERS



maintain a secure rating from A.M. Best and Standard & Poor's. During the past year, two surplus lines writers were liquidated; one company was never on ELANY's eligibility list as it never met the minimum criteria for eligibility and the other withdrew from New York in 1998 after a deterioration in its results was noted. ELANY continually monitors all companies on the Insurer Data eligibility list and works with the New York Insurance Department and

2000 NEW YORK PREMIUM, TOTAL \$487,680,716

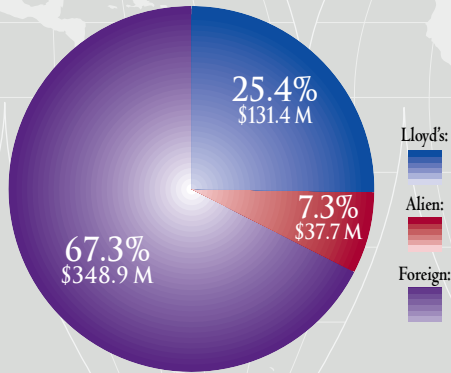


"The consolidation of the E&S marketplace is further exemplified by the fact that 15 insurance conglomerates account for 79% of the business written."

—Daniel F. Maber, Jr.

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

PERCENTAGE OF CALENDAR YEAR 2000 PREMIUM BY INSURANCE GROUP



the company to determine a course of action when any financial deterioration is noted.

Despite the strong capitalization of the market, quality-of-capital issues exist in the form of loss reserve deficiencies and poor earnings performance. Past underwriting decisions and under pricing have been obscured by capital gains and the release of prior years' loss redundancies. Although rates have hardened in some lines, the benefit of these increases will not be evident for several quarters and may not be adequate to compensate for the inadequate pricing of the prolonged soft market.

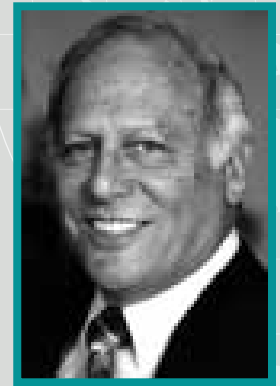
The Information Resources and Security Committee is responsible for screening all new applicants and closely monitors the results of all companies on the Insurer Data File eligibility list. ELANY places great emphasis on this responsibility, as insureds covered under policies issued by surplus lines carriers do not have access to any guaranty fund protection.

While all excess line brokers have a non-delegable duty to use due care in the selection of any excess line insurer, ELANY's efforts are but one source among many, which the brokers may utilize in meeting the due care standard.

The Committee benefits from various resources including staff expertise, member feedback, as well as assistance from and coordination with New York Insurance Department personnel. 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

The Operations Committee adopted and began the implementation of an ambitious agenda during the year 2000. The centerpiece of the agenda is to ultimately move ELANY's operations to an electronic system of receipt and review, stamping and returning policy and affidavit submissions. To that end, ELANY hired Jay Hilton as the association's first full-time information technology manager.



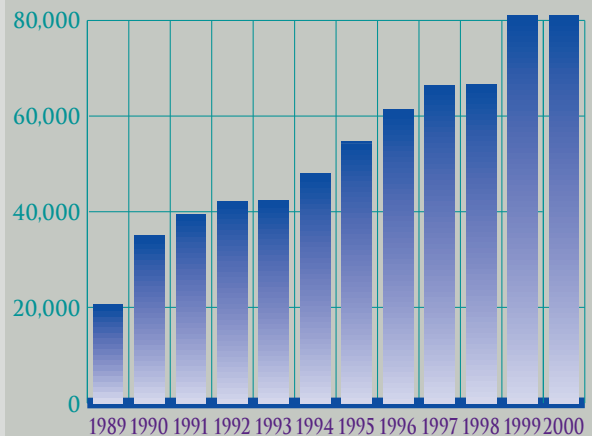
*David Isenberg
Chairman*

Among the projects that got off the ground in 2000, ELANY acquired a new AS400 mainframe computer to replace an aging one which was beginning to require excessive maintenance. A changeover to the new computer is planned for March or April 2001 after data transfer and testing is complete.

