TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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NEWS IN BRIEF

PEOPLE

Debra Richardson, founder and director of Risk Management and Insurance at the Naveen Jindal School of Management with the University of Texas, Dallas, announced her plans to retire Aug. 31, following a 31-year insurance career. Richardson joined the UTD faculty in 2009 after teaching insurance at the University of North Texas for six years. Richardson held various positions, from underwriter to regional vice president at leading carriers, including Hanover, The St. Paul Companies, Travelers, Safeco and Scor Reinsurance. Richardson earned a BBA from Dallas Baptist University and an MBA from the University of North Texas. Her professional designations include CPCU, CIC, CRM and AINS. In 2016, Richardson launched at UTD the Beta Phi Chapter of Gamma Iota Sigma, the insurance industry's premier collegiate talent pipeline. She is an active member of the Dallas Association of Insurance Professionals.

SOME CORONAVIRUS EFFECTS

After Allstate and American Family Insurance pledged to issue refunds to customers amid stay-at-home orders, similar actions are being taken by Liberty Mutual, GEICO, and other insurers. Louisiana Insurance Commissioner Jim Donelon approved an emergency rate reduction filing and customer rebate by Allstate Insurance and its subsidiary companies, Esurance and Encompass, on April 6. The rate reduction and rebate to policyholders is a part of Allstate's corporate response to the COVID-19 pandemic in the United States. "These rebates will have an estimated $13,607,287 in direct economic impact to Allstate policyholders in Louisiana alone. Nationwide, it will result in $600,000,000 returned to policyholders," Donelon said.

The Wall Street Journal reported that office owners are among those hit hard by the idled economy due to COVID-19. Office owners hoping that their buildings would become a haven for skittish investors instead found investors dumping shares of major office real-estate investment trusts. Investors are asking: What good is a long-term lease if the tenant won't pay rent? And what is an office building worth if no one can use it? The office selloff indicates that trouble in commercial real estate is spreading beyond hotels and retail properties and now threatens much of the $16 trillion U.S. commercial real-estate market and the $4.5 trillion in mortgage debt secured by it. The value of commercial mortgage-backed securities has plummeted and new lending has mostly ground to a halt. The greater danger is that tenants across the coun-

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Politicians look for cover for shuttered businesses

With local and state officials issuing stay-at-home orders to stem the COVID-19 tide, nonessential businesses are shuttering and others, including restaurants that have switched to take-out only, are working at significantly reduced income. How business interruption coverage in commercial property policies respond will, no doubt, be ultimately decided by the courts.

In New Orleans, attorney John W. Houghtaling II, took the issue on preemptively by filing a lawsuit against Lloyd's, London, on March 16 in civil district court in New Orleans on behalf of a French Quarter restaurant. Oceana Grill is seeking a declaratory judgment that affirms Lloyd's duty to provide coverage for business income lost as a result of a civil shutdown to prevent contamination of the insured premises. New Orleans' mayor issued a stay-at-home mandate on March 20; Louisiana's governor issued a stay-at-home order effective March 23.

A separate action in Harris County, Texas, alleged breach of contract, unfair settlement practices and bad faith when a business owner's claim for business interruption coverage was denied. It was filed on March 26 by Attorney Shannon E. Loyd on behalf of Barbara Lane Snowden dba Hair Goals Club against Twin City Fire Insurance Company, a Hartford company. The Harris County mayor issued a public health emergency declaration on March 11 and a stay-at-home order on March 24.

Politicians have gone on record urging insurers to retroactively recognize financial losses associated with COVID-19 under commercial business interruption coverage. U.S. Representative Marc Veazey, D-Fort Worth, was among 18 members of Congress who signed a letter addressed to major insurance industry groups urging such coverage. The letter was sent to the American Property Casualty Insurance Association (APCIA), the National Association of Mutual Insurance Companies (NAMIC), the Independent Insurance Agents and Brokers of America (IIABA) and the Council of Insurance Agents and Brokers (CIAB) on March 18.

The letter argues that the economic impact of shelter-in-place orders from civil authorities is significant and should be cov-

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Surplus line premium tops 2019's first quarter results

With $210.96 million more in surplus line premium reported for the first quarter of 2020 compared with the same period of 2019, the surplus line market grew by 14.5 percent, very close to last year's overall growth by year end of 14.36 percent. Last year's first quarter ended with an 11.23 percent increase over 2018's first quarter.

Greg Brandon, executive director of the Surplus Lines Stamping Office of Texas, is hopeful that the positive growth will continue and economic recovery from coronavirus will be quick.

According to SLTX, policy filings were down by less than one percent, but the average premium per policy filed was up. SLTX reported a 0.65 percent decrease in the number of policies filed, with an average premium per policy in the first quarter of 2020 of $9,603, compared with an average of $8,332 per policy in the first quarter last year, a 15.3 percent increase.

At the end of the first quarter 2020, the largest dollar gain of $104.42 million was in Other Liability, which made up 47.35 percent of surplus line premium in the first quarter. This represents an increase of 15.26 percent over the first quarter of last year. Last year ended with Other Liability up by 14.85 percent.

Fire, including Allied Lines, which made up 29.58 percent of first quarter premium, was up 25.45 percent, or $99.6 million. The next major increase was in Allied Lines, which was up $8.7 million, or 26.90 percent. Allied Lines made up 2.47

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Surplus line late filers will pay more than $419,000 in fines

The number of agents making late policy filings to the Surplus Lines Stamping Office of Texas (SLTX) in 2019 was up compared with 2018. According to SLTX, administrative penalties associated with the 2019 late filings top $419,000; further penalties imposed by TDI's Enforcement Division could drive this amount even higher.

Of the 987 agents filing policies in 2019, 421 made one or more late policy filings; about a third of the late filers were referred for enforcement action.

Nearly 43 percent of all filers were included in the report due to at least one late filing. With total fees of $419,350 expected to be generated from 2019's late filers, individual administrative penalties ranged from $50 to $95,300.

Of the 7,544 policies filed late, 1,375 late filings reached the threshold for review by TDI's Enforcement Division; these late filings came from 129 agents. Additional penalties can result from the Enforcement Division.

SLTX identified 93 filers to receive notice of a $50 penalty because only one of their filings fit the minimum level of being classified late. Seven of these, however, also had at least one late filing referred for enforcement, which may lead to an additional penalty and inclusion on the list of disciplinary actions published on TDI's website.

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Lloyd's and London Market insurers are in lockdown; Lloyd's reports profit for 2019

London Views
by Len Wilkins
London correspondent

Like most European countries, the U.K. is in lockdown. The Lloyd's underwriting room has been closed since March 19, and the instructions from the U.K. government are that, where possible, people should work from home. This policy was adopted by Lloyd's, so insurers and underwriters are writing business from their homes instead of Lloyd's underwriting room.

The major problem so far has been confusion over business interruption insurance. Many policyholders believe if their business is interrupted insurers should pay under any circumstance. Insurers argue that the cover is intended to pay after physical damage, such as from fire or flood.

Since the SARS virus outbreak in 2003 the typical business interruption policy wording usually states that business interruption due to disease is not covered. A few policies do cover the risk, which has led to greater confusion. The only consolation insurers can offer is that these policies were never priced to cover a virus outbreak, so policyholders are not paying for disease cover. As with most countries, U.K. policyholders are screaming that the U.K. government should force insurers to pay where no cover exists – a move the government so far has resisted, arguing that payment would just switch the financial loss from one direction to another.

London is not alone with this problem. World insurers told their governments that making them pay out on uncovered losses suffered due to the coronavirus outbreak would risk destabilizing the insurance industry. The Global Federation of Insurance Associations (GFIA) said insurers would pay out valid claims on policies, but stressed they should not be asked to cover areas where no contract existed. The federation reminded governments that events such as fires, motor vehicle accidents and natural catastrophes, which are covered by insurance, do not stop occurring, pandemic or not.

The truth is there are a lot of frightened people out there looking for someone else to pick up the bill. There will be a lot of business casualties.

Lloyd's and U.K. insurers are controlled by the U.K.'s Financial Conduct Authority, which told insurers to show flexibility and expect the behavior of customers to change due to

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Manes helps find new normal and success
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Economist's January comments still relevant
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Business interruption

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ered by existing policies that offer "coverage for business income losses sustained when a civil authority prohibits or impairs access to the policyholder's premises." Business interruption coverage is also generally triggered by direct physical loss of or damage to the insured property.

Actual policy language may differ from policy to policy, and courts are expected to look at the actual policy as well as the particular factual circumstances when a claim is disputed through litigation.

On behalf of insurer and agent associations, presidents and CEOs of the four trade groups responded to the 18 members of the U.S. Congress almost immediately. The letter from APCIA, NAMIC, IIABA and CIAB is dated March 18.

"Standard commercial insurance policies offer coverage and protection against a wide range of risks and threats and are vetted and approved by state regulators. Business interruption policies do not, and were not designed to, provide coverage against communicable diseases such as COVID-19," they wrote.

"The U.S. insurance industry remains committed to our consumers and will ensure that prompt payments are made in instances where coverage exists," they added.

On March 25, the National Association of Insurance Commissioners (NAIC) issued a statement cautioning Congress against proposals that "would require insurers to retroactively pay unfunded COVID-19 business interruption claims that insurance policies do not currently cover." The NAIC statement which is not signed by an officer, member or staff of the organization, goes on to state: "Insurance works well and remains affordable when a relatively small number of claims are spread across a broader group, and therefore it is not typically well suited for a global pandemic where virtually every policyholder suffers significant losses at the same time for an extended period." The NAIC statement warns against substantial insurer insolvencies that would undermine insurers' ability to pay other types of claims, which would "exacerbate the negative financial and economic impacts the country is currently experiencing."

