

TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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SEPTEMBER 2020

NEWS IN BRIEF

PEOPLE

Stonetrust Commercial Insurance Company has announced the hiring of Jeff Skaggs as senior vice president of underwriting and marketing; **Dawn Boniol** as manager of compliance, quality control and claims support, and **Richard Perkins** as loss prevention outreach coordinator. Skaggs was formerly COO for Empyrean Management Services and prior to that he was the senior vice president of policyholder services and agency relations at LWCC. Boniol was formerly a claims operations supervisor with LWCC and a claims team leader with Progressive Security Insurance Company. Perkins was safety services manager and outreach coordinator at LWCC and has more than 26 years of safety and consulting experience. The three will work from the Baton Rouge office. Stonetrust President and CEO **Michael Dileo** stated, "All three individuals are outstanding contributors to our team, and each will play key roles in growing the company as a 'first choice' workers' compensation carrier for our agency partners and policyholders in all of our markets." Stonetrust is licensed in 28 states and actively writing coverage in Texas, Louisiana, Nebraska, Arkansas, Mississippi, Oklahoma, Missouri and Tennessee.

Lee Ann Alexander has joined the American Property Casualty Insurance Association as vice president of state government relations. Alexander will be based in Austin and cover Texas, Louisiana, New Mexico and Oklahoma. Previously, Alexander was vice president of government affairs for the Surety and Fidelity Association of America and senior public affairs officer for Liberty Mutual Insurance Company. **Joseph DiGiovanni**, senior vice president of state government relations for APCAIA said, "We are pleased to have Lee Ann join our team. Lee Ann has extensive background and knowledge regarding the insurance industry and will be a tremendous asset for the association and our member companies."

North Carolina-based AmWINS Group announced that it has appointed Valerie G. Brown to its board of directors. Brown has been a longtime board member of numerous financial advisory and asset management businesses. She served as CEO of Cetera Financial Group from 2010 to 2014, which quadrupled earnings and doubled assets during her tenure. Most recently, Brown served as executive chairman for Advisor Group. She is currently a board member of Advisor Group, Jackson Hole Center for the Arts, Financial Services Institute and the Securities Industry, Financial Markets Association. Brown holds a degree in chemical engineering from Oregon State University

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Independent actuary finds TWIA's 2021 rates deficient

On Sept. 4, Willis Towers Watson reported its independent evaluation of rates and catastrophe models for the Texas Windstorm Insurance Association, finding the rates deficient for 2021. The numbers come in not quite as deficient as TWIA's internal actuaries predicted to the board in August. Still, the independent review offers numbers significantly higher than any rate increase TWIA has imposed in its history, as well as significantly greater than the annual average rate increase of 2.4 percent for residential properties and 2.1 percent for commercial properties for 1988 through 2019.

The WTW report indicates a rate inadequacy of 32 percent for residential and 42 percent commercial; whereas, TWIA's staff analysis indicated rate inadequacies of 44 percent for residential and 49 percent commercial.

The difference between the two indications lies primarily in how the AIR and RMS catastrophe models were incorporated into the analysis and recommendation. TWIA staff used a 50/50 blend of the two models; WTW weighted the models 25 percent for AIR and 75 percent RMS.

Both catastrophe models, said WTW's report, utilize building inventory values, but they differ in how they predict loss results. "RMS has region-specific damage functions for buildings with unknown occupancy, construction, year built or number of stories.... Texas is a region on its own in RMS," said WTW. AIR, however, combines states with similar building inventories together; the AIR model puts Texas in a group that includes Louisiana and Mississippi.

WTW's report also stated that AIR is much more punitive than RMS for older structures, or those built prior to 2004. TWIA's insured properties include high percentages built prior to 2004, with 77 percent of residences and 71 percent of the commercial book considered older and, therefore, more vulnerable.

WTW also recommended that TWIA gather more granular data on the building characteristics of properties it insures to improve hurricane model accuracy. Secondary modifiers can apply a credit or penalty to a property's risk characteristics, said

See **TWIA'S RATES** Page 10

Hurricane Laura's losses estimated at \$4B to \$15B

Early estimates of onshore property damage from Hurricane Laura by various modelers range from about \$4 billion to \$12 billion. Those estimates came in from CoreLogic, Karen Clark and Company and AIR.

Several days later, risk modeler RMS estimated that onshore and offshore insured losses from Hurricane Laura could range from \$10 billion to \$15 billion.

The RMS estimate included \$1 billion to \$2 billion of offshore losses, including specialty lines such as refineries and petrochemical plants.

According to RMS Model Development VP Pete Dailey, offshore assets have evolved significantly since hurricanes Katrina and Rita in 2005 and Ike in 2008,

but there is still a prevalence of platforms, rigs, and pipelines in the Gulf region. Many of these assets, including several high-value deep-water platforms, were exposed to the significant wind and wave impacts from Hurricane Laura, he said in a statement.