ELANY is upgrading its phone and Internet service in order to provide bulletins, newsletters and other publications to you more quickly and less expensively by e-mail.

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POLICIES & ENDORSEMENTS PROCESSED





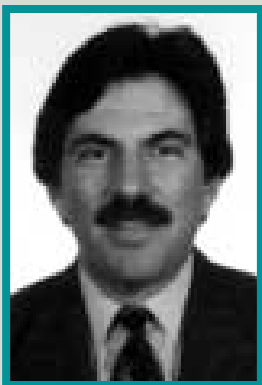
OPERATIONS *continued from page 5*

ELANY is also updating its personal computer inventory and creating a LAN system for greater operating efficiency.

Perhaps the single most important project currently underway is the creation of a piece of software for distribution to members and producing brokers which will automate a great deal of the documentation process. This software will simplify and expedite the affidaviting process. The software and format will be the precursor to a fully electronic filing format.

On a final note, the Operations Committee continues to monitor and promote timely and correct filings. The late and erroneous filing fee has had a materially positive effect, although there is still room for improvement. If any member feels their rate of late or erroneous filings is high, contact Dan Maher, who can provide assistance by offering staff training or other services to improve filing timeliness and quality. ●

FINANCE

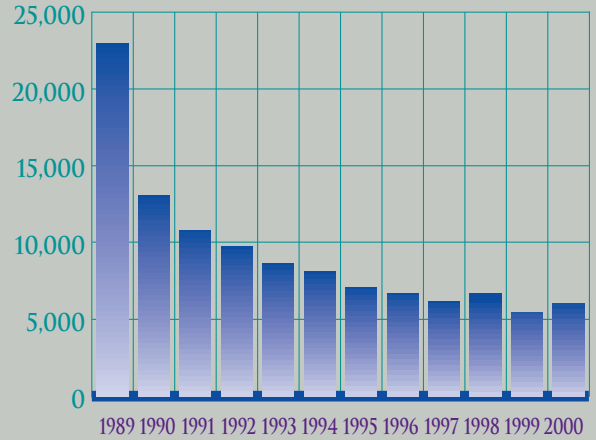


*Les Ross
Chairman*

The 2000 year of operation saw the processing of a record 81,014 documents with an expanded premium volume of \$487,700,000. These figures represent increases over 1999 results of .04% and 9%, respectively. There was a corresponding 9% growth in stamping fees to \$1,950,721. Total revenues were up some 15% to \$2,227,115, while total expenses increased approximately 2% to \$1,818,822.

Finally, it should be noted that in spite of the challenges presented by a tightening market and the number of processed documents noted above, ELANY was able to contain the cost per stamped document to \$22.45, while building the Fund Balance by \$408,293 to \$1,917,407.

PREMIUMS PER STAMPED INSURANCE DOCUMENT



2000 REVENUES

Stamping Fees.....	\$1,950,721
Investment & Miscellaneous Income	276,394
TOTAL.....	\$2,227,115

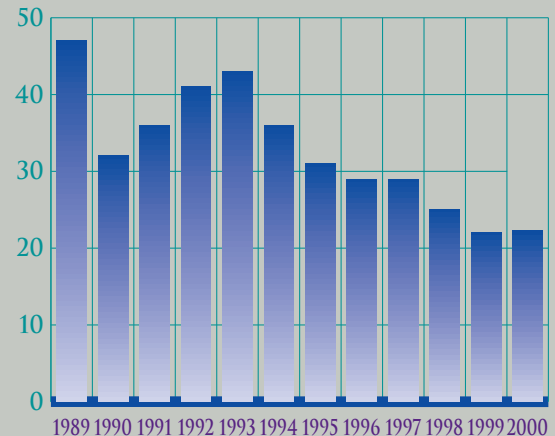
2000 EXPENSES

Payroll	793,104
Computer Charges.....	20,496
Rent & Utilities	149,004
Professional Fees	163,751
Postage/Printing/Stationery	109,232
All Other	583,235
TOTAL.....	\$1,818,822

FUND BALANCE \$1,917,407

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. ●

COST PER STAMPED ITEM





2000 STATISTICS*

*The following statistics are on a year 2000 risk attaching basis.