The National Council of Insurance Legislators responded to the 18 members of Congress similarly. NCOIL's letter, signed by NCOIL President Rep. Matt Lehman, R-Indiana, and NCOIL CEO Tom Considine, reminded the federal lawmakers that state lawmakers are prohibited by the U.S. Constitution from "impairing the obligation of contracts," (Article I, Section 10). The NCOIL letter said that the majority of insurance contracts covering business interruption have specifically excluded losses due to interruptions caused by communicable diseases. The association of state lawmakers appealed to the Hon. Nydia M. Velazquez, D-New York, chairwoman of the House Committee on Small Business, and her colleagues who signed the March 18 letter to craft a federal compensation solution for businesses' unprecedented costs similar to the Victims Compensation Fund after 9/11/2001 or a Pandemic Risk Insurance Act that would parallel provisions of the federal Terrorism Risk Insurance Act.

APCIA President and CEO David A. Sampson, released a public statement on March 26 warning against "retroactively rewriting existing insurance policies to add new risks to the promises that were made to insurance customers. These types of proposals could have dramatic repercussions for families, individuals, motorists and businesses, potentially compromising the financial ability of insurers to meet their existing promises.

"Any action to fundamentally alter business interruption provisions specifically, or property insurance generally, to retroactively mandate insurance coverage for viruses by voiding those exclusions, would

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TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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From comfort zone, through chaos, to the new normal — and success

By Michael G. Manes
Manes and Associates

The novel coronavirus pandemic has turned our world upside down and jerked us, and practically everyone else on the planet, out of our comfort zone. Will we survive? That depends.

Actually, COVID-19 is only the latest obstacle to our survival. The independent agency system has been grappling with known challenges and many unanticipated adversaries for the last decade or two at least.

Those who were running successful agencies on March 1, 2020, will have some adapting to do to remain successful when our economy gets back to full throttle. Fortunately, we've had some practice in stretching out of our comfort zone, avoiding extreme chaos and managing to reach into our arsenal of strategic munitions. We have survived market crashes, economic change, government intervention, changing demographics, an increasingly nonverbal marketplace, technology, social media, traditional competitors, carriers abandoning the agency system and shrinking commissions. Larger challenges lie ahead.

Our strategic munition today requires remembering the lessons of the past.

Lesson One: Souls don't grow in the sunshine; adversity makes us stronger

On March 24, 1971, I took a Greyhound Bus from New Iberia, Louisiana, to the Customs House in New Orleans because I was being drafted. I stood 6' 2" tall, weighed north of 230 pounds and had a 40 inch waist. I was in terrible shape. At my going away party on the prior Saturday night, we joked about having a welcome home party on the next Saturday. No one expected that I would pass the physical. Even I thought a quick return trip was inevitable.

On the last day of zero week (the time needed to process us into the Army), the senior drill sergeant explained that at the end of boot camp, we'd go on a forced march of 7.5 miles with full gear in 65 minutes. "Fat chance," I thought to myself.

The next day, I was running off a cattle car with a 60-pound duffle bag and scared to death. We were holding those bags over our heads as drill sergeants berated us. Sergeant Gay stood nose to nose with me and screamed, "Boy, how long did it take you to get this fat!" I answered correctly. "Twenty-three years, Sir."

About eight weeks later I proved the senior drill sergeant right and myself wrong. For me it was a life changing experience. Absent the draft, I'd probably have never reached 50 years old. I was in that bad of shape at 23.

Lesson Two: Potential does not guarantee success

Many, even most, agencies are very successful and have the potential to continue that success. Unfortunately, potential guarantees you nothing. Tommy Canterbury, a Centenary College basketball coach, and friend, says "Potential means you haven't done it yet."

I once asked a friend named Mark, "What's the secret to your success?" He said, "I wake up scared to death every day." This wisdom is personified when Boudreaux and Comeaux were bear hunting. They were deep in the woods when they came face to face with a very large and hungry looking bear. Boudreaux turns, drops his knapsack, and starts to run. Comeaux warned, "Boudreaux, you can't outrun a bear." Boudreaux yells over his shoulder, "I ain't gotta outrun the bear. I only gotta outrun you!"

If COVID-19 or anything else has put you in decline and you know it and can admit your challenges, you can find help, a buyer, or change the culture and behavior that has led you to this point. Chest pains change behavior. Listen to your deepest fears. Don't lie to yourself or ignore the obvious.

Be inspired to strategic action by John Charles Salak who said, "Failures are divided into two classes – those who thought and never did, and those who did and never thought." Those who fail are those stuck wholeheartedly in their blissful, oblivious comfort zone.

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Surplus line premium

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percent of total taxable premium reported to the stamping office during the first quarter.

The largest gains within the Other Liability line were in Excess/Umbrellas with an increase of $54.9 million, or 24.41 percent, and General Liability-Premises Liability Commercial, which was up $137.6 million, or 15.66 percent, over the first quarter of 2019. GL Contingency Liability reported a premium increase of $37.6 million, or 15.7 percent, and Professional-Other Including E&O was up $14.5 million, or 17.54 percent.

Declines within the Other Liability line were mostly shared by Oil and Gas Liability, GL-Cyber Liability and GL Contractual, which together accounted for about an $18.1 million decline in these same subcategories compared with last year's first quarter. SLTX's online report for Texas Premium by Line of Business/Coverages gives additional details within the line.

SLTX accounted for gains within the Fire (including Allied Lines) in Property-Fire/Allied Lines, which is the major subcategory of the line, and Oil and Gas Property, which had a 41.5 percent increase. First quarter allocation of premium included no premium reported in the subcategory of Property-Fire; last year a negative premium was recorded in this subcategory.

Declines in surplus line premium were spread over 10 lines which together made up 7.65 percent of premium reported for the quarter. These same lines made up 10.6 percent of surplus line premium at the end of the first quarter last year and 8.30 percent at year-end 2019. The largest line showing a decrease was Other Commercial Auto Liability which made up 3.35 percent of all premium reported for the quarter. Other Commercial Auto Liability was down nearly $8.2 million or 12.75 percent. The largest dollar decrease was in Surety, which reported a substantial negative premium for the quarter, compared with its $2.8 million in premium for the first quarter last year.

Other lines showing year-to-year decreases of more than one million dollars of premium for the first quarter were Group Accident and Health, down $3.9 million, or 15.61 percent; Ocean Marine, down $2.7 million, or 45.56 percent, and All Other Accident and Health, down $1.4 million, or 30.57 percent. Also down were Commercial Auto Physical Damage, Farmowners Multiple Peril, Fidelity, Other Private Passenger Auto Liability, and Burglary and Theft. None of these 10 lines were among the eight lines showing a premium decrease in the first quarter last year.

Coming into the plus column this first quarter after posting lower year end results in 2019 compared with 2018 were Commercial Multiple Peril, Inland Marine, Products Liability, Aircraft (All Perils), and Credit.

Multi-state premium for the first quarter of 2020 was nearly $56.7 million, or 3.4 percent of the total taxable premium reported for the quarter, a 12.5 percent increase over the first quarter last year; policy count of multi-state insureds was up by nearly 10 percent. Policy count for the quarter was 631, compared with last year's first quarter policy count of 574. More than half, or $30.6 million, of the first quarter's multi-state premium was reported in March. Average premium per policy on the multi-state risks was $89,813, up from average premium per policy by the end of the first quarter last year of $87,741.

SLTX continues to receive mailed filings, but noted that as of the end of the quarter, 98.2 percent of all filings were

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First Quarter Comparison of SLTX Premium Processed by Line of Business

Line of Business	Premium through 3/20	Premium through 3/19	Dollar Change	% Change
Fire (Including Allied Lines)	$490,970,365	$391,355,024	$99,615,340	25.45%
Allied Lines	41,084,656	32,375,108	8,709,548	26.90%
Farmowners Multiple Peril	**349,077**	**833,093**	**(484,016)**	**-58.10%**
Homeowners Multiple Peril	**53,941,324**	**51,432,095**	**2,509,229**	**4.88%**
Commercial Multiple Peril	71,803,928	66,624,078	5,179,850	7.77%
Ocean Marine	3,253,889	5,977,426	(2,723,537)	-45.56%
Inland Marine	**24,234,980**	**19,303,106**	**4,931,874**	**25.55%**
Medical Malpractice	**28,921,352**	**26,408,248**	**2,513,104**	**9.52%**
Earthquake	183,837	-58,808	242,646	412.60%
Group Accident & Health	21,020,520	24,907,469	(3,886,949)	-15.61%
All Other A&H	**3,105,996**	**4,473,341**	**(1,367,345)**	**-30.57%**
Other Liability	**788,770,803**	**684,351,557**	**104,419,246**	**15.26%**
Products Liability	6,341,465	6,126,036	215,429	3.52%
Oth Priv Pass Auto Liability	-79,338	7,225	(86,563)	-1,198.10%
Other Comm Auto Liability	**55,759,142**	**63,910,324**	**(8,151,182)**	**-12.75%**
Private Passenger Auto P.D.	**62,905**	**37,537**	**25,368**	**67.58%**
Commercial Auto P. D.	48,217,010	49,041,802	(824,792)	-1.68%
Aircraft (All Perils)	2,056,480	666,139	1,390,342	208.72%
Fidelity	**1,340,780**	**1,629,800**	**(289,020)**	**-17.73%**
Surety	**-6,078,464**	**2,781,290**	**(8,859,754)**	**-318.55%**
Burglary & Theft	499,736	565,278	(65,543)	-11.59%
Credit	27,213,125	21,957,680	5,255,445	23.93%
Agg write-ins for other lines	**2,710,032**	**14,900**	**2,695,132**	**18,087.79%**
TOTAL	**$1,665,683,601**	**$1,454,719,749**	**$210,963,852**	**14.50%**

Note: Due to rounding figures may not total.