National Flood Insurance Program losses of \$400 million to \$600 million were included in the RMS estimate. The RMS figure accounts for wind, storm surge, and inland flood losses across impacted states. RMS included property damage and business interruption to residential, commercial, industrial, and automobile lines; post-event loss amplifi-

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Commissioner Kent Sullivan announces his resignation

On Aug. 18, Kent Sullivan announced his resignation as Texas Commissioner of Insurance. He remains in this role through September.

Sullivan became commissioner in October 2017 shortly after Hurricane Harvey's catastrophic impact on the state. During his three years as commissioner, Sullivan is credited with leading a modernization effort to enhance the department's services and response.

Sullivan's tenure was not without controversy with the surplus lines market. In 2018, he promulgated a new regulation requiring the Surplus Lines Stamping Office of Texas to collect policy limits for coverages obtained in the surplus lines market, and, more recently, he rewrote SLTX's plan

of operation asserting tighter supervision of the agency.

TDI regulates the second largest insurance market in the nation and the seventh largest in the world. Sullivan, an attorney and former appeals court justice and state judge, also served as first assistant attorney general for the state of Texas. He plans to return to the private sector.



Sullivan

Lloyd's announces half-year losses, expects to pay \$6.5 billion for coronavirus claims

London Views
By **LEN WILKINS**
London Correspondent

Lloyd's has announced losses of \$0.52 billion for the half year to date. The market can live with that but will be worried about Lloyd's management's expectation that the market stands to pay out up to \$6.5 billion for COVID-19 customer claims on a gross basis. After reinsurance recoveries of \$2.6 billion, the net cost to the market will be \$3.9 billion.

Lloyd's COVID-19 claims for the half year after reinsurance recoveries added an extra 18.7 percent to the market's combined ratio of 110.4 percent. These figures do not reflect the additional cost of the business interruption claims currently being fought over in the U.K. courts. Even though a decision has been made favoring policyholders, it surely will be appealed.

What's annoying the market is that, taking COVID claims out of the equation, the market has done well. Excluding COVID-19 losses, the market delivered an underwriting profit of \$1.3 billion. The market's combined ratio showed a significant improvement from 98.8 percent for the first half of last year to 91.7 percent sans pandemic for the first half of 2020. What helped the figures was a 7.1 percent drop in Lloyd's attritional loss ratio, which fell to 52.6 percent. What a difference a year makes; in September 2019 Lloyd's reported a profit of \$3.8 billion for the first half despite underwriting concerns.

Premium income rose 1.7 percent to \$26.0 billion from \$25.6 billion a year earlier. Once foreign exchange movements are removed, overall premium increased by 0.1 percent.

At the same time, investment income suffered from the COVID-19 effect and fell heavily to \$1.17 billion from \$2.99 billion. The improvements that Lloyd's has made to reduce its operating expenses continue, but the expense ratio for the first half dropped only marginally from 38.1 percent to 37.7 percent. Everyone hopes that this figure will continue downward as the Future at Lloyd's program continues.

The good news is that the premium rate increase momentum shown earlier last year has continued. This impetus quickened in the first half of this year, with underwriters achieving average risk adjusted rate increases on renewal business of 8.7 percent. There have been 11 consecutive quarters of positive rate movement according to Lloyd's broker Marsh, with rate increases exceeding

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AM Best sees reinsurance sector as stable

See Page 4

AAIP supports local school for 18 years

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Fake Navy SEAL steals disability compensation

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TDI disciplinary actions for August 2020

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Hurricane Laura

cation; and non-modeled sources of loss.

"Although Laura avoided major metropolitan areas like Houston and New Orleans, it was still an extremely impactful U.S. event," maintaining intensity as it moved inland, causing widespread wind and water-driven damage well into interior portions of Louisiana, RMS North Atlantic hurricane models Senior Product Manager Jeff Waters said in a statement.

CoreLogic updated its pre-hurricane residential and commercial wind and storm surge loss estimates on Aug. 28. According to the property analyst's new data, insured wind and storm surge losses for residential and commercial properties in Louisiana and Texas are estimated to be between \$8 billion and \$12 billion, with insured storm surge losses estimated to contribute less than \$0.5 billion to the total.

Fueled by high sea surface temperatures, Hurricane Laura made landfall as a 150 mph Category 4 storm on Aug. 27. It was the strongest storm since the 1856 Last Island Hurricane. Laura made landfall close to Cameron, Louisiana, near the Texas state line. In addition to the winds, Laura brought with it around 15 feet of storm surge and widespread heavy rain across the Gulf region, continuing in a northerly direction through Louisiana and into Arkansas.

As Hurricane Laura approached the coast, the storm's center struck a more sparsely populated area of the Louisiana and Texas coast. "There is never a good place for a hurricane to make landfall, but this was the best possible outcome because it spared the major population centers of Houston and New Orleans," said Curtis McDonald, meteorologist and senior product manager of CoreLogic.

Hurricane Laura weakened as it moved over land, which safeguarded some metro-

politan areas from the full impact of a land-falling Category 4 hurricane, CoreLogic said.

