

TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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NEWS IN BRIEF PEOPLE

Kori Johanson, J.D., has been named to the board of directors of the Surplus Lines Stamping Office of Texas as an industry representative. Johanson is global chief compliance officer and corporate senior vice president of H.W. Kaufman Group, in Farmington Hills, Michigan. Johanson replaces Kyle Streetman, whose three-year term expired Dec. 31, 2019. At Kaufman, Johanson supervises the compliance team and oversees corporate and regulatory compliance. Prior to this position, she was vice president and associate general counsel of PURE Group of Insurance Companies in the greater New York City area. In addition to her role at the stamping office, Johanson serves on the Wholesale and Specialty Insurance Association Legislative Committee. Previously she served as a board member of the Industry Education Council for the National Council of Insurance Legislators and as an advisory council member for NCOIL's International Issues Task Force. Johanson earned a Juris Doctorate from Western New England University School of Law and a B.A. in economics from Trinity College.

Public entity specialist Carleen Patterson has joined Alliant as first vice president, practice leader within the company's Public Entity Group. Based in Alliant's Dallas office, Patterson will provide innovative insurance and risk management solutions to large government and higher education clients. In his welcome statement, **Daniel J. Howell**, senior executive vice president, Alliant Specialty, said "While she is strategically located in Texas, her expertise and knowledge are national in scope and will help further our offerings across the country." With more than 13 years of concentrating on public sector risks of large government and higher education clients, Patterson also has experience working with city, county and state governments and school districts throughout the country. Prior to joining Alliant, Patterson was a managing director with Aon Risk Solutions. She earned a bachelor's degree in education from The University of South Dakota and holds insurance designations of ARM, ARM-P, CRM and CIC.

In late January, Angie Cervantes joined the Insurance Council of Texas as its governmental and legislative affairs manager. Cervantes has over 10 years' experience working in and around the Texas legislature, with legislative advocacy organizations, and other business trade associations. She worked for Senator **John Carona**, R-Texas City, while he was in office, and served as the deputy committee director for the Senate Business and Commerce Com-

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Greg Brandon named new executive director at SLTX

First week on the job found the new executive director of the Surplus Lines Stamping Office of Texas working with the management team to determine the best ways to keep the office providing its services while preparing for coronavirus adaptations as they may become necessary. The SLTX board of directors appointed Brandon its executive director effective March 9. Don Meyer, interim executive director, will remain with the agency through a transition period.

As a quasi-government agency, SLTX must continue to function in an emergency, Brandon said. He spent the week identifying the core functions of SLTX and how the staff could carry on remotely if necessary. "We educate, communicate, and receive and analyze data and information," he said.

Brandon's first job out of college in 1995 was loss prevention engineer for Industrial Risk Insurance in Houston. He credits his mother with introducing him to insurance as a career and helping him find his first job. Shirley Brandon was working as a risk manager for a tool company in



Tulsa, Oklahoma, when she attended a regional RIMS conference.

As her son was approaching graduation with a B.S. degree from Oklahoma State University in fire protection and safety, Shirley Brandon touted his record and shared his resume. The networking on her

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IIAH honors 37-year agent for his persistent service

Gathered for Houston Industry Day at the Houston Marriott Westchase on Feb. 19, the Independent Insurance Agents of Houston honored 37-year insurance veteran Dudley Ray for his outstanding service to IIAH and to the Houston community.

His son, Stuart Ray, president of IIAH, presented the award and, according to his dad, was a little loose with the facts. Indeed the elder Ray experienced some lean times when he started in insurance after college. He worked for Ward Stanberry Insurance Agency in Katy, Texas, on a commission only basis and recalls receiving a one month paycheck for \$1.87. But it wasn't the second month on the job, as the younger Ray said. Several lean months happened about three years into his insurance career, and Ray seriously considered

changing careers.

Dudley Ray's father, Jack Ray, a minority partner in the agency, convinced him that times would get better, and they did. Now Dudley Ray is managing partner in the Houston office of Higginbotham Insurance Agency, which is one of the nation's top 100 independent brokers with offices throughout Texas and in California, Georgia and Oklahoma.

Ray graduated from Sam Houston State University with a BBA in finance in 1982. After five years with Ward Stanberry, Ray joined Hotchkiss Insurance Agency, where he remained until 1999, rising to vice president. In 1999, Ray joined Higginbotham Insurance Agency, where he currently

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TDI's February disciplinary orders penalize 25 late filers

In February, 25 brokers caught a share of \$167,950 in administrative penalties assessed against them for late filings made to the Surplus Lines Stamping Office of Texas in 2018. The brokers are among the 145 agents referred to the Texas Department of Insurance for enforcement when the stamping office submitted its late filers report in March of last year. The next late filers report, covering late filings from 2019, is due to TDI by April 1.

In addition to the 25 brokers fined in February, there were two others who received penalties for late 2018 filings, one in mid-December 2019 and the other in late January 2020. The TDI Enforcement Division reported that there was a finding of

"no violation" against one broker referred to the division for enforcement.

In total, there was \$240,475 in administrative penalties levied against late filers for 2018 delinquencies through disciplinary orders, with about half the amount levied against nonresident filers. There were 18 nonresident brokers assessed penalties, and nine resident licensees, with penalty amounts ranging from \$2,425 to \$66,675. TDI's Enforcement Division reported that, as of March 13, it has 26 additional open cases involving stamping fees.

Under Texas law, administrative penalties may be assessed against an agent who

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Emergency plans for epidemic may force Lloyd's to ban access to 1 Lime Street

London Views
By Len Wilkins
London Correspondent

Lloyd's closed the market for 24 hours from midnight on March 13 to stress test the emergency procedures it will take to ensure continued operation if access to 1 Lime Street is banned or restricted because of the U.K. government's attempt to control the coronavirus (COVID-19) epidemic. Lloyd's earlier created emergency trading protocols amid concerns that the market, employees and policyholders need reassurance that Lloyd's has the ability to cope with the epidemic.

With the market closed, Lloyd's business continuity team wanted to assess the extent to which the market is ready to continue trading if the underwriting room is closed. Lloyd's believes the closure provided valuable information on the real-life effectiveness of the protocol. While the room closed to the market, Lloyd's took the opportunity to deep clean the underwriting room and all public areas in the building.

Lloyd's informed relevant regulators of its plans and stressed its commitment to being there when its policyholders need it the most. Lloyd's set up a dedicated contact point – coronavirus@lloyds.com – to provide assistance and help policyholders find the right person to confirm cover or process a claim. Lloyd's confirmed its aim to pay all valid claims as quickly as possible.

The problem Lloyd's has is that, while electronic trading is being pushed by the market and the London Market Group, and 70 percent of Lloyd's risks are placed electronically, the London market still engages in a lot of face-to-face pre-placing and placing discussions. At present, Lloyd is not restricting access to the building or restricting the number of brokers using the market or attendees for meetings, but this is under continuous review.

The ultimate effect of the coronavirus on Europe and the U.K. is unknown. As of March 12, there were 596 confirmed cases of virus in the U.K., which has resulted in 10 deaths. All of those who died were over 60 years of age and all had major underlying health problems. Compared to other European countries, one would get the impression that the U.K. is getting off light. There are 12,462 cases in Italy, with more than 1,000 deaths; 2,281 cases in France, with 48 deaths; 2,078 in Germany, with six deaths (Germany has excellent intensive care facilities), and 3,013 in Spain with 84 deaths.

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TWIA board elects coastal reps as chairman, vice-chair

Board makes decisions on bond redemption, reinsurance and 2020 budget

Electing a new board chairman, allocating funds to redeem bonds, authorizing the purchase of reinsurance, and approving the 2020 annual budget were the big items on the agenda of the February meeting of the board of directors of the Texas Windstorm Insurance Association. The board also received reports from staff on TWIA’s end of year results and the association’s efforts to contract an independent actuary to express an opinion on TWIA’s residential and commercial rate adequacy.

The board met on Feb. 18 with a quorum of six members. The nine-member board currently has three vacancies, including two non-coastal representatives and one coastal representative. The most recent vacancy occurred on Jan. 22, when non-coastal representative and board president Bryan Shofner resigned from the board.