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Business interruption

FROM PAGE 2

immediately subject insurers to claim payment liability that threatens solvency," Sampson continued.

Sampson said that APCIA estimated the insurance industry could face costs of $255 billion to $431 billion per month for small businesses with fewer than 100 employees if coverage is mandated. Sampson responded with updated numbers on April 6 to the news that legislators in Massachusetts, Ohio and New Jersey have filed bills mandating business interruption coverage for small businesses. Sampson said, "These numbers dwarf the annual premiums for all commercial property risks in the key insurance lines of $71 billion per year, or about $6 billion a month."

On March 31, APCIA released a statement in support of the proposed COVID-19 Business and Employee Continuity and Recovery Fund as a tool to address the economic challenges brought on by the shutdown of the economy. Joining the national insurer group in support of this proposed federal relief were NAMIC, CIAB, IIABA, as well as at least 30 associations of booksellers, hotels, commercial investors, realtors, shopping centers, gasoline marketers, theater owners, food service distributors, reinsurers, insurance wholesalers and others who have been impacted by the idled economy.

The Wholesale and Specialty Insurance Association issued a statement on April 1 in strong opposition to legislative proposals "that would require insurers to pay for coverage that was never sold." WSIA said it is actively opposing bills filed in Louisiana, Massachusetts, New Jersey, New York, Ohio and Pennsylvania that would do just that.

While the public policy debate continues, insurance defense attorneys are examining the legal arguments that may help insurers defend denials of business interruption claims. Kristin Cummings and Shannon O'Malley, partners in Zelle law firm, cohosted a webinar to discuss the legal and insurance coverage issues surrounding business interruption claims. More than 1,150 claims professionals, attorneys and insurance executives tuned in for their March 27 presentation.

O'Malley's comments, she said, were not to be taken as legal advice, but rather information based on her experience analyzing complex and novel property insurance coverage issues that would be consistent with most, but not all, property policies in the market.

Generally, O'Malley said, an insured must suspend operations completely before business interruption coverage is triggered. Restaurants that continue to do "to-go" orders have not actually suspended their operations. Some policies could be triggered by a partial suspension, she added.

Typically, coverage only lasts during the "period of restoration," O'Malley said. Currently, there is no firm science on how long the virus lasts on surfaces, she said. "Contamination decreases over time," she said, adding that COVID-19 contamination can be effectively eliminated with soap and water. "Creative plaintiff attorneys," she predicted, will cite case law arising from incidents and court decisions on contamination.

Business interruption policies are generally tied to physical damage of the property, O'Malley said. "The policy language is key," she said. Most policies require a causal connection between the insured physical loss or damage and the loss of income, she said. "Courts recognize that 'physical' has significant meaning," she said, but the definition of "physical" varies by jurisdiction, noting that there are differences between New York and California.

Some courts will look for a tangible change, others will require a demonstrable alteration. Regardless, O'Malley said, insureds will have a high threshold to meet to assert that COVID-19 caused physical damage to their property. The media is citing a New Jersey case that arose from the release of ammonia, making a business unfit for occupancy. O'Malley said this case is distinguishable from coronavirus cases because there was a distinct perceptible presence of the ammonia. Suspected presence is not the same, she said. "'Is the virus present?' is significant here," she said. "Physical loss is more than loss of use."

Cummings acknowledged that most lost business income may result from shelter-in-place orders, but raised the question of property damage when there is a known presence of a person having the virus. O'Malley reiterated her position: The virus can cause damage differs from the virus did cause damage.

Some policies have endorsements specifically excluding pollution, said O'Malley, who believes that the virus would be included within the meaning of pollution. In that case, there would be no coverage. O'Malley said that insureds' attorneys may point to this exclusion endorsement as proof that the virus causes damage or the insurers would not have crafted the endorsement.

Even where a policyholder purchased an endorsement for civil authority coverage, the claim may be legitimately denied in the current situation. This endorsement does not generally require physical damage to the insured's property. However, the coverage is generally contingent on an order that impairs access to the insured's property, not based on fear of contagion, she said.

O'Malley advised insurers on handling the claims that would be coming in en masse, as "tons have already come in."

"Set out a (claims response) procedure," she said. Texas law requires insurers to investigate each claim, so do not deny it immediately, she said. On-site inspections will not be made immediately due to shelter-in-place orders.

Generally, O'Malley said there is not a lot of information in the insured's notice of a claim. Respond by asking for specific information, she advised. Use the policy's language to determine what questions to ask: Are you claiming a physical loss? Has the location been tested for the presence of the virus? Has operation of the business been suspended?

"Review the information you receive," O'Malley said, "and ask for any follow-up information or clarification. Provide your coverage position based on investigation."

O'Malley also recommended consistency in investigation and coverage positions. "You don't want to pay a small claim if it will be inconsistent with the larger ones."

Some claims are covered under the property policy during this period of business suspension, O'Malley said. She offered the example of someone breaking into a closed business. Vandalism and theft are likely covered, O'Malley suggested.

For additional information on COVID-19 coverages and claims, visit the Zelle website for whitepapers on commercial property coverage, contingent business interruption and other topics. The law firm hosted several related webinars on CBI, CGL, EPLI, time element management of losses and event cancellation in April. Zelle said it will repeat the webinars later this spring if registrations for the sessions exceed their platform's capacity. Zelle's webinars are free but do not offer continuing education credits.

Prior to stay-at-home orders Region VI of IAIP held a conference in Shreveport

Robyn White, left, and Brenda Hornyak, Hendry Insurance, Dallas.

Past IAIP President Joi Wilson, NAIW Dallas, and Mike Hoernemann.

IAIP President Cindy Prud'homme, left, Michigan, and IAIP Vice President Geraldine Platt, North Carolina.

NEWS IN BRIEF

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try stop paying rent on their existing leases. **Joseph Iacono**, CEO of alternative financing platform Crescit Capital Strategies, noted "You have a lot of small companies that occupy buildings. Business is shut. If they're not generating any revenues they can't pay any rent."

The Coalition Against Insurance Fraud pointed to a Google study reported by the Washington Examiner which found internet search queries for "how to set fire" rose by 125 percent year-over-year in the last week of March when 700,000 jobs were lost from the coronavirus pandemic. **Matthew Smith,** executive director of the Coalition, speculated in the Washington Examiner article that the economic downturn could lead to arsons of homes, automobiles or businesses. **Frank Scafidi,** National Insurance Crime Bureau, said the economic slump in 2007-2009 saw an increase in car arsons to collect on insurance, but not to the scale originally anticipated. Still, he projected increased opportunity for fraud, even with a third round of economic stimulus from Congress. **Michael Eriksen**, economist and associate professor of real estate at the University of Cincinnati, downplayed the arson threat since arson against one's own property would not be covered by insurance.

The Big I and IIAT recommended that agencies not make a coverage determination on behalf of any insurance carrier or deny any claims. Key reasons the associations provided include: The agency is not a party to the insurance contract. It is the insurance carriers' duty to investigate claims. Loss determination and claim denials can be made by licensed adjusters, but not by licensed agents. Unfair claims practices statutes require that claim denials be in writing specifying reasons for the denial.

MEETINGS/EDUCATION

The Big I addressed how ISO's business income policy may respond to COVID-19 claims in a webinar online on March 31. The 25-minute webinar remains available on demand. Additionally, the national association's website, independentagent.com, offers a paper written by the Big I's Virtual University Executive Director **Chris Boggs** on the subject.

Locke Lord has released its 20th edition of its Excess and Surplus Lines Law Manual. The edition includes all of the pertinent changes in the surplus line laws and regulations of the 50 states and U.S. territories during the past year. New to the manual is an appendix of frequently asked questions. The manual is available online at surplusmanual.lockelord.com.

The RGV Chapter of the Independent Insurance Agents of Texas has scheduled its IIA-RGV Trade Show for Aug. 13 at the Doubletree Suites by Hilton Hotel in McAllen, where the room block rate for the event is $89. The theme of the event is Welcome Aboard. The event includes a two-hour C.E. class, trade show, luncheon, a networking mixer and a casino night for all attendees and exhibitors. For registration information, visit iia-rgv.org.

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Zoom makes DAIP's April meeting possible

Desiree Binion, top left, Allied World, presided over a meeting of members of the Dallas Association of Insurance Professionals through a Zoom teleconference held on April 9. Attending were Shirley Bowler, Texas Surplus Line Reporter; Carol Hargis, retired from the Insurance Record; Donna Hauser, The Combined Group; Jessica Mead, FCCI Insurance Group; Judy Walker, Texas Specialty Underwriters; Mary Donlon, retired; Susan Meissner, High Point Insurance Group; Toni Campbell, Hibbs-Hallmark and Company; Kristina Dixon, Texas Specialty Underwriters; Lisa O'Connor, National Business Research Institute; Shanna Sutton, Specialty Insurance Managers; April Smith, April Smith Insurance Agency; Debra Richardson, University of Texas at Dallas; Angie Carlton, Hallmark Financial Services, and Norma McVay, The Combined Group. Members told how they were keeping up with work remotely, some showed their pets, and most shared what they were doing for fun or fitness.