TOP 10 INSURERS

INSURER	NEW YORK PREMIUM	%
1. Lloyd's of London	\$ 131,422,415	25%
2. American International Specialty Lines Insurance Company	\$ 52,018,820	10%
3. Lexington Insurance Company	\$ 39,651,198	8%
4. U.S. Underwriters Insurance Company	\$ 19,403,027	4%
5. Steadfast Insurance Company	\$ 15,068,519	3%
6. Scottsdale Insurance Company	\$ 14,585,850	3%
7. Executive Risk Specialty Insurance Company	\$ 14,362,260	3%
8. United National Insurance Company	\$ 13,989,859	3%
9. Chubb Custom Insurance Company	\$ 13,571,358	2%
10. General Star Indemnity Company	\$ 11,616,849	2%
SUBTOTAL	\$ 325,690,155	63%
All Others	\$ 192,294,172	37%
TOTAL	\$ 517,984,327	100%

The top 10 insurers accounted for 62.9% of total premiums written in 2000, compared to 63.4% in 1999, 65.8% in 1998, and 63.9% in 1997.

PURCHASING GROUP ACTIVITY

Of the \$518 million in premiums written and reported to ELANY, \$10 million of written premium was attributable to purchasing groups. Past years' premiums attributable to purchasing groups were as follows:

2000 . . . \$10,024,822	1997 . . . \$ 4,700,000
1999 . . . \$ 7,289,724	1996 . . . \$ 85,000
1998 . . . \$ 6,886,396	

ELANY ACTIVE MEMBERS

ELANY had 350 active licensees submit business in 2000.

TOP 10 PERILS

PERIL	NEW YORK PREMIUM	1998 RANKING
1. Errors and Omissions	\$ 196,987,114	1
2. General Liability	\$ 130,701,554	2
3. Multiple Peril	\$ 50,282,798	3
4. Inland Marine	\$ 27,090,231	4
5. All Risk	\$ 24,619,158	5
6. Auto Physical Damage	\$ 16,919,613	7
7. Additional Property Coverage	\$ 14,634,282	6
8. Miscellaneous Professional	\$ 11,596,877	9
9. Umbrella Liability	\$ 10,467,500	-
10. Fire	\$ 7,319,274	-
SUBTOTAL	\$490,618,401	
All Others	\$ 27,365,926	
TOTAL	\$ 517,984,327	

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 was as follows:

2000 . . . \$18,647,436	1997 . . . \$14,705,600
1999 . . . \$15,784,439	1996 . . . \$14,976,689
1998 . . . \$16,452,984	

EXCESS LINE ASSOCIATION STAFF

Daniel F. Maher, Jr., *Executive Director*
 Theresa Hetherington, *Stamping Office Manager*
 Nancy Born, *Office Manager*
 James Hilton, *IT Manager*
 Carmen Allende, *Examiner*
 Lori Cangialosi, *Receptionist*
 Lorraine Chin, *Coder/Data Entry Operator*
 Khalil Elaoui, *Examiner*
 Joanna D'Amico, *Executive Secretary*
 Rosabel Garcia, *Examiner*
 Noreen Hansen, *Examiner*
 Rahsaan Johnson, *Examiner*
 Jenny Kyi, *Coder/Data Entry Operator*
 Lillian Muniz, *Data Entry Operator/Coder*
 Djenaba Nwoke, *Examiner*
 Carlos Padilla, *Coder*
 Erna Perz, *Senior Coder*
 Beth Pfluger, *Examiner*
 Dana Rathje, *Examiner*
 Theresa Ryan, *Senior Examiner*
 Jose Torres, *Mail Clerk*

Marshall Pinnix, *Consulting Financial Analyst*



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DC White Agency

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JOHN McPARLAND, CPA

Independent Accountant
RSM McGladrey, Inc.

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