TWIA’s new chairman

Chandra Franklin-Womack, who had been serving as vice chairman of TWIA’s board, was elected chairman, and Georgia Neblett was elected vice chairman. Both are first tier coastal representatives on the TWIA board; neither is an independent insurance agent. Industry Representative Corise Morrison continues in the office of secretary-treasurer.

Womack, who is a professional engineer, is CEO of Aran and Franklin Engineering in Texas City. She holds a bachelor’s degree in civil engineering from Lamar University and an MBA from Texas A&M University.

Shofner, who recently accepted a position as regional vice president of Texas

Union Standard Insurance Group, stepped down to prevent the board from being “too heavily weighted on the insurance company side,” according to his letter of resignation. In his resignation letter, Shofner acknowledged that the board had already been criticized for imbalance due to a vacancy in a coastal representative slot on the board.

By law, the TWIA board of directors is composed of three insurance company representatives; three persons who reside in first tier coastal counties, one of whom is an independent insurance agent, and three members who reside in Texas more than 100 miles from the Texas coastline. Shofner, who previously worked for LP Risk in Dallas and Marsh and McLennan-Southwest in Lubbock, served as a non-coastal representative during his tenure on the board.

Bond redemption

The board unanimously recommended, and Commissioner of Insurance Kent Sullivan subsequently approved, the expenditure of \$45 million to partially redeem Series 2014 bonds that had been used for the payment of Hurricane Harvey losses. The action was recommended by TWIA’s Chief Financial Officer Jerry Fadden.

Board members had considered partial redemption of the bonds at earlier meetings, but prior to mid-2019, early redemption carried penalties. Having had a calm storm season in 2019, TWIA accrued a \$94.37 million net gain from operations by year-end 2019. Ordinarily, this amount would be allocated to the Catastrophe Reserve Trust Fund (CRTF); however, Fadden told the board that it could be more advantageous to allocate about half of the amount to the 2014 bonds that carry an 8.25 percent interest obligation. He likened it to the smaller scale family decision: Do we put a

large sum totally in savings or do we pay down the high-interest credit card debt?

Under its decision, which was approved by Sullivan on Feb. 24, the board will do a little of both. By partially redeeming the 2014 bonds, the debt service costs will be reduced by about \$3.71 million during the 2020 budget year, said Fadden.

Originally authorized in September 2014 as pre-event bonds, TWIA utilized \$449.2 million of the bond proceeds to pay storm losses and related expenses from 2017’s Hurricane Harvey, with \$50.8 million retained for debt reserve funds. The Series 2014 principal balance at year-end 2019 stood at \$318.6 million.

TWIA is slated to transfer \$49.37 million to the CRTF by March 31. The partial bond redemption remains subject to approval by the Texas Public Finance Authority. The 2020 budget anticipates accruing a \$43.0 million obligation to the CRTF to be paid into the fund in the first quarter of 2021.

Reinsurance

Because of a new law adopted in 2019, industry members on the TWIA board expressed caution about determining the level of reinsurance needed to make certain that TWIA would be prepared to meet the losses of a one-in-100 year catastrophe, but not to over prepare for that level with any excess purchase of reinsurance. Last year, a new law passed requiring the premium for any reinsurance purchased in excess of the one-in-100 year probable maximum loss (PML) to be borne by insurance carriers doing business in Texas.

As advisor to the board, Tad Delk from Guy Carpenter, TWIA’s broker for reinsurance, indicated that the one-in-100 year PML is an estimate derived by both science and art. There are multiple models,

said Delk, and multiple vendors, so the one-in-100 PML is “not exact.”

Still, TWIA is bound by law to choose an exact number on a rational basis in order to make the reinsurance purchase as the lawmakers intended.

Historically, Guy Carpenter has applied two different models to determine TWIA’s one-in-100 year catastrophe exposure, one by Risk Management Solutions and another from AIR Worldwide. These models go beyond relying on historical data, which Delk said is inadequate. “Where a storm hits has a great deal to do with ultimate losses,” said Delk. In the past, TWIA has blended the two models, essentially averaging the two together. The blended models for 2020 pegged the potential catastrophe losses to reach \$3.6 billion.

The models do not carry a factor for loss adjustment or litigation expenses related to

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TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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Adapt the Queen for a Day format for business innovation

By Michael G. Manes
Manes and Associates

NOTE: Before you read the article that follows consider this legend about Head and Shoulders Shampoo. Rumor has it that after the success of their first year in the market – all the executives gathered to consider ways to leverage their rookie accomplishments into a doubling of sales in year two.

The day was spent with every ego in the room competing for the best idea. Unfortunately nothing clicked with the decision makers. Finally near the end of the session, a meek and mild administrator raised her hand and suggested, “What if we included the words, ‘Rinse and Repeat’ on the instructions on each bottle?” And so it was done, and sales doubled.

Now consider this story...
Do you want to be queen for a day?
For over 20 years, this question could be heard in American households five days a week, as it introduced one of the most popular television shows during the 1950s and 60s. Queen for a Day was a daytime television program that served as a precursor for reality television today. Hosted by Jack Bailey, the show first aired as a radio program in 1945. It began airing on local Los Angeles television in 1947, until it was picked up by NBC in 1956. The show remained with NBC until 1960 before moving to ABC, where it remained until 1964.
At the time, Queen for a Day served as a modern day rags-to-riches reality show. Broadcasting live from the historic theatre-restaurant, Moulin Rouge, in Hollywood, each episode would consist of three to four women competing to be-

come Queen for a Day. The women revealed their most personal stories to the American public. Audience members then decided which woman’s story was most heart wrenching (by use of the applause-o-meter), and the winner was crowned Queen for a Day. The selected queen was dramatically adorned with a crown, robe, and roses. Queens received gifts such as appliances, fully paid nights out, and many, many other prizes, known today as product integration.

If you’re near my age (70+), you’ll probably remember this program. It was in a simpler time and a simpler place. It might have been the first Reality TV before that term was invented. Today, no one would have the patience to watch this program.

At its simplest, each contestant told their story and attempted to sell the audience on her issue and need. The winner was the individual with the most compelling story. Efficiency required a story that was short, concise and to the point. Effectiveness was in the storyteller’s ability to have the audience feel her pain.

If you want to learn more about this time of innocence – check it out for yourself. If you want to leverage this concept to better your agency, organization or company, consider adapting this award show format of yesterday for your most important business innovation initiatives tomorrow.

What if you periodically facilitated a structured process to allow every employee and/or stakeholder important to your organization an opportunity to conceptualize, prepare, and present their best ideas for change, innovation or transformation and a team of judges truly listened with an open mind?

The participants’ job would be to sell their proposed innovation. As the judge, your job would not be an up or down vote; instead, you would encourage a culture of innovation. When the ideas appeared to offer potential, you would provide support for further research and development.

In the long term, the challenge is to determine if concepts presented are fertilizer or manure. If adopted, would the idea help growth/profitability in the future or would it just muck things up? Very few true innovations will be quickly embraced by anyone who is comfortable in the status quo. Leaders must protect and project a culture of innovation.

Your future is in embedding innovation and creativity in the culture and building a can-do attitude in your team. The first step is to stop giving quick answers to new ideas. Eliminate the following questions from your easy answer system:

- Let’s not reinvent the wheel.
 - We’ve always done it this way.
 - The devil’s in the detail.
- (Michelangelo is sometimes credited with saying, “God is in the detail.” His religious inspired paintings and sculptures certainly exhibit exquisite detail.)
Carefully select your team of judges who will hear the new ideas. Choose only those with open minds and enthusiasm. Avoid inflexible old codgers as well as the arrogant youngsters who think high tech is always the answer. All should understand the benefits of balancing high tech with high touch.
This process is not about tweaking the status quo. You already do that. This is about creating anew. Be open to changes in all of the following areas:

- Organization**– Transformational development or growth in your organization and individual team members comes with the highest risks, but provides the greatest reward. High tech and high touch are necessary.
 - Operations**– This is about the things you and your team do, the mechanics of your agency. The goal is efficiency: doing things right.
 - Marketing**– This is about profitably meeting the wants and needs of your clients and prospects when, where, and how they are. If you want a glass of milk, you don’t sit on a stool in the middle of the pasture and expect a cow to back up to you. Go find a cow. The goal here is efficacy or effectiveness: doing the right things.
 - Innovation**– This is about scanning the ever changing/evolving horizon of the future to determine who will be the customer and what their wants and needs will be, then developing products and services to meet these wants and needs. Most importantly, you must deliver these products and services at a profit. Price your products and services to sell, and then innovate your processes to insure profitable delivery at this price.
- Nobody said it would be easy. To the victors go the spoils! For the true skeptics of change, remember, we’ve already walked on the moon.
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.