Late filers

FROM PAGE 1

SLTX pegged 82 late filers to receive notice of a $100 penalty; 14 of these had one or more policies referred to enforcement.

At the top end of the penalties were five late filers whose administrative penalties exceed $10,000; four of these late filers were also referred to TDI's Enforcement Division for two or more of their late filings.

Twenty-two agents won't receive monetary penalty notices yet; report of their late filings went directly to TDI's Enforcement Division.

All late filers from 2019 were included in the annual late filers report SLTX made to the TDI on March 23, prior to the April 1 deadline. Agents and brokers who were named in the report were notified in advance and able to view online the number of policies they filed late, the number of days late per policy, their percentage of late filings, their late filing record from 2018 and the penalty SLTX expects TDI will assess in accordance with statute. There were 330 late filers in 2019 who also filed policies late in 2018.

Among the 2019 late filers were 92 resident licensees and 329 nonresident licensees. Compared with 2018's late filers, the number of residents filing late went down, but the number of nonresident late filers increased. Last year, 102 resident licensees and 288 nonresident licensees were reported to TDI for late filings in 2018.

The total number of late filed policies decreased by 13.41 percent from 2018 to 2019. There were 8,712 policies filed late in 2018, compared with 7,544 policies filed late in 2019.

Late policy filings in 2019 made up just 1.09 percent of all policy filings made to SLTX during the year, which was down from 1.33 percent of filings made late in 2018. Among late filers only, late filings made up 1.56 percent of their total filings.

On March 23, SLTX sent by certified mail notices to every agent and broker who filed untimely with the stamping office during 2019. Included in the mailing is a printed copy of their 2019 Annual Late Filing Report, the TDI notification of the penalty and a fee payment form to be returned to the TDI.

Filings are considered late if they are not filed within 60 days of issuance or the effective date of the policy or endorsement, whichever is later. Most late filers' penalties are handled administratively; however, TDI's Enforcement Division handles all cases in which filings were more than a year late and those involving filers whose prior year's delinquencies exceeded certain statutory thresholds.

In December 2018, TDI adopted rules that required prompt notification when SLTX noticed filings as late, with opportunities for agents and brokers to dispute the stamping office's position. According to the new rule, agents who did not dispute the stamping office's finding of late in a timely manner when notified during the year will not be permitted to dispute the finding now.

Manes

FROM PAGE 3

Strive for ascendancy. When you reach mileposts, pat yourself and your team on the back and then get back to work. There will be more obstacles ahead.

Lesson Three: Purchasing habits change

In the Nov. 13, 2019, Advocate newspaper appeared a significant story. "Nation's No. 1 milk company declares bankruptcy amid drop in demand. … Decades long decline blamed on soda, juices, and nondairy substitutes."

When I was a little boy in New Iberia, Louisiana, milk was delivered to our front door. It was a staple of our lives. Milk was not an option; it was a necessity.

Independent agencies were on Main Street and they had the town divided up among themselves. Outsiders did not sell insurance to locals. Times changed.

I am a believer in the independent insurance agency system. But it's not going to remain the same. None of us can be sure of all the twists and turns that this industry, our communities, technology, the global marketplace, social media, and government interventions will take. We can only get ourselves in fighting shape and keep that posture going. If you keep that mindset and act accordingly, you can win. If you ever become and remain dumb, fat and happy, may you rest in peace.

In closing: "The man who wins may have been counted out several times, but he didn't hear the referee." H. E. Jansen

Keep fighting. Think strategically. Outrun, or be run over by, your competitors.

MICHAEL G. MANES is the owner of Manes and Associates, a New Iberia-based consulting business focusing on planning, sales and operations, and change. He has over 46 years of insurance industry experience, including serving as an instructor of Risk and Insurance at Louisiana State University.

SLTX board postpones annual meeting, delays decision on reducing stamping fee

Observing the meeting restrictions imposed by the coronavirus, the board of directors of the Surplus Lines Stamping Office of Texas met by teleconference on March 27. While that date had originally been scheduled for the SLTX annual meeting, the meeting was instead designated a “special meeting,” thus postponing several items that are required under the Plan of Operation for the board’s first regular meeting of the calendar year.

Still to be done at the annual meeting are a review of the Plan of Operation and proposed amendments and a review of the stamping office’s operating expenses along with its schedule of fees.

The board’s first order of business at the special meeting was to elect new officers. Rosemarie Marshall, AmWINS Group, was elected chairwoman; Penni Nelson, Hillwood Development Group, was elected vice chairwoman, and Teri Brinson, LP Risk, was elected secretary.

Marshall

Outgoing Chairwoman Lorrie Cheshier, Worldwide Facilities, MHI-MGA Division, remains on the board until appointment of her successor. Terms of Cheshier and fellow board member Charles Gillenwater, risk manager for the city of Mesquite, formally expired on Dec. 31, 2019, but both remain on the board until successors are appointed by the Texas commissioner of insurance.

Marshall acknowledged Cheshier for her hard work during 2019 and said Cheshier performed with “amazing grace and determination” during a difficult time. She said that Cheshier acted always “in the interest of the stamping office.”

Marshall appointed the Finance and Audit Committee, naming Nelson as chairman, with members Randy Myers, AXA XL/XL Reinsurance, and Kori Johanson, H.W. Kaufman Group.

Marshall announced the creation of the Executive Committee which is to consist of the elected officers of the board and named herself, Nelson and Brinson to the Nominating Committee. The Nominating Committee’s work will occur later this year when it recommends officers for 2021.

Board actions included ratifying the employment contract of Executive Director Greg Brandon, terminating the work of the Executive Search Committee, and modifying and extending a contract with Don Meyer, who served as interim executive director, naming him a liaison between the SLTX board and the Texas Department of Insurance until next March.

In offering the motion to extend the contract to Meyer, Cheshier acknowledged his extensive knowledge of the stamping office’s history, activities and purpose. Meyer said that TDI was concerned “about what transpired” during 2019, and he assured the commissioner that it was not the fault of the board of directors, and the situation “will not happen again.”

Brandon addressed the board, summarizing adaptations made as coronavirus precautions. All stamping office staff is now working from home to maintain social distancing, he said. As of March 20, IT systems were tested and enhanced to permit secure work-from-home. This new IT priority meant postponing the launch of the SMART system. SLTX accelerated deadlines for agents to make corrections prior to the creation of the late filers’ report, which was due to TDI by April.

The staff worked together for about two weeks to define boundaries before transitioning to all 22 employees working from home, Brandon said. He expects that policy filings and payment processes will be seamless. The need to refocus priorities and adapt systems was “an interesting way to quickly build bonds,” said Brandon, who joined SLTX as executive director on March 9.

The board approved resolutions that would authorize Brandon as a signatory on SLTX’s bank and investment accounts and designate him a trustee of the SLTX benefits plans. These resolutions removed Meyer and Brian Wilds as signers on the accounts and removed Norma Essary and Kyle Bolls as trustees of the benefits plan.

The board also approved the 2019 Annual Report for submission to the commissioner of insurance. Annual Reports dating back to 2014, including the current one, are available on the SLTX website.

All nine members of the board attended the conference call meeting which held a limited agenda, and all items voted on received unanimous affirmations.

A Plan of Operation work group chaired by Brinson, is expected to report recommendations to the full board at the annual meeting. Brian Wilds, consultant and former finance director for the stamping office, told the board last December that staff analysis on a reduction to the stamping fee could be completed prior to the March meeting of the board.

NEWS IN BRIEF

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HURRICANE SEASON

Two recognized hurricane forecasters are predicting above normal 2020 Atlantic basin hurricane activity. Meteorologist **Dan Kottlowski,** AccuWeather, predicts 14 to 18 named storms will form, of which seven to nine will be hurricanes. AccuWeather predicted that two to four are likely to hit the United States. A normal season has 12 tropical storms, six of which become hurricanes, with three becoming major hurricanes. Colorado State University hurricane forecaster and meteorologist **Phil Klotzbach** predicted 16 named tropical storms, eight of which will become hurricanes. Four of those hurricanes will be major hurricanes of Category 3 or higher. Klotzbach said there’s a 69 percent chance for at least one major hurricane to make landfall somewhere along the U.S. coastline this hurricane season, which begins June 1. The National Oceanic and Atmospheric Administration is expected to issue its forecast in late May. Colorado State University will issue updated forecasts June 4, July 7, and Aug. 6.

MARIT’S READS

This month I thought we might go back to the basics with All I Really Need to Know I Learned in Kindergarten by Robert Fulghum. In a time when we are forced to look at common things in an uncommon way, this book will resonate as readers rediscover how universal insights can be found in ordinary events. As the world is forced to change everything we know, this book reminds us of the very stuff of life and the significance found in the smallest details. “Share everything. Play fair. Don’t hit people. Clean up your own mess. Don’t take things that aren’t yours. Say you’re sorry when you hurt somebody. Wash your hands. Flush.” Life will examine us continually to see if we have understood and have practiced what we were taught that first year of school, now more than ever.
-**Marit Peters**, IIAT president and executive director

TDI

On March 23, Governor Greg Abbott approved suspension of certain licensing requirements and fees for Texas-licensed insurance agents and others licensed through the Texas Department of Insurance. Adaptations include extension of the renewal period for licenses that expired since Feb. 29, including waiving late fees and continuing education fines for licenses expiring between March 31 and April 30, as long as renewal occurs by May 31. Until further notice, current temporary licenses and new temporary licenses remain active; the $100 additional fee for a temporary license is waived, and classroom education requirements may be satisfied by approved web-based training. For other adjustments made during the disaster declaration, consult the TDI website.

The Texas Department of Insurance has issued an emergency rule to move the start date for the implementation of the new coastal building code from April 1 to Sept. 1 to address business disruptions caused by the COVID-19

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Todd Buchholz comments on pre-coronavirus economy

Editor's note: *Coverage of Todd Buchholz's remarks to attendees of IIAT's Joe Vincent Management Seminar is continued from the March issue of the Texas Surplus Line Reporter.*

The paradox of prosperity and anger

Not long ago Buchholz watched the 1970s movie Network, in which the leading character's (Howard Beale) life is falling apart. The American economy is falling apart. There is unemployment and the Arab oil embargo. Beale is hooked on opioids and becomes an alcoholic. He decries fake news and is upset because the corporate suits have taken over the newsroom and undermined the integrity of the news department. Beale goes on the air one night and tells the audience to tune in next Tuesday because he plans to blow his brains out on the air. Instead of turning off the camera and microphone, one of the producers wants to let Beale go on. "Think about the ratings we are going to get next Tuesday," the producer says.

When he watched the movie recently, Buchholz said he thought: "There goes Donald Trump and Bernie Sanders. The millionaire and the socialist both saying that the system is corrupt and that we have been sold out by the Chinese."

The prosperity/anger paradox is partly caused by good news, Buchholz explained, such as when the Berlin Wall came crashing down in 1989 after President Ronald Reagan said, "Mr. Gorbachev, tear down this wall."

What does that have to do with the U.S. economy?

Buchholz answered his own question by saying that "for every square foot of the Berlin Wall cement that crumbled to the ground as dust, hundreds and hundreds of workers who had been trapped behind that wall under communism were suddenly free to vote, to travel, to start a newspaper and also to compete against your friends, against your neighbors, against somebody writing software at UT Austin or assembling textiles south of the border."

One reason why the economic models of places such as the Federal Reserve Board and Harvard haven't done a bit of good, according to Buchholz, is that in 25 years when hundreds of millions of workers are put into the worldwide work force, and then the curtains for China and India are opened, and a billion workers stream out, it will "slam down labor rates, create a new kind of competition and put America's middle class in a pincer movement."

On the positive side, the war on poverty that Lyndon Baines Johnson declared in the 1960s has been won, "but not in this country." The war on poverty has been won in Asia. The number of people starving, the number of people living on less than one meal a day or less than $1.00 per day "has plummeted from billions down to hundreds of millions." While the standard of living in Asia has improved, "many of our friends and neighbors (are) staying up late at night at the kitchen table wondering, 'How am I going to pay my bills? What is my retirement going to be like? How can I afford to pay my premium?'"

There is the paradox: Globalization raises the standard of living in many parts of the world, but not the standard of living for everyone.

When he ran for president, Donald Trump figured out how to tap into that anxiety. Hillary Clinton didn't. She didn't even campaign in Wisconsin and Michigan. She figured those states were a lock, Buchholz said.

As a result of the anxiety in the world economy, we have a backlash against free trade. Trump has just signed an agricultural deal with the Chinese, Buchholz said. It is yet to be understood what teeth are in the deal, but basically no one in Washington cares about free trade anymore. It used to be the Republican Party was in favor of free trade while the Democratic Party was a little queasy about it. For example, NAFTA was negotiated by George Herbert Walker Bush, but when he lost his election, it was left to Bill Clinton to push it over the goal line. Clinton relied almost entirely on Republican votes and only had to pick up a couple of votes from his own party to get NAFTA through, according to Buchholz.

Now, depending on who gets the Democratic nomination, there could be even more antipathy toward free trade than there has been under the Trump administration, Buchholz said, explaining that it's not just the U.S. that has implemented tariffs. India keeps out U.S. steel. Russia keeps out cars and chickens.

"It is very difficult to understand how these things ultimately work out," Buchholz said. President Obama slapped 35 percent tariffs on Chinese tires. The Chinese retaliated with 50 to 100 percent tariffs on American chickens. Ultimately, chicken growers in Arkansas and Delaware are making less money because of a dispute about low-end rubber tires from China.

"It's very difficult to get a synchronized global economic recovery when countries begrudge any other country that makes money in the process," he said.

Debt and demographics

"You don't hear much about the impact of anxiety on debt and demographics" during this election year, he said.

To explain, Buchholz used a graph of debt as a percent of GDP, with the deficit as the vertical axis. "The only thing you need to know is it's dangerous to be in the southeast quadrant of the matrix because that tells you your country has racked up loads of debt and is digging deeper and deeper each year because of a high deficit," he said. That is the quadrant where the Eurozone, Greece, Italy, Japan and the U.S. are, which has political implications.

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Pre-COVID-19 economy

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In the "enviable" northwest quadrant with low debt and low deficit is Russia. Vladimir Putin could "strip off his jacket and strut bare chested through Crimea," because he is not worried about borrowing on the international bond market.

As it turns out, it is the more democratic countries that are the most heavily in debt, Buchholz observed.

Medicare and Social Security

Before the great recession, before President Obama, up to one-third of U.S. households had no federal income tax liability. It is not likely that a country can survive with one-third of the people not paying.

"Blame my wife's grandparents," he said. They were honored for having been married longer than any couple in America – more than 81 years. Life expectancy is "fabulous," but "if you are trying to balance the books of Medicare and Social Security, and grandma retired 45 years ago, it's tough to balance the books."

It is a sociological truth that when nations move from poor to middle class status, people have fewer children. Fewer children as the years roll by also makes it hard to balance Medicare and Social Security, according to Buchholz.

Franklin Roosevelt and his advisers were "honest and smart," Buchholz said. In the 1930s when Social Security was established, they set the retirement age at 65, which made sense because the average 65 year-old back then was dead. Franklin Roosevelt himself did not live to see age 65.

In the 1940s there were about 40 workers for every retiree. Then in the 1950s there were about 15 to 20 workers per retiree. Now, the U.S. is almost to the point where there are two workers for every retiree.

When Lyndon Johnson set up Medicare in the 1960s, the retirement age again was set at 65. LBJ did not live to see 65. "The numbers just don't work (now)," Buchholz said.

Tongue in cheek, Buchholz told his audience that someone should announce a "nationwide campaign to drive down life expectancy. No more guardrails on mountainous roads. No more guardrails on grandma's bathtub…. Let's stop the senseless inspection of meat," he said.

"We have these big demographic debt issues that we are not tackling," but "someday we will have to."

Commenting on current demographics, Buchholz said that the U.S. has more golf courses than it has McDonald's restaurants. "That is not a forecast," he said. "It is now." He described it as a bit queasy that in Japan, they sell more adult diapers than baby diapers.

Even with so much bad news, Buchholz contends that the economy is doing really well. Until a few hours before his speech, the stock market was "on fire."

The enemies list

Every president of every party has an enemies list, Buchholz said. Lyndon Johnson and Richard Nixon had a list of names. President Obama came into office, and "it was as if he was on a tank turret that spun 360 degrees." One by one he looked at different industries and put them in the crosshairs. Obama said insurance collects premium but never wants to pay out; oil, gas and coal are there to pollute the environment; healthcare doesn't really care if the patient lives, it's about collecting fees; agricultural chemicals are there to poison the soil; finance is about the customers' yachts, and hotels and restaurants exploit minimum wage labor. "Before you knew it, outside of green energy, there were virtually no segments of the S&P 500 that didn't think they would be subject to new taxes and new regulations," Buchholz said.

However, President Trump comes into office, and "God knows President Trump has enemies, but the difference is that Trump's enemies have not been sectors of the S&P 500."

According to Buchholz, the economic recovery actually began as early as the fourth quarter of 2009 under the Obama administration. The weakest part of that recovery was business capital investment. Exports came back and government spending was off the charts, but business suffered. "Finally, in the last couple of years, business capital investment returned to a more healthy trend," he said.

Where is the economy now?

To know where the economy is right now, Buchholz said the three critical markers are rates, oil and trade.

The Federal Reserve Board has pretty much rewritten everything, according to Buchholz, with interest rates standing at about zero percent.

Most of his Republican friends, when Ben Bernanke and Janet Yellen were running the Fed, told him low interest rates would be a disaster. They would lead to hyperinflation, and the U.S. dollar would "fritter away to nothing," but it turns out the only downside to low interest is that pensioners can't make money on their bank certificates of deposit and maybe without low interest there would not have been the craze for cryptocurrencies. "Overall, the Fed's policy can be defended," he said. "Not just in the U.S., but pretty much across the world, interest rates are at or near zero."

His friends who said it would be a disaster thought it would take the economy back to the 70s. Just to remind his audience, Buchholz said the term of the 70s was "stagflation" – a recession that would not end, combined with inflation.

In certain sectors of the economy, Buchholz knows that prices have been "galloping." He has two kids in college. "I know what tuition bills look like," he said.

For insurance companies, premiums are up, but overall, the Fed's low interest rate policy has not sparked the hyperinflation people were worried about, he said.

One of the biggest mysteries of economics in the last 20 years, according to Buchholz, is how the country can enjoy 3.5 percent unemployment with no inflation.

Price wars go on

To explain the economy, the Amazon effect is important, Buchholz said, pointing out that there are still price wars going on.

Amazon has invested so much in logistics that it has helped contain overall inflation and driven down the price of products, according to Buchholz. For instance, after Amazon bought Whole Foods about two years ago, food prices at Whole Foods became more reasonable.