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Loftis previews a few legislative issues

Lee Loftis, governmental affairs director for the Independent Insurance Agents of Texas, looked ahead to issues he anticipates seeing when a new legislature meets in 2021. Loftis also talked about how new the legislature might be at that time when he spoke to agents during the recent IIAT Joe Vincent Management Seminar.

TWIA’s funding, its payment of replacement cost, form freedom and lawsuit abuse are insurance issues Loftis foresees as surfacing during the 87th Legislature Regular Session.

Funding for the Texas Windstorm Insurance Association was reformed last year in House Bill 1900 which prohibited the association from paying losses with future premium, but Loftis suspects that change may be “short lived” when the legislature returns. A joint legislative advisory commission has been charged with studying TWIA’s funding problems, comparing the association to other states’ residual markets, and making recommendations to the legislature before the end of this year.

Year after year, said Loftis, the lawmakers would struggle to make TWIA sustainable. After 2008’s reforms to TWIA, legislators thought the state’s wind pool was on a stable continuum, but Hurricane Harvey changed that in 2017. “We eroded eight years in one day,” said Loftis.

Loftis prepared agents for the legislature reducing TWIA’s commissions to agents. He said agents receive 16 percent on TWIA policies, but agents in other coastal states with state-sponsored residual markets receive 10 percent commissions.

“Our argument (against a change),” said Loftis, “is those agents write one policy. They don’t write a wind and hail policy and

a separate policy.” Loftis acknowledged there were paperwork reductions for agents included in last year’s legislation, but many have not yet been implemented.

Rockport claimants criticized TWIA’s procedures for handling replacement cost claims when the House Insurance Committee met there recently, said Loftis. The claimants said TWIA required the property owner to make the repairs before it would issue payment.

One legislator on the panel, said Loftis, had a more reasonable approach: Once as-

sessment League and Texans for Lawsuit Reform to address tort reform issues for next session.

One of the largest implications for the state in the upcoming 2020 elections, said Loftis, is control of the Texas House, as redistricting will result from the decennial census. New districts will be drawn for the state House and Senate, as well as for the congressional districts. Whichever party is in power during redistricting has the power to make changes to improve its chances of remaining in power, Loftis said. “This is a

This is a critical year for how the next 10 years’ governance and legislation in the state of Texas may be done.

-Lee Loftis

sessing the damage, TWIA would make payment for replacement cost, minus the deductible. Loftis expects to see legislation next session to address this.

Making reference to property coverage being reduced in some policies to eliminate coverage for cosmetic damage, Loftis questioned if form freedom, which IIAT supported along with insurance companies a decade ago, has gone too far. If this is not a big issue in 2021, Loftis predicted it would surface when the Texas Department of Insurance undergoes sunset review in 2023.

Agents in west and middle Texas have told Loftis that lawsuits are being filed after accidents with commercial vehicles faster than they can get an adjuster assigned to the loss. The litigation environment “has gotten that bad,” Loftis said. He said IIAT has been working with the Texas Civil Jus-

critical year for how the next 10 years’ governance and legislation in the state of Texas may be done,” he said.

Regardless of any party shifts in the Texas House, there will be a new speaker next year since Rep. Dennis Bonnen, R-Angleton, announced his retirement. That translates into the likelihood of a new chairman and new membership of the House Insurance Committee next session, some of whom may arrive unfamiliar with insurance issues.

Loftis’s take on the federal elections is that they are important and anything might happen. Both the U.S. House and Senate are close enough in numbers that the election could shift the majority in either direction. “We could have a shift back to a Republican held House, or it could remain Democratic and the Senate could become Democratic as well,” he said.

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mittee, the committee of jurisdiction for property and casualty insurance issues. Most recently Cervantes was the government affairs manager with the Texas Masonry Council. She is a native of Eagle Pass, Texas, and earned her bachelor’s degree in English and government and a master’s in public affairs from the University of Texas at Austin.

CANCELLED OR POSTPONED MEETINGS/EDUCATION

The Independent Insurance Agents of Dallas has canceled its April 2 six-hour C.E. class on transportation presented by **Doris L. Hoopes**, Chubb. **Tammy Land**, IIAD’s executive director, announced that the program which covers business auto and auto dealers coverages will be rescheduled at a later date. Land invited members to check the iadallas.org website for the most up-to-date information on all upcoming meetings and classes. Also canceled is the April 15 IIAD membership luncheon.

As of March 13, IRMI’s Energy Risk and Insurance Conference scheduled for early April in Houston has been postponed, a result of the nationwide coronavirus response. IRMI continues to work with the Royal Sonesta Houston to select alternate dates. IRMI requests that registrants cancel travel plans and hotel registrations. IRMI will fully refund the conference fee or apply it to a rescheduled conference.

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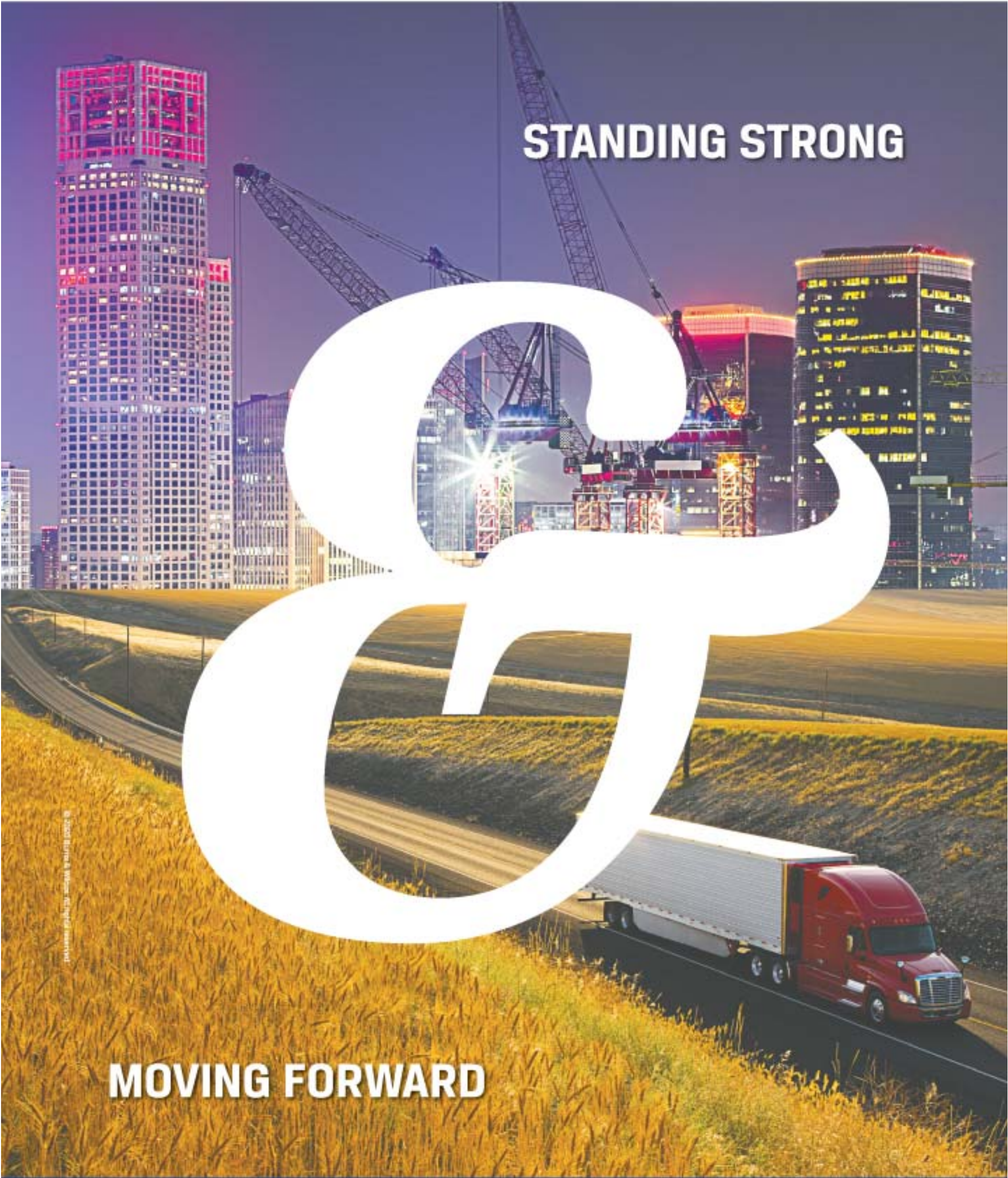


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TWIA board

the claims; however, Delk explained that the limits for reinsurance purchased on behalf of TWIA have always recognized that loss adjustment expenses were included within the meaning of loss. This is consistent, said Delk, with a rule currently in the drafting stage at the Texas Department of Insurance. The broker has historically valued the loss adjustment expense at 15 percent of the losses. TWIA's actual loss adjustment expense for 2019 was 29.7 percent of the paid losses.