The mutual fund company, Vanguard, is known as the "skin flint" of the mutual fund sector, Buchholz said. Their management fees have been "tiny, tiny." Part of the reason for the low fees is Vanguard's location. "If you look at their return address, it is not 6th Avenue in Manhattan where Bank America is. It is not State Street in Boston. The return address is Valley Forge, Pennsylvania. They are working in unheated, discarded barracks of George Washington, and they pass that savings along to the mutual fund investor." Yet, about six months ago, Fidelity put out full page ads saying that Fidelity will undercut Vanguard. Then a couple of months ago, Charles Schwab announced no commissions on trades.

"We still have price wars going on despite super low unemployment," he said.

Gig economy and strong dollar

The gig economy, such as Airbnb and ridesharing, and the strong dollar also contribute to low inflation.

"It is hard for a hotel…to raise prices when Airbnbs effectively added 25 percent to the number of hotel rooms in the U.S." The gig economy, he said, created supply side shock. "It takes idle resources, such as land, labor or vehicles, and shoves them into the market."

Another factor is the reason the "Abercrombie dude" is lonely. Directly across the street from Trump Towers in Manhattan is the Abercrombie and Fitch store. For years, there has been a half-naked dude standing in front of the A&F store. He is not a vagrant; he is a model. There have been velvet ropes down the street for tourists, mostly foreign, to line up to take selfies with the half-naked dude in front of A&F. The dude is a lonely boy today, not just because it is cold, but because the foreign tourists are gone. The tourists are gone "because the U.S. dollar, instead of frittering away to nothing, has been really strong," making it difficult for foreign tourists to come to the states.

If the dollar is strong, it helps contain inflation because, "with a strong dollar, foreign stuff looks cheap to us." It is hard for U.S. companies to raise their prices when foreign competitors "can sell stuff cheaply to us because the dollar is strong."

Buchholz recently stayed at the Waldorf Astoria in New York City. Turns out he could do that because it cost $220 a night because the foreign tourists are gone. While he was there, a steward came in to swap out contents of the mini-bar. The steward

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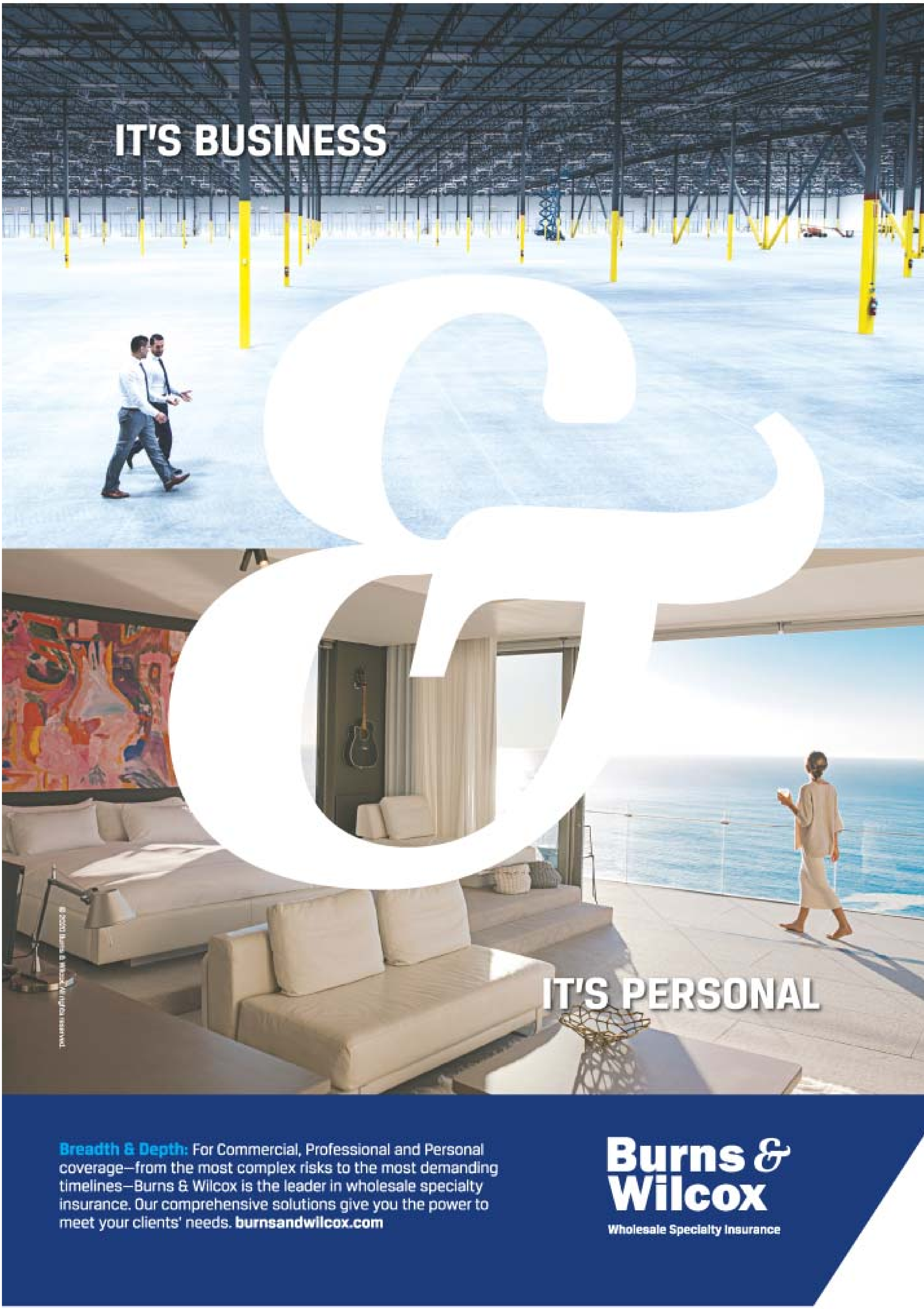
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took out the vodka and put in Pringles potato chips. The reason: Russian tourists are gone because the U.S. dollar is strong.

"So the gig economy and the strength of the dollar have helped contain inflation, and the result is that interest rates have stayed very low," Buchholz said.

Consumers in good shape

Consumers are in good shape, he said, but they are not buying automobiles like they once were.

"Those of you selling automobile insurance…have a long-term issue," Buchholz told his agent audience.

These days one-third of high school kids are not getting drivers' licenses. "When I was a kid everyone in our high school class got a driver's license except Linda Pizniac. Linda did not feel comfortable driving, so we took turns driving Linda around. Everybody else got a driver's license."

When his youngest daughter asked him what kind of car he planned to buy her when she turns 16, he responded, "Alexia, give me your phone. I am going to get you an Uber."

Apparently, automobiles have "plateaued." In 2010, the economic recovery was fueled by automobiles and iPhones. "If it weren't for texting while driving, we might not have had an economic recovery," he said.

Now, people are buying experiences, according to Buchholz.

Those who want to know whether or not consumers are in decent shape need only keep their eyes on the share prices of Capital One and Allied Financial. Buchholz described the two companies as the "canaries in the coal mine." Allied owns automobile leases and Capital One is one of the biggest credit card issuers. They are obligated to report to Wall Street whether people are paying back automobile loans and credit card loans on time, according to Buchholz.

"When you see those share prices shudder, maybe there is a canary in the coal mine that is causing the shudder." So far, "we are not seeing consumers so strapped that they are not able to pay their auto loan debt or their credit card debt, but keep an eye on them," he advised.

Relative to the insurance sector of the economy, Buchholz said that Allstate and others are complaining that car accident claimants are more lawyered up, and there is the long-term issue of automobile ownership in the United States. Nonetheless, despite all the discussion of catastrophic global climate change, insurance companies have done okay. This could change, just like the coronavirus, at any moment. "It looks as if the insurance sector itself is in reasonably good shape as we go ahead," he said. Whether the market is soft or hard depends on the kind of insurance, he observed.

"It is interesting how technologically adept insurance companies have become, in terms of attracting clients, especially in the auto sector. The number of people who are now buying auto insurance on their phones is accelerating, which hasn't translated into homes, but maybe it will." Aerial photography allows underwriters to streamline quoting. "People want more tech, lower cost and convenience. Your clientele expects answers and service sooner than ever before," he said.

The price of oil

With oil at $40 to $70 a barrel, the price is at the "sweet spot." The price is high enough for oil companies to make a profit and low enough that consumers can afford to fill up their automobiles and buy heating oil.

"Every once in a while we pop out of that zone. Sometimes it's because Iran launched missiles into Iraq. Sometimes it's because Saudi Arabia has a conflagration with Yemen. Maybe there is an explosion at an oil refinery, and the price goes up."

Buchholz believes oil will stay in this zone because about one-third of the oil rigs are off line because the price is too low to make them profitable. Whenever the price goes up, there is enough supply off line that can be brought back online to shove prices back into that "lovely zone."

He does not believe the stock market has been a massive gambling operation, even though the Dow Jones was down about 477 points during the morning when he stepped onto the stage. The tax decrease brought companies' tax liabilities down from 35 percent to 21 percent, so after tax earnings went up, and 74 percent of companies beat earnings expectations. With the 10-year treasury at 1.68 percent, where else are people going to put their money but in the stock market?

Currently, he said, more people have money in the equity market than in the bank because they can't earn interest on money in the bank. That is a danger point because, he warned, if interest rates return to normal, people will take money out of the stock market and put it back in the bank.

Whether or not interest rates are going to stay low is the most important economic question for the next 12 to 24 months, he said.

Buchholz believes interest rates will stay low because inflation will stay low. Low interest rates support the stock market, but more important than that, low interest rates support the housing sector. There was a lull in the housing sector up until a couple of months ago. Now, housing starts and home sales perked up a little bit, according to Buchholz. The auto sector is flat, and "even iPhones can be bought at zero percent financing."

The low interest environment helps the overall economy and the stock market sustain itself.

The dirty secret of the U.S. economy

"The U.S. economy is benefitting from the fact that the world economy is flat on its back. The world economy has been limp and laggard, and that has kept world interest rates super low. So, we have benefitted from the fact that the rest of the world's economy is not good, which has made their interest rates stay low, which has allowed ours to stay lower than they otherwise would be." Buchholz said.

"This confounds the economic text books," he added.

Tax cut created winners, losers

The winners: Buyers of industrial equipment have been able to write off the purchases. Energy companies have done well. Pharmaceutical companies and banks have done well.

The losers: People who live in a state where home prices are high and local and state taxes are high are not doing so well. Residents of California, New Jersey, New York or Connecticut may be losers because housing prices are "outrageous." They can only deduct home interest up to $750,000 and can only deduct $10,000 of state and local taxes. "Keep an eye on real estate prices in California, New Jersey, New York and Connecticut because they could spark a recession in the rest of the country," he said.

Looking down the road

If Buchholz is wrong about inflation, if

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London views

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lockdown restrictions.

Most small to medium enterprises (SMEs) buy cover from U.K. insurers, and London's only exposure to any of these losses would come from reinsurance, which no one is worrying about at the moment. Lloyd's Chairman Bruce Carnegie-Brown reiterated that valid claims are always paid by Lloyd's, but excluded claims are not. To stress this point, the Lloyd's Market Association (LMA) produced a new Communicable Disease Endorsement for property business, which confirms coverage for physical loss but excludes any loss or expense resulting from a communicable disease.

John Neal, Lloyd's CEO, said that taken in isolation, insurance losses or operational challenges can usually be managed, but taken together and occurring simultaneously and globally the losses represent a challenge of unprecedented scale for the industry. He explained that up to 14 different classes of Lloyd's business might respond to COVID-19 losses.

Understandably, Lloyd's does not want to publish an estimate too early. Managing agents were asked to deliver their best estimates by the end of the month, and Lloyd's will publish an aggregate number in May.

Anyone having a policy about to expire might find comfort in a new LMA clause that ensures continuity of coverage in case of market closure. The clause states that, if all Lloyd's syndicates are prevented from entering the Lloyd's building either by the Corporation of Lloyd's or due to quarantine by any person or agency for more than one business day during the seven days before expiration, the contract automatically will be extended at the existing terms and conditions for 14 days.

The situation in the U.S. is worrying insurers. While insurers' lawyers believe there is no cover, lawyers acting for policyholders see things very differently. Lloyd's and London insurers are concerned that, if the damage trigger for BI is hit, U.S. lawsuits could pummel the Lloyd's and London underwriters who wrote U.S. business. If U.S. claims are successful, the court decisions could affect U.K. claims. Insurers on both sides of the Atlantic also are concerned about some states trying to require payments to small firms even if virus losses are excluded. Equally, there are worries over civil-authority clauses operating where governments shutter businesses. With different states, different verdicts can be expected.

Lloyd's back in the black for 2019

Lloyd's is back in the black and confirmed that the market is in a strong position to respond to the impact of the coronavirus and can fully support its customers and business partners. Lloyds made a profit of $3.25 billion for 2019 (2018: $1.3 billion loss) thanks to the release of back years' reserves for the 15th consecutive time; the largest ever investment return on the market's central assets; lower level major losses, and lower operating expenses. Add these factors together, and the result is an improvement in the whole market's underwriting figures. At a time when good news is badly needed, Lloyd's produced the best result for the whole market since 2014.

For anyone wondering how these results tie in with the underwriting year figures, Lloyd's produces the answer: They don't.

Lloyd's publishes two sets of figures, the underwriting year results and these figures, which are the results for the aggregate Lloyd's market. Whereas the underwriting year results are straight premium against claims, the aggregate figure includes release of previous years' reserves and investment income. The underwriting year figures do sway the aggregate figures.

Gross written premiums rose to $29.9 billion (2018: $25.61 billion), reflecting underwriting discipline and the effect of the Decile 10 initiative. Gross written claims rose slightly to $46.67 billion (2018: $46.15 billion). Gross claims paid were $29.9 billion (2018: $25.61 billion). Investments showed a 4.8 percent return, a Lloyd's record and way past 2018's 0.7 percent return.

For once the major losses stayed away, but Lloyd's didn't get by without some catastrophic losses in 2019, such as Dorian, and these accounted for some $2.3 billion of losses. The figure is below Lloyd's five-year and 15-year averages.

Below average cat losses helped Lloyd's combined ratio improve to 102.1 percent against 104.5 percent a year earlier. The rate increases at this year's January renewal season will help, and hopefully, the renewal seasons later in the year will also show a similar premium bounce if underwriters keep to their discipline.

Lloyd's expense ratio indicates why Lloyd's Blueprint for the Future is aimed at reducing costs. The total operating expense ratio at Lloyd's was a thumping 38.7 percent, made up of the cost of operating at Lloyd's, which was down slightly at 11.2 percent (2018: 11.9 percent) and acquisition costs of 27.5 percent.

The recent crashes in stock markets around the globe driven by the coronavirus would worry most solvency experts. Lloyd's 2019 Solvency Capital Requirement was $1.95 billion, and this was covered 238 percent by eligible assets of $4.65 billion. With worldwide concern about solvency, Lloyd's updated its comments on solvency. When some markets had shown some recovery in values by March 19, Lloyd's eligible assets had fallen, but only to $4.5 billion, which covers its Solvency Capital Requirements by 205 percent. This is partly because of Lloyd's investment rules, which allow only low exposure to equities.

E-Lloyd's is up and running

Accepting the rule that it must avoid nonessential contact, Lloyd's stress tested its Emergency Trading Protocols and ramped up its business continuity preparations in view of the contingency measures forced on it by the coronavirus epidemic. The protocols were developed following detailed discussion not just with members of the Lloyd's market but also with the Lloyd's Market Association (LMA), the London International Insurance Brokers' Association (LIIBA) and the International Underwriting Association (IUA).

Lloyd's said that on a typical day it sees a footfall of around 5,000 brokers and visitors to the underwriting room. However, the footfall was down to 200 by March 18. With most insurance firms working remotely, coupled with advice from the U.K. government, Lloyd's Executive Committee decided to temporarily close the underwriting room as of March 19. The famous Lutine Bell was rung once to mark closure, indicating bad news. The bell will be rung twice when the room reopens, indicating good news.

Lloyd's said the decision was taken with a heavy heart, and it is committed to reviewing the situation on a weekly basis. So far no changes have been necessary. The Lloyd's building remains open for tenants, although this may change in the future. The Executive Committee is confident that its emergency trading protocols will enable the market to continue trading during the underwriting room's closure.

The problem for Lloyd's is that there was confusion over whether risks have to be written in the room or if electronic placing is acceptable, so a market bulletin was circulated to clarify the situation. The bulletin says that contracts of insurance or reinsurance may be entered into (and amended or endorsed) electronically by Lloyd's syndicates (and their agents) using recognized electronic placing systems or via email. The protocol that various parties agreed to says that, in circumstances where it is not possible to access the underwriting room, underwriters and brokers can supplement face to face and electronic trading by trading elsewhere to ensure insurance and reinsurance can continue to be

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NEWS IN BRIEF

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outbreak. TDI recently adopted the 2018 International Building Code and International Residential Code as the standards for insurance through the Texas Windstorm Insurance Association (TWIA). The new codes provide greater windstorm protection and will apply to new construction, repairs, and additions. Construction started before Sept. 1 can use either the new or old code and be eligible for TWIA coverage.

TDI announced March 6 that Blue Cross Blue Shield of Texas (BCBSTX) agreed to repay customers for emergency claims left to insureds through company errors. The company also agreed to pay a $10 million fine, the highest fine levied against a company since 2011 when AIG paid a $12.8 million fine. The action resulted from BCBSTX providing incorrect information to many HMO members about how to resolve balance bills, the company's delays in processing out-of-network claims and errors in marketing materials. TDI estimates that up to 470,000 policyholders may receive notifications from BCBSTX of the error. In 2018, BCBSTX had a 23.69 percent market share of accident and health insurance in Texas and collected $10.26 billion in premium.

London views

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placed (or existing cover extended) and time critical aspects of claims handling and determination can be undertaken remotely using alternative mechanisms.

The process is working pretty much like normal except underwriters are working from home. Instead of a queue, the underwriter takes a phone call, but normal negotiation over terms continues.

It will be interesting to see whether or not electronic trading continues after lockdown is lifted. If so, the days of brokers dragging a slip around to 20 or so underwriters may largely disappear. Certainly the lockdown seems to be shifting digital underwriting forward.

There is a problem with the difficult and mega risks. While fairly simple risks can be conducted over the telephone, video conference or even email, the difficult risks take time and intense negotiation and discussion with underwriters.

Major risks often have two placing broking houses which makes life more difficult, and while at present, Lloyd's and the London market seem to be coping with lockdown, the thought of an end of year renewal season being handled this way is nightmarish. However hard you try, you can't replicate face-to-face trading exactly nor can you cross the office to discuss or ask a colleague for advice. The danger is a critical aspect of a risk could be missed because of the different way the market is operating now.