With this understanding, Delk recommended that TWIA prepare for a \$4.2 billion PML for the 2020 storm season. Delk noted that TWIA has a \$20 billion exposure in Galveston and a \$60 billion exposure within 10 miles of the coast. "You could certainly have an event that is far larger than \$4.2 billion," he said.

Allowing for \$2.1 billion in funds anticipated as available from earned premium as well as the CRTF, Delk said that reinsurance of \$2.1 billion would sufficiently fund the one-in-100 year PML. The board authorized Guy Carpenter to pursue placement of TWIA's reinsurance program for its 2020-2021 contract year using a combination of catastrophe bonds and traditional reinsurance in an aggregate amount of \$2.1 billion, in excess of \$2.1 billion.

The board authorized the staff to provide all supporting information to the commissioner to confirm that no reinsurance in excess of the 1-in-100 PML was approved for purchase. The board does not anticipate any of the 2020-2021 reinsurance premium to become payable by insurance carriers doing business in Texas.

2020 budget

TWIA's total actual operating expenses in 2019 came in about \$11.1 million under the 2019 budget of \$59.8 million. The bud-

get for 2020 is \$44.9 million, which is under the actual expenses for last year by about \$3.8 million. Because both TWIA and the FAIR Plan operate under one roof, TWIA's board reviewed the total budget for both associations, which together also plan to spend less than last year's actuals. (The FAIR Plan's budget is up by \$374,000 over last year's actuals.)

TWIA's staff highlighted some of the key assumptions that went into the proposed budget.

- Policy count is projected to decline by about 6.7 percent, through both attrition and depopulation policy transfers.

- There are no changes in rate for 2020.

- Direct written premium is budgeted at \$348.6 million, a reduction of \$23.4 million, or 6.3 percent compared with 2019 direct written premium.

- Reinsurance cost, before commissions, is budgeted at \$93.1 million for 2020. The increase from last year is based on a 4.3 percent to 4.95 percent rate, which is higher than last year's. This amount, said staff, represents a placeholder and should not be interpreted as a forecast of market conditions. TWIA's reinsurance policy years begin on June 1.

- Anticipated impact of the depopulation program for 2020 is a reduction in earned premium of \$1.7 million and a transfer of unearned premium of approximately \$3.9 million.

- Net earned premium is budgeted to decline \$24.5 million, or 8.5 percent, from \$287.5 million in 2019 to \$262.9 million in 2020.

- The 2020 budget is built with losses and loss adjustment expenses for non-hurricane losses only. The proposed loss ratio is 17.3 percent.

- The estimated ultimate gross loss for

Hurricane Harvey remains \$1.7 billion.

- Personnel costs are budgeted to increase from \$16.2 million to \$17.4 million. TWIA had 221 employees and 10 vacant positions at the end of 2019. The 2020 budget assumes these vacancies are filled, but no new positions are created. This is a reduction of 10 positions that were authorized during 2019.

- Salaries and wages are budgeted to increase by \$209,000, with a 2.5 percent merit increase, offset by reductions in IT and underwriting personnel.

- Professional services are budgeted to increase \$1.35 million, driven by additional IT consulting costs associated with the major IT system improvements and the additional actuarial consulting fees for independent rate indications, which the budget pegs at \$196,000.

- The current agent commission rate of 16.0 percent and premium tax rate of 2.0 percent are consistent with prior years.

- The proposed budget maintained the existing Series 2014 bonds and their scheduled principal and interest payments. To the extent that TWIA refinances the securities, savings will be reflected as a variance to the budget.

FROM PAGE 2

-As of Dec. 31, 2019, TWIA carried a deficit of \$312.7 million. Based on net income of \$179.9 million and an accrual of the CRTF contribution of \$43.0 million in 2020, the deficit is projected to decrease to \$175.8 million by Dec. 31, 2020.

End of 2019 highlights

Executive Director John Polak reviewed TWIA's 2019 end of year scorecard for the board, noting that operating expenses "performed better than planned," as did enterprise projects, policy administration, claims handling, litigated claims and complaints.

When 2019 ended, TWIA had 189,203 policies in force, representing a total exposure of \$55.2 billion. Written premium for the year was \$372 million. There were 6,704 claims in 2019, with incurred losses by year-end of \$106.4 million.

According to Polak, TWIA continues to be one of the lowest expense plans operating among the 35 similar residual plans in the country.

Polak said that all of the changes from the 86th Legislative Session with a 2019 effective date were completed on or before

See **TWIA BOARD** Page 7

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TWIA board

FROM PAGE 6

their required deadlines. TWIA implemented a new policy renewal process and a process to determine replacement cost value at the time of policy issuance, in accordance with the legislature’s requirements, and trained more than 1,200 agents on the new processes between October 2019 and mid-January 2020.

Still to be done are processes for policy payments, supplemental payments, and transfer of certificates of compliance to TDI, all of which are on schedule to be completed by their 2020 or 2021 deadline.

Independent actuary

On Feb. 6, TWIA issued a request for proposal (RFP) to obtain independent actuarial services that would provide an opinion on TWIA’s rate adequacy and its reliance on catastrophe models in rate setting and determining coverage needs for reinsurance.

TWIA staff sent the RFP directly to 15 actuarial firms and posted it on TWIA’s website, so other qualified firms could respond. By the Feb. 26 deadline, TWIA received seven proposals which were evaluated first by staff then by TWIA’s Actuarial and Underwriting Committee during a March 10 meeting held by teleconference. Committee Chairman Deborah King, chief actuary at The Republic Group and former industry member of TWIA’s board, said the seven respondents represented “a strong lineup to choose from.”

On March 10, the committee decided to invite four of the actuarial firms to make presentations to the committee by video conference. Then, the responding firms can answer additional written questions about the relative reliability of catastrophe models.

The final selection of the independent actuary may be delayed due to meeting restrictions associated with preventing the spread of COVID-19.

At the February board meeting, Fadden said that the independent actuary’s work will be completed prior to the August meetings of TWIA’s Actuarial and Underwriting Committee and the full board when the TWIA board of directors is expected to act on residential and commercial rate filings with an effective date of Jan. 1, 2021.



Dudley Ray, center, Higginbotham, receives the 2020 Outstanding Service Award from IIAH presented by Richard Kurtz, left, Pathfinder, and IIAH President Stuart Ray, Higginbotham.



Alejandra “Ruby” Martinez, center, receives the scholarship sponsored by RT Specialty. She is joined by representatives of the scholarship sponsors Claudia May, RT Specialty, and Josh Hargrave, Harco Insurance Services.

IIAH awards

FROM PAGE 1

serves as managing partner of business insurance in the Houston office. His son Stuart works in marketing for Higginbotham.

Throughout his membership at IIAH, Ray served as chairman of nearly every committee. He served on the IIAT board of directors from 1996 to 2001, and as president of the local association from 2000 to 2001. Ray is a charter member and officer of the Houston Chapter of the Insurance Industry Charitable Foundation which works hand-in-hand with IIAH on community outreach.

Ray earned the Certified Insurance Counselor designation in 1990, and considers his specialty negotiating unique problem-solving insurance programs for the construction industry.

Ray served as chairman of the Ranch Rodeo Committee of the Houston Livestock Show and Rodeo three times. His association with the rodeo spans about 25

years. Ray’s affinity for rodeo lured him into a team roping event, which he won the first time he entered at the age of 49.

When presenting the award, the younger Ray said his father served as head cook for the Valley Lodge Trail Ride. Ray said he continued in this role for three years, following the trail riders with wagons and trailers, serving them breakfast, lunch and dinner along the route over several days. Ray said his biggest breakfast crowd was a hungry 250.

Today, Ray joins his wife Rebecca in Literacy Now, a Houston nonprofit association that strives to lift literacy levels among at-risk students in the community. The Rays’ involvement for the past five years has included reading to students at local schools and partnering with parents to help develop reading as a home-based activity. The association reaches lower elementary students on 10 Houston Independent School District campuses.

Houston Industry Day included an exhibit hall, networking events and the awards luncheon where the service award and two scholarship winners were announced.

Alejandra “Ruby” Martinez and Rachel Badeaux received scholarships valued at \$1,500 to pursue insurance professional designations. Martinez, who works for Brady Chapman Holland, is a recent graduate of the University of Houston-Downtown Risk Management program and is pursuing the CPCU designation. Martinez won the scholarship sponsored by RT Specialty, formerly sponsored by Myron Steves.

Badeaux, who was unable to attend the luncheon, is a commercial account manager at BXS Insurance in Spring. She holds the Commercial Lines Coverage Specialist designation and is pursuing the Certified Risk Manager designation. Badeaux’s scholarship is sponsored by Tom Mraz, Harco Insurance Services.

NEWS IN BRIEF

FROM PAGE 4

The Federation of Insurance Women of Texas has postponed its Mid-Year Expo to June. Originally scheduled for late April in Temple at the Hilton Garden Inn, a new date will be announced as soon as details are worked out with the hotel. Executive Director **Kristie Gray** will contact those who registered for the April event and work out any cancellations.

The Independent Insurance Agents of Tarrant County will not be holding any events until mid-May, meaning the Clay Shoot and Trade Show will be postponed due to increased concern and precautions related to the coronavirus. The association’s board of directors and event committees are working to regroup and reschedule. Updates will be shared as plans develop. Visit iiatarrant.com for the most current information.

The Texas Department of Insurance Compliance Conference slated for April 9 has been canceled. TDI will is-

See **NEWS IN BRIEF** Page 10



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IIAH's Houston Insurance Day was held at Marriott Westchase



Terry Richards, Sublime Personnel, with Diana Moinot, Moinot Insurance Group.



Paul Brink, left, Applied Systems, and Chris Walkerow, Bass Underwriters.

From left are Brian Mennes, U.S. Risk, with Monte Stringer, All Risks Ltd., and Dutch Phillips, U.S. Risk.



From left are Danny Charlton, TAPCO Underwriters; Kelly Surles, The National Alliance, and Deborah Isch, NFIB.



Maureen Gomez, Lighthouse Property Insurance, with Gregg Porter, center, Selective Insurance Company of America, and Gary Ardoin, Lighthouse Insurance Company.



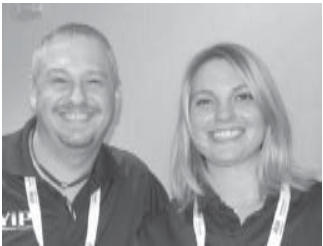
From left are Dawn Morrison, Carroll Insurance Agency, with Jessica Basso and Tiffany Leffke, both with LUBA Workers' Comp.



Brent Davis and Judy Walker, both with Texas Specialty Underwriters.



John Woods, left, and Blaise D'Antoni, both with Burns and Wilcox.



Derek Pierce, of USG Insurance Services and chairman of the Young Insurance Professionals of IIAH, and Ayla Benavides, IIAH.



Danielle Duran, left, and Pam Byrd, both with RSI International.



AFS IBEX exhibitors, from left, Mike Metcalf, Merry Jane Eversole and John Holsan.



Amy Lin, left, Champions Insurance Group, with Lori Chadwick, gotoPremium-Finance.com.



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From left are Tim Padilla and Cheryl Reece, both with RPS Houston, and Anamae Saavedra, RLA Insurance Intermediaries.



Ryan Kopal, left, and Andrew Kopal, both with Woodlands Insurance Services.



Daniel Lopez and Suzette Torres, both with Burns and Wilcox.



From left are Amanda Davis, Chanon Murphy and Aubrey Salomen, all with Burns and Wilcox.



The Craig and Leicht exhibitors, Marshall Leicht, left, and Laura Wisniewski and Matt Leicht, right, are joined by agents, from left, Rolan, Eddie and Aaron Villarreal, all with TWFG Insurance.

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From left are Bob Havey, Renee Brown and Ernest Kastner, all with Worldwide Facilities, MHI-MGA Division.



Blake Stock, left, and Trish Acosta, both with Combined Group, and Irwin Morales, HUB International.



Lauren Fink, left, and Toni Parker, both with Delta General Agency.



Enzo Flores, AmWINS Brokerage of Texas, with Taylor Jones, center, QuestPro Consultants, and Rosemarie Marshall, AmWINS Brokerage of Texas.



From left are Roy Powell and Jon Archer, both with CPRO Associates, and Eric Scher, George W. Evans and Associates.



From left are Lisa Webb, Donna Biles and Jill Douglas, all with Independent Insurance Agents of Texas.



From left, Janie Guzman, Quantum MGA, and Victor Silva, Southern Point Insurance, with Matt Vaughan and Tony Cugini, both with CRC Group.



Helen Montgomery, left, The Koch Insurance Group, with Alison Garahan, Midlands Management of Texas, and Stephen Signorello, Dean and Draper.



With MJ Kelly are, from left, Doug Fine, Gary Sutton and Roger Bogan.



From left are, William Peachey, Melissa Lomar and Lynn Wiegand, all with Imperial PFS, with Bob Ruzicka, Ruzicka Insurance Services.



Matthew Monson, The Monson Law Firm, and Jean Patterson, Texas Surplus Lines Association.



With Worldwide Facilities, MHI-MGA Division are, from left, Shannon Dahlke Applegate, Renee Brown and Sonja Lockhart.



With Specialty Insurance Managers are, from left, Destinie Kindle, Jennifer Shumate and Abigail Aguilar.



Jennifer Brown, left, and Saby Gonzalez, both with Vintage Underwriters.



Ashley GA's exhibitors, from left, Shannon Boland, Bethany Ashley, Heather Gold, Heather Nelson, Billie Gorrell and Jack Ashley are joined by Dequing Yang, Allwin Insurance Agency.

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Executive director

son’s behalf led to several job interviews. “She was my head hunter,” Brandon told the Reporter. His mother is now retired.

Most recently, Brandon was with Valero Energy Corporation in San Antonio, serving as director of property insurance and risk control engineering, a position he held since 2007. He was responsible for management and procurement of global commercial and captive insurance products, directing risk engineering programs and coordinating annual review and analysis of company claims data. Prior to this role he was process safety, emergency response and security manager for Valero Memphis Refinery and senior risk control engineer for Valero in San Antonio.

Earlier, Brandon worked in safety and security with Ford Motor Company and fire protection and emergency response for Celanese Corporation.

Brandon has been involved with the San Antonio-based chapter of the Risk Insurance Management Society (RIMS) for sev-

eral years, serving two terms as president in 2011 and 2012, after holding every other office. He continued on its board of directors until 2016.

Brandon characterized the South Texas RIMS chapter as a “tight knit group” of about 30 members who learn from one another. He said it has provided him “risk-free leadership training.” He said he believes it functions similarly to the Texas Surplus Lines Association, in providing its members public speaking opportunities while honing leadership skills in the organization that help them build their careers.

The SLTX board of directors, said Brandon, was very involved in hiring him for the position. “The board has set clear expectations,” he said. He is in the process of reviewing the recent audits of the agency by Weaver and will work with Meyer to effect many of the recommendations. “We are already in the implementation phase,” he said.