Lloyd's simplifies claims system

Not only are underwriters working from home, the claims teams that are vital to the market are also coping with the same problems. To make life easier for the claims teams Lloyd's has amended its claims scheme to allow the leading managing agent to handle a greater volume of claims. Currently, Lloyd's categorizes claims as either standard or complex. Property and energy standard claims are set at or below $650,000, and for all other classes, the limit for a standard claim is $325,000.

Standard claims require the lead managing agent to be solely responsible for settlement. Complex claims require the prior agreement of the second lead managing agent before settlement can be agreed and processed. Lloyd's solution: allow the lead managing agent to reassign a complex claim as standard if the agent considers it appropriate and providing the claim is less than $1,300,000 for property and energy and $650,000 for all other classes. This will allow more claims to be processed by just one managing agent.

Coverholders get guidance

Lloyd's has produced special operational guidance for coverholders reminding them that local regulations and legal requirements must be adhered to and that many states have issued guidance on cancellation and non-renewal.

Lloyd's told underwriters not to automatically cancel consumer and SME policies solely for nonpayment of premium for up to 60 days. Lloyd's suggested that underwriters discuss the operation of nonpayment clauses with coverholders.

Renewing binding authorities is challenging at present. Lloyd's urged underwriters to resist the temptation to extend binders and, instead, renew them. If operational restrictions impede the ability to renew, then underwriters can extend the binder.

Lloyd's is concerned with the service continuity of service providers, particularly

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Pre-COVID-19 economy

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the Fed slams on the brakes, and interest rates go up and the stock market loses 30 percent of its value, "all bets are off," he said.

He believes the most important long-term issue for the economy is intelligence. We are in a worldwide race for IQ points. "Whichever town, city or country harnesses the most intelligence will prosper most in the 21st Century," he said.

"If you don't have a high school education, you are competing against the last peasant in Mongolia who yoked a Yak to a plow. You are probably competing against the Yak," Buchholz said.

He worries about education and encouraged those present to get involved in education. "You are more involved in your local community than anyone in any other industry," he said. "In the end, you are not just dependent on your children's education, but on the education of people you will never meet. So educate others' children."

Buchholz talked about Ray Kroc and explained that Kroc did not invent McDonald's. He bought it from the McDonald brothers. He did not come up with the idea of franchises. Instead, he created partnerships, lasting partnerships. "You are here to cement relationships and create new relationships," he told the agents at the management seminar. "Create relationships because that is what is going to sustain you in the end," he said.

"You hold the ticket to the 21st Century economy, which is going to be turbulent and tumultuous, but holds great promise."

New York's COVID-19 victims include NAPSLO past president

Kevin P. Brooks, former chairman, president and CEO of General Star Indemnity Co., the surplus lines unit of General Reinsurance Corp., and a past president of the National Association of Professional Surplus Lines Offices, died April 3 from complications of COVID-19. He was 75.

Brooks was a longtime resident of Brooklyn and Shelter Island, New York.

He graduated from Manhattan College in 1966, where he joined the U.S. Marine Corps under the platoon leaders program. He served a tour of duty in Vietnam as an artillery forward observer and continued his service as a member of the reserves.

After completing active duty, he returned to New York in 1969 and joined General Reinsurance as a casualty facultative underwriter. Spending more than 40 years at the organization, he rose through the ranks and led General Star from its founding.

NAPSLO awarded Brooks the Charles McAlear award in 1999 to recognize his contributions to the specialty insurance business. He was the association president for the 1989-90 term.

Outside of business, he was a birder, and he developed a keen interest in Irish music, playing the bodhrán and the bones.

Brooks is survived by his wife, Ginny, three children and seven grandchildren. His family plans to hold a celebration of his life after coronavirus-related restrictions are lifted.

London views

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TPAs, and is assessing continuity through the LMA's Designated Authority Claims Group and COVID-19 Claims Steering Group. To help enable TPAs to focus on their resources and the ability to service customers, Lloyd's encourages managing agents to use the LMA's centralized delegated claims database, which can assist with operational, service resilience and claims performance questions and data.

The other major concerns relative to coverholders relates to audits. Lloyd's audit team came up with the guidance, which asks coverholders to follow the recommendations of each national government as well as their individual organization's internal procedures and to actively monitor the situation.

Where feasible, automatic cancellations of booked audits should be avoided; technology should be fully utilized, and remote reviews offered in place of traditional onsite visits. This includes allowing remote file reviews, remote access to document repositories and interviews conducted by telephone or video conferencing facilities.

Hancock defers departure

To provide senior leadership support, Jon Hancock, director of performance management at Lloyd's, has agreed to defer his leaving date from March 31 to May 31. Good lad that Jon!

SL premium

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made online. As of the end of the first quarter, SLTX collected $2.49 million in stamping fees, or more than half of its $4.61 million budgeted general and administrative expenses for 2020. In addition, SLTX has budgeted more than $2 million this year for capital expenses, almost entirely for SMART software development. Any change to the stamping fee, said Brandon, will be by decision of the SLTX board of directors.

Despite all SLTX staffers working from home since March 23, all premium reports through March 31 were available on the SLTX website on April 1. While many aspects of the reports are automated, said Cheyenne Herrara, SLTX director of operations, "final data preparation and report generation remain a manual process at this time."

"Having the reports available in a timely manner is just one example of the dedication that our staff have to the organization and to ensuring that our service to our users and customers remains our top priority," said Brandon. "The commitment to the broader insurance community by the employees of our organization is unwavering," he added. "There is a significant amount of effort and trust that has gone into the last few weeks of March without any significant degradation in services or departmental performance."

TDI Final Disciplinary Actions, March 2020*

Date	Name & City	Action Taken	Violation
3/5/2020	Selena Roxanne Alejo, Buda	General lines agent license with property and casualty qualification granted, but with a four-year probated suspension[C]	Convictions in 2013 for intoxication assault with vehicle serious bodily injury and in 2014 with attempted obstruction or retaliation. Rehabilitation demonstrated.
3/31/2020	Amerigroup Texas, Inc., Houston	Fined $75,000[C]	Violations found during triennial examination, including failing to provide evidence of reasonable opportunity for health care provider to discuss the treatment plan prior to issuing adverse determination, failed to implement corrective action timely.
3/25/2020	Gladis Beltran Hernandez, Spring	County mutual agent license revoked. (SOAH Docket No. 454-20-2183.C). Copy of order provided to law enforcement and/or other administrative agencies for further investigation.	Failed to appear at revocation hearing. Misappropriated, converted to her use or illegally withheld money belonging to an insurer; failed to register an assumed name.
3/31/2020	Cigna Healthcare of Texas, Inc., Plano	Fined $200,000[C]	Violations found during triennial examination, including failing to issue adverse determinations timely, failing to respond timely to request for appeal, failing to complete appeal timely, failing to pay prompt payment penalties
3/6/2020	Health Care Service Corporation, a Mutual Legal Reserve Company doing business as Blue Cross and Blue Shield of Texas, a division of Health Care Service Corporation, Chicago, IL	Fined $10,000,000; ordered restitution to certain insureds by Dec. 31, 2020[C]	Provided incorrect information on how to resolve balance bills for HMO members receiving out-of-network care; delayed processing out-of-network claims; errors in marketing materials
3/25/2020	Cherrelle Dionne Jones, Port Arthur	General lines life accident and health license denied (SOAH Docket No. 454-20-1840.C)	Failure to disclose criminal history in license application
3/25/2020	Carlos Lizardi Jr, Mckinney	Application for adjuster all lines license denied	Felony criminal history
3/25/2020	Protector Insurance LLC; Marissa Barrientos; Denice Lizeth Rodriguez; Knight Insurance Agency Solutions, LLC; Claudia Lizeth Pecero, Brownsville	Barrientos and Rodriguez fined $4,500 each; Protector, Barientos and Rodriguez must cease engaging in managing or being employed by Knight; Pecero and Knight fined jointly $5,000; Knight Agency general agency license given probated suspension of four years[C]	Engaged in the business of insurance without a license; Protector, Barientos and Rodriguez continued to engage in business of insurance after a license revocation; Pecero engaged in fraudulent or dishonest acts
3/25/2020	Matthew Michael Roll, Friendswood	Fined $2,500[C]	Engaged in dishonest conduct related to the issuance of eight life insurance policies
3/25/2020	Michael Duane Smith, Dallas	General lines agent license with a life, accident, and health and property and casualty qualification revoked	Misappropriated premium payments, engaged in fraudulent or dishonest acts or practices, failed to complete required continuing education hours.
3/30/2020	Texas Farm Bureau Mutual Insurance Company; Texas Farm Bureau Casualty Insurance Company; Farm Bureau County Mutual Insurance Company Of Texas, Waco	Fined $60,000[C]	Violations found during examination focused on private passenger automobile business, including issuing policies without PIP and/or UM/UIM coverage, failing to receive written rejection of PIP and/or UM/UIM coverage, failed to include credit scoring factor in rate filing, failing to settle reasonably clear claims promptly, fairly or equitably, failing to implement reasonable standards for claims investigation (Not all violations listed here apply to all of the named companies.)
3/5/2020	Christie Doyle Thomas, Corpus Christi	Escrow officer license revoked (SOAH Docket No. 454-19-6624.C) Copy of order provided to law enforcement and/or other administrative agencies for further investigation	Failure to close a transaction as required by law; misappropriated or converted to her own use or illegally withheld money belonging to another; committed fraudulent or dishonest practices

***Except for consent orders, actions may be appealed to State District Court.**
[C]Consent order: Parties waived rights to other procedures.

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