Brandon acknowledged that his new role in a quasi-governmental agency comes with open government requirements and promised to be up to speed on laws affecting open meetings and public records in short order. His experience in the private sector makes him keenly aware of the need to maintain confidentiality of the proprietary information the stamping office collects and to maintain secure protocols to protect brokers’ and insureds’ financial information.

“After a very thorough search, the board of directors welcomes Greg Brandon as the new executive director,” said Lorrie Cheshier, chairman of the SLTX board. “Our decision was made based on Greg’s extensive experience and professional achievements. We believe Greg is the right leader for SLTX, and we recognize he has demonstrated his ability to successfully lead policy initiatives and integrate a broad range of communication strategies and technologies from the onset.”

FROM PAGE 1

NEWS IN BRIEF

FROM PAGE 7

sue refunds to those who registered. The agency is planning a series of webinars for continuing education credits at later dates.

STILL ON THE CALENDAR

The Independent Insurance Agents of Houston’s Spring Golf Classic is scheduled for May 5 at BlackHorse Golf Club in Cypress. The day includes lunch, a ball drop, a shotgun start at 12:30 p.m. with dinner and awards following. Individuals and foursomes are invited to register through the IIAH website.

The IIA Dallas annual golf tournament is slated for June 8 at Gleneagles Country Club in Plano. Golfer and sponsorship registrations are now available online.

Insurcon 2020 is scheduled for June 10-12 at the JW Marriott in San Antonio. The annual conference and trade show of the Independent Insurance Agents of Texas offers members opportunities to learn cutting-edge business insights. Keynote speaker Steve McKee will share insights gathered from the results of the Insurance Industry Disruption Survey launched at the 2020 Joe Vincent Management Seminar in January. Insurance industry thought-leader and author Steve Anderson is also a featured presenter. Other highlights include an awards brunch, a CEO carrier panel, a trade show and an ELITexas community service project. Registration is now available online.

MARIT’S READS

Management is not a passive skill set. It requires facing and addressing issues head-on and having the tough conversations. It also demands that we accept responsibility for the current state of our situation and relationships. **Fierce Conversations: Achieving Success at Work and in Life One Conversation at a Time** by Susan Scott is a guide to tackling our toughest challenges and enriching relationships with everyone important to our success and happiness. It provides principles, tools, and assignments designed to direct us through our first fierce conversations, starting with a fierce conversation with oneself. This book promotes useful principles to help anyone become a better conversationalist and a more responsive listener. This self-help book is designed to help us achieve high quality, long-lasting relationships, as our lives succeed or fail one conversation at a time. Scott’s book will provide the springboard for the May 14 **Mornings with Marit** free webinar. To register as a webinar attendee, visit the iiat.org website. **-Marit Peters**, IIAT president and executive director

CORRECTION

The table associated with the 2019 premium results of the 15 surplus lines servicing offices in the U.S. on page 4 in the February issue of the Texas Surplus Line Reporter and Insurance News transposed the surplus lines premium tax rates for Oregon and Mississippi. The correct tax rates are 2.3 percent in Oregon and 4.0 percent in Mississippi.



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London views

Lloyd's Italian office staff is working on a rota basis. Around one-third of employees are in the office at any one time, while two-thirds work from home. In its Singapore and Hong Kong offices, staff returned to normal working patterns on March 2, and its Shanghai and Beijing offices are phasing in opening fully.

So far so good. As far as insurance losses are concerned, both Lloyd's and London companies learned from the SARS outbreak and deleted cover for communicable-diseases. The one area of the industry that might pick up losses is event cancellation. Analysts at Fitch Ratings said recently, "The largest event taking place is the Tokyo Olympics in July 2020. Industry experts anticipate coverage of approximately \$2 billion for this event."

Lloyd's in the red for 2017 and 2018

Lloyd's syndicates have updated their forecasts for the 2017 and 2018 underwriting years of account. The usual figures have been provided for 2017, but as all the figures are not yet in, the overall market results have not been published.

The 2017 underwriting year results that are in have changed marginally. The worst case market result is now a loss of 11.78 percent against 11.79 percent three months ago. The best case figure is now a loss of 6.16 percent against 6.17 percent, while the mid-case figure is now a loss of 8.97 percent against a loss of 8.98 percent. The 2017 underwriting year is now closed, and the final results will be declared in a few weeks.

The nonaligned syndicates have performed slightly worse than the aligned corporate syndicates. Chaucer's Syndicate 1176 predicts a best case result of 65.0 percent profit. Only 10 other syndicates expect profits on best case figures. ERS's

Syndicate 218 and QBE's Syndicate 386 show a likely double-digit profit. On the bottom end, Asta's syndicates 6123 and 4242 expect losses of 68.15 percent and 59.75 percent, respectively. Brit's Syndicate 2988 could also cause some misery with forecasted losses of 60.04 percent. All told, 29 syndicates will lose money in a worst case scenario, and three will be in the black, one by just 0.19 percent. Under best case results, the loss making syndicates drop from 29 to 21, and the profit making syndicates increase to 11.

For the 2018 year, so far figures are available only from the nonaligned syndicates, with no overall market statistics. As these expectations have hardly changed, the overall market figures are holding steady. The December figures were: worst case, a market loss of 8.2 percent; best case, a loss of 2.06 percent, and mid case, a loss of 5.13 percent.

For 2018, Chaucer's Syndicate 1176 predicts a best case profit of 35.0 percent and a worst case profit of 15.0 percent. Two syndicates, Beazley's Syndicate 623 and Astra Syndicate 2525, show best case figures of 10.0 percent profit, but the worst case figure for Beazley's 623 is a 10.0 percent loss, while Astra anticipates its worst case is breakeven. From the figures released, 31 syndicates will lose money on their worst case projections (seven are losses under five percent). The best case figures have loss making syndicates dropping to 22 and profit making syndicates climbing to eight, with one syndicate hoping to break even.

Lloyd's publishes plans

Having raised the money to update the market, Lloyd's issued an online update to Blueprint One, which includes confirmation of its 2020 priorities as well as detailed

plans for Phase 1 of the Future at Lloyd's. It started in March.

One surprise was the announcement that Lloyd's Corporation will take a 40 percent stake in the London market's electronic placing platform (PPL), which will form a key component of the new complex risk platform. This saves Lloyd's from reinventing the wheel and investing a surge of money into PPL Limited, which is a not-for-profit company set up in 2016 to create a single market for electronic placing that would allow brokers and insurers to quote, negotiate and bind business electronically. The update also confirms the 2020 trial of the risk exchange pilot, connecting broker and insurer e-trading portals.

Lloyd's spent the transition period working with stakeholders to prioritize and plan the work-streams that create the foundations for the Future at Lloyd's. Next comes setting the program in position to move into the first phase of delivery. Lloyd's secured the funding for Phase 1 of the program during the transition period and, at the same time, set up the governance structure and the delivery teams.

Most market reorganizations get lost in the detail, and the objective of the reorganization is overlooked. For Blueprint One, Lloyd's prioritized delivery of the solutions that offer the most benefit to key stakeholders and customers. The investment and development of the next generation PPL will form part of the complex risk platform. A digital solution for coverholder business as part of Lloyd's risk exchange will make it quicker and easier for capital to attach to risk and accelerate the claims process, including piloting automated settlement.

That's 2020, but Lloyd's did not forget about future development. During 2020,

three foundational initiatives will create the essential infrastructure and lay the groundwork for Lloyd's ecosystem. The three are data and technology architecture, lead/follow (modern syndication of risk), and middle and back office transformation. These are necessary to provide the major changes needed to bring the market into the 21st Century and provide vital cost savings. In addition to the three foundational initiatives, Lloyd's will push forward with the prototype of the "data-first" version of the complex risk platform; the new capital investment opportunities, including the syndicate-in-a-box framework that's already occurring, and a commitment to ongoing cultural change.

A number of Blueprint One initiatives already are happening. In January, Lloyd's confirmed that marine hull and international casualty binder classes of business will take part in the first lead/follow pilot, which will commence in early Q2, led by the Lloyd's Market Association. Also in January, Lloyd's specialty insurer Brit Ltd. launched its Sussex Specialty Insurance Fund, offering alternative capital, such as insurance linked securities (ILS), to investors via improved access to the Lloyd's market.

Blueprint One puts Lloyd's at the forefront of the London market, and fortunately, the London Company market's trade association, the International Underwriters Association (IUA), seems to have the "if you can't beat them, join them" attitude and is working with Lloyd's on two of the Blueprint One projects.

In its business plan for 2020, the IUA announced it will participate fully in projects, such as claims processing, being developed as part of the Future at Lloyd's blueprint. The IUA believes this has important consequences for the whole London Market. The IUA sees PPL as the principal vehicle to deliver e-trading and, in the coming 12 months, expects to see significant enhancements to the platform to make sure it can deliver an effective end-to-end digital solution.

At the moment, the London market segments are working together, but this could alter if changes at Lloyd's cause a loss of business to the company market.

Lloyd's launches cryptocurrency policy

Lloyd's has always been known as the producer of innovative products, and a new one just rolled off the production line. The new policy protects cryptocurrencies against theft or other malicious hacks.

This is the first of its kind liability policy with flexible limits. Created by Lloyd's Syndicate Atrium in conjunction with Coincover, the policy protects against losses arising from the theft of cryptocurrency held in online hot wallets. It is believed to be the first type of liability insurance policy with a dynamic limit that increases or decreases with the price changes of crypto assets. This means policyholders will always be indemnified for the underlying value of their managed asset even if the amount fluctuates over the policy period.

It's not just Atrium and Coincover that are involved in the new product. The policy is backed by a panel of other Lloyd's insurers, which include TMK and Markel, who are members of Lloyd's Product Innovation Facility. The PIF is part of the Blueprint for the Future of Lloyd's, and the facility is a step toward building a marketplace that offers better value for the changing and diverse needs of customers through highly responsive, cutting-edge risk management products and services.

The team behind the project is excited by its creation.

FROM PAGE 1

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Economist comments on the pre-coronavirus economy

According to an economist who was the White House director of economic policy under George H.W. Bush, the United States economy is in pretty good shape. Inflation is slow. Interest rates are low. Unemployment is nearly at its lowest point ever. Consumers have buying power; they can fill their gas tanks and heat their homes, and they have money invested in the stock market.

Speaking at a gathering of insurance agents held in Austin during the last week of January, Todd Buchholz made his evaluation of the economy several weeks prior to the coronavirus (COVID-19) taking hold in the U.S. and Saudi Arabia getting in a tiff with Russia over whether or not to cut back on the production of oil, all of which led to the stock market bouncing up and down, but mostly down.

Even though a lot has happened to the economy in a short period of time, his remarks remain instructive.

Buchholz, whose books include *New Ideas from Dead Economists* and, nearly 20 years later, *New Ideas from Dead CEOs*, talked about megatrends that make the market unpredictable, as well as the status quo of the economy and where it's headed, and leadership.

Things are quick to change

"It's hard to predict what's going to happen with such turmoil in the world," Buchholz said, referring to riots in various parts of the world, to Brexit and before that Mexit. "It is hard to predict economically and financially," he said. "Our icons could crumble."

To show how things got turned upside down during the most recent recession, Buchholz pointed out that during the recession, GM was valued at less than Hot Wheels (Originally made by Mattel in 1968). "Hot Wheels could have bought

GM," he said. "We never imagined that we lived in a world where a toy could be worth more than the real thing."

Back then there was no Tesla. Today, Tesla is virtually worth more than any other automobile company. "It is extraordinary how quickly things change," he observed.

The paradox of prosperity and anger

Buchholz talked about the paradox of living in a prosperous time and there being so much "anger, anxiety and discontent" in the world.

He explained the current prosperity by pointing out that in 1959 it took two weeks of labor to purchase a refrigerator. Now, it takes about 20 hours of labor. For every hour an individual worked back then, the person could buy one chicken. Now, the individual can buy two, or three or four

chickens with one hour of labor. "It's a matter of agricultural productivity," he said.

In 1997, it took 31 weeks for a family to make enough money to afford an average car. Now, even with the inflation of car prices, it takes far less than 31 weeks. "Technology has played a huge role," he said.

In the agricultural sphere, 120 years ago, 60 percent of the population worked on farms. Now, one percent can grow enough food and raise enough livestock to feed not just the United States, but a good part of the world.

Today, homes are 50 percent bigger than in the 1970s, and families have 50 percent more automobiles than they did in the 1970s.

As an example of people being generally disgruntled, he cited the shrinking du-

ration of Thanksgiving Day dinners. The amount of time that families are willing to sit down at the table has been reduced mostly because people "just want to talk about grandpa and the turkey.... They get up from the table because they don't want to talk about politics."

Editor's note: *Todd Buchholz's remarks to the attendees of IIAT's Joe Vincent Management Seminar in January were both entertaining and informative. His hour and a half presentation on Jan. 27 is available on the IIAT.org website. The Texas Surplus Line Reporter will include additional coverage of Buchholz's presentation in its April issue. Next up are his topics: debt and demographics; Medicare and Social Security; the enemies list; where the economy is now; price wars, and more.*

London views

FROM PAGE 12

Trevor Maynard, head of Innovation at Lloyd's, said, "As more money flows into the crypto asset market, losses from hacks are on the rise. Nevertheless, cryptocurrency companies have found ways to protect their digital assets from theft and, by working closely with Lloyd's underwriters, to insure losses that do slip through the net...."

The Product Innovation Facility has almost £150 million of capacity and 27 underwriters.

Aon/ Willis merger

The news of the Aon/Willis merger was the worst kept secret in the market. Mergers between brokers go back a long way, and the London market thought the world had come to an end when Willis Farber merged with Henry Dumas and Wylie back in 1928.

Having seen a number of mergers since then, London expects to see a number of

senior players from both broking houses leaving to set up their own organizations. Noses are put out of joint with mergers, and senior staff members, who felt they deserved a greater say and position in the new organization, will either set up their own broking houses or leave to join smaller competitors. Where brokers have a close client relationship, they will try to take their clients with them.

It's not just the broking staff who will feel put out. Major clients will feel affronted that they don't receive the same recognition from the merged organization. Once, when they arrived for a visit, they would meet the chairman and lunch in the boardroom. In the new set up they are no longer major clients, so they are downgraded to being met by a senior director and lunching in one of the firm's private dining rooms. Unfortunately, many feel that

their business is suffering the same fate, and the experts who looked after it before are now doing other things. It's not just staff who tend to leave; the smaller clients tend to look around too.

While Willis and Aon staffs wait nervously for news of their new positions, London's smaller brokers wait to pounce on anything that falls from the table top. Lloyd's brokers, such as Lockton, Howden, BMS and Gallagher, will be licking their lips in anticipation.

Underwriters also will be concerned with the news. The new mega brokers will control over 60 percent of the market, which will give them serious muscle on pricing, cover and claims payments, and many underwriters will be worried about upsetting them. The effect is likely to be negative for insurers and reinsurers in the short term.



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Late filers

files surplus lines policies later than 60 days after the policy's effective date or issue date, whichever is later. Penalties are up to \$50 per late policy for late filers whose submissions were 61 to 180 days late, if not more than five percent of their filings in the immediately preceding year were late. If more than five percent of a broker's policies missed the 60 day deadline in the previous year, the fine increases to \$100 per late policy.

Brokers who missed their filing deadline by more than 180 days but less than 365 days can be assessed \$200 per late policy, but only if no more than two percent of a broker's filings were late in the immediately preceding year.

Where the delinquency is greater than 365 days, or the tardiness in the immediately preceding year is greater than the thresholds in Insurance Code 981.105, the sanctions can be greater in accordance with the

Insurance Code's more general statute, 82.051 et seq., which authorizes penalties for any violation of the code. These violations are reported to insurance regulators in other states.

A TDI spokesperson described the process of reviewing the late filer cases referred by the stamping office. According to TDI, the stamping office report is first reviewed by TDI's Company Licensing and Registration Department, which sends administrative fee notices to brokers in accordance with the Insurance Code's 981.105 statutory fee schedule. Those receiving these notices are obligated by law to pay the fee within 30 days. According

Sixteen of the 18 nonresident licensees who were assessed penalties are from four states with surplus lines servicing offices; however, the deadlines and penalties in their home states differ from those in Texas.

David L. Ocasek, CEO of the Surplus Line Association of Illinois, cited the Illinois law which prohibits the delivery of a surplus lines insurance contract “unless such insurance contract is countersigned by the Surplus Line Association of Illinois.” He said that there is no specific deadline in the statute, and added that the penalty for violation of any statute within the surplus lines law could result in the license suspension or revocation of a surplus line

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TDI's Enforcement Division reported that, as of March 13, it has 26 additional open cases involving stamping fees.

to the TDI spokesperson, the Company Licensing and Registration Department refers to TDI's Enforcement Division only those who fail to pay the administrative fee or whose filings were more than a year late.

TDI's disciplinary orders posted to its website come from its Enforcement Division and are penalties that are reported to other states. There are no details in the orders against the 2018 late filers on the number of policies filed late or the number of days the filings were late. All of these late filers consented to the order and agreed to pay the "administrative penalty" within 30 days of the order.

According to the orders, 11 late-filing brokers had been “previously disciplined” in prior years for late filings. The Enforcement Division’s lookback for these orders was not limited to late filings occurring in 2017; in some cases, brokers’ prior disciplinary orders were in 2012 and 2014. Eight of the “previously disciplined” late filers were nonresident licensees; three were resident licensees. Fines against the 11 repeat late filers totaled \$151,275, as of the end of February.

Two of the agencies listed in the February disciplinary actions were cited for failing to pay the administrative fees that were assessed by the Company Licensing and Registration Department. Both of these were nonresident licensees: Thomas Martin Sheehy, Manalapan, New Jersey, and Willis of Arizona, Scottsdale, and each was assessed a \$2,700 administrative fee.

producer or a civil penalty up to \$2,000 for violation. Ocasek said he could recall no occasion of a penalty imposed on “someone who delivered a policy to the insured before they filed it with the Surplus Lines Association.”

Dan Maher, executive director of ELANY, said New York law requires the filing of the transaction with ELANY within 45 days of placement or inception. The late filing penalty, set at \$25 for each late or erroneous filing, is an approved part of ELANY's Plan of Operation. "Only one charge applies to any single filing," Maher said. He added that if an accumulation of late filings is severe enough, the New York regulator might fine a broker in addition to ELANY's late filing fee. Maher said the late filing fee assessed by ELANY has become a sufficient deterrent to late filings.

Arizona does not require policy filings, but rather surplus lines tax filings on a semiannual basis. Scott Wede, executive director of the Surplus Line Association of Arizona, admitted to being a bit overwhelmed by the filings conversations that occur when the servicing offices' executive officers get together about once a year. Wede said that his office does not collect premium-by-line data on a monthly basis or for general publication, but collects and reports premium at year end to the insurance commissioner. Tax payments to the state of Arizona are due 45 days after the

See **LATE FILERS** Page 15



<p>Commercial</p> <ul style="list-style-type: none"> • General Liability • Property • Builder's/Renovation Risk • Professional Liability • Umbrella & Excess Liability • Inland Marine <p>Personal</p> <ul style="list-style-type: none"> • Personal Articles Floater • Homeowners (Forms DP3, HO3, HO4 & HO6) • Builder's/Renovation Risk • Vacant 	<ul style="list-style-type: none"> • Liquor Liability • Special Events • Garage Liability • Vacant • Equipment Breakdown • Malicious Attack <ul style="list-style-type: none"> • Personal Umbrella (Comprehensive Personal Liability Excess CPL; Farm and Ranch CPL)
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TDI Final Disciplinary Actions, February 2020*

Date	Name & City	Action Taken	Violation	Date	Name & City	Action Taken	Violation
2/27/2020	Okechukwu Desmond Amadi Jr., Garland	General lines agent license with a property and casualty qualification revoked (SOAH Docket No. 454-20-1727.C)	Felony conviction; engaged in fraudulent or dishonest acts	2/26/2020	Krauter & Company, New York, N.Y.	Fined \$3,975 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Arcana Insurance Services LP, Dallas	Fined \$2,700 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Lockton Companies, Kansas City, Mo.	Fined \$25,275 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Arthur J. Gallagher Risk Management Services, Rolling Meadows, Ill.	Fined \$7,025 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	M. J. Hall & Company, Stockton, Calif.	Fined \$5,175 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Brookside General Insurance Services, Stockton, Calif.	Fined \$11,225 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Marsh & McLennan Agency, New York, N.Y.	Fined \$6,350 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Chris Campbell, Santa Ana, Calif.	Fined \$3,525 ^c	Failed to timely file surplus lines policies and related documents	2/12/2020	Memorial Hermann Health Plan, Inc. and Memorial Hermann Health Insurance Company, Houston	Fined \$75,000 ^c	Failed to cover its HMO enrollees and PPBP insureds until the end of their employers' applicable health benefit plan periods
2/26/2020	Clearview Risk Insurance Programs, Dallas	Fined \$6,825 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Moon Shepherd Baker Insurance Agency, Houston	Fined \$3,250 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Robert M. Curran, S Elgin, Ill.	Fined \$4,350 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	NFP Property & Casualty Services, White Plains, N.Y.	Fined \$2,700 ^c	Failed to timely file surplus lines policies and related documents
2/10/2020	Katheryn Nycole Dale, Denton	General lines agent property and casualty license granted with two year probated suspension ^c	Felony conviction; however, TDI found that the factors in Tex. Occ. Code §§ 53.022-53.023 outweigh the serious nature of her conviction	2/26/2020	R. E. Chaix & Associates Insurance Brokers, Irvine, Calif.	Fined \$5,725 ^c	Failed to timely file surplus lines policies and related documents
2/27/2020	Tiffany Mashai Davila, Springtown	General lines license revoked (SOAH Docket No. 454-20-1683.C)	Engaged in fraudulent or dishonest acts; has no appointments	2/26/2020	Risk Specialists Companies Insurance Agency, Berkeley Heights, N.J.	Fined \$17,200 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Highland Risk Services, Northfield, Ill.	Fined \$2,975 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Thomas Martin Sheehy, Manalapan, N.J.	Fined \$2,700 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	HUB International Insurance Services, Riverside, Calif.	Fined \$3,475 ^c	Failed to timely file surplus lines policies and related documents	1/30/2020	Southwest Risk LP, Dallas	Fined \$66,675 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	HUB International Midwest Limited, Chicago, Ill.	Fined \$6,675 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Joseph Wayne Tipton, Dallas	Fined \$21,500 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Insgroup Inc., Houston	Fined \$4,850 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	USI Southwest, Houston	Fined \$3,925 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Insurancenoodle, Chicago, Ill.	Fined \$2,425 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Willis of Arizona, Scottsdale, Ariz.	Fined \$2,700 ^c	Failed to timely file surplus lines policies and related documents
2/26/2020	Manuel Juarez, Leander	Fined \$2,975 ^c	Failed to timely file surplus lines policies and related documents	2/26/2020	Willis of Texas, Addison	Fined \$8,450 ^c	Failed to timely file surplus lines policies and related documents

*Except for consent orders, actions may be appealed to State District Court.
^cConsent order; parties waived all additional procedure rights.

Late filers

FROM PAGE 14

end of each tax period. Penalties for delinquent tax payments are capped at \$25 per day, but are less if the tax obligation is less than \$12,500.

Like Texas, California considers a surplus lines policy filing late if it is filed later than 60 days after “placing any insurance for a home state insured from a nonadmitted insurer.” There is no penalty for late

filing with the Surplus Line Association of California, said its CEO and Executive Director Benjamin McKay. However, if there is an accompanying delay in paying taxes due, penalties can be applied by the commissioner of insurance.

Two of the late filers penalized in February were from states without surplus lines servicing offices, New Jersey and Missouri.

There are 35 U.S. states that do not have surplus lines stamping or servicing offices.

The penalties levied by TDI apply to late surplus lines filings with the stamping office, not to the premium tax which is collected by the Texas Comptroller of Public Accounts. A late filing with the stamping office is not indicative of late payment of premium tax, as the reporting periods dif-

fer. Late filings to the stamping office lead to inaccuracies in the stamping office’s monthly premium comparisons to the prior year. Because the stamping office generates a monthly stamping fee invoice based on each agency or broker’s policy and transaction submissions for the month, delayed filings result in delayed revenue to the stamping office.

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