Two days prior to the storm making landfall, CoreLogic released data analysis showing that 431,810 single-family and multifamily homes along the Louisiana and Texas coasts with a reconstruction cost of approximately \$88.63 billion were at potential risk of storm surge damage based on Laura's projected Category 3 status at landfall. CoreLogic's estimate included properties in Lake Charles, Lafayette, Houma-Thibodaux, Morgan City and Jennings in Louisiana and Houston, Beaumont-Port Arthur, Port Lavaca and Bay City in Texas. As the storm intensified and its trajectory changed, some of those locations were spared.

In a statement issued Aug. 31, Boston-based catastrophe modeler Karen Clark and Company estimated that onshore insured losses from Hurricane Laura will be close to \$9 billion. Laura caused \$8.7 billion of losses in the U.S. from wind and storm surge and \$200 million in the Caribbean, KCC said.

Included in KCC's estimate are privately insured wind and storm surge-related damage to residential, commercial, and industrial properties, as well as insured damages to automobiles, the modeler said. The estimate does not include National Flood Insurance Program (NFIP) losses, or any losses suffered to offshore assets.

Peak storm surge heights did not reach the worst-case predictions of the National Hurricane Center, and damage from flooding was less severe than projected, KCC said.

KCC notes that losses are not expected to be as high as they perhaps could have been, as Laura's highest wind speeds were

tightly wound around the hurricane's center, resulting in a narrow swath of extensive damage. The storm surge impacts were less than forecasted and originally modeled, as the peak surge was only around 15 feet, below the 20 foot NHC prediction.

Hurricane Laura brought tropical storm force winds to multiple islands across the Caribbean, causing trees to be downed and power outages across Hispaniola and Cuba. Light wind damage was seen to roof coverings and other exterior elements, while most structural damage was the result of downed trees, according to KCC.

Damage along the western Louisiana coast up to Lake Charles has been extensive, KCC said. Structural damage has occurred to all types of properties, including wood frame homes and commercial structures. Damage to roof coverings, decking, and trusses has been widespread. Exterior siding, opening, and glazing damage have been extensive, and typically followed by progressive damage from water and wind infiltration. In addition to downed trees and signs, telephone poles have snapped, resulting in infrastructure disruption, KCC said.

In describing the damage farther along Laura's path, KCC said that areas experiencing Category 1 and 2 hurricane force winds experienced less severe damage but over a slightly larger area. Scattered structural damage has occurred, and much of the severe damage has been the result of fallen trees. Roofs throughout the area have sustained damage, with some residential and commercial buildings experiencing severe damage to roof cladding and decking.

Tropical storm force winds extended further out from the storm center causing widespread low-level wind damage to roof covering and siding.

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Even though the worst-case scenario storm surge did not materialize, significant flooding occurred in coastal areas. Due to extensive debris accumulation, roads have become impassable, delaying cleanup efforts in the most impacted areas, KCC explained.

Also on Aug. 31, AIR Worldwide said insured losses to onshore property from Laura will range from \$4 billion to \$8 billion. AIR Worldwide is a Verisk business.

"Although comparisons between Laura and Hurricane Rita have been made, they differ in two important ways: Rita was a larger storm and hit a more populous area than Laura did," said Dr. Cagdas Kafali, senior vice president of research, AIR Worldwide. "Rita made landfall west of where Laura did, impacting population centers of Texas; Laura made landfall well east of Houston and west of New Orleans, keeping losses lower," he said.

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TEXAS SURPLUS LINE REPORTER & INSURANCE NEWS

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Insurance serves policyholders when there is 'no more'

By **MICHAEL G. MANES**
Manes and Associates

Today is September 11, 2020 – the 19th anniversary of what we now call – 9 /11. The TV is playing in the background, reliving the terror of that day. It is the tragedy— no matter where you lived—that reshaped our world. We will never forget. August 27, 2020 was the day a storm named Laura – leveled Lake Charles in Calcasieu Parish and cut a large swath of destruction through Louisiana. It was a day that will live in affected residents' memories forever.

I think this is the perfect time to remind each of you and all of you in the insurance business that we exist to serve in the darkest of times, not when everything is going great (rainbows and unicorns). Sometimes from our comfort zone, we forget our role. We can handle, without stress, an auto accident, a house fire, or a windstorm. The onesies and twosies of claims are merely practice or calisthenics for our real job – disasters.

If you've been through a major disaster where hundreds (thousands) of your policyholders (and you yourself) have had losses, you understand. If you've never seen such losses, you are "Clueless in Seattle" – or wherever else you are. I interrupt this article to ask you, if there were riots, looting and arson in your downtown for over 100 days, how and what would you do? Really? Seriously? What if your office building had burned up in the Chop Zone?

Hurricane Katrina is the one storm that most people remember, even those in states that don't have hurricanes. The vivid memory is not as much of the storm itself but rather the social unrest (Read: chaos in the streets of New Orleans) that followed.

Nearly immediately after the storm, hundreds of evacuees from Orleans and St. Bernard Parishes arrived in New Iberia, my hometown, by bus. Most did not have their own transportation. Those with resources self-evacuated. Bused evacuees were herded into the recreation centers in New Iberia City Park and the West End City Park where they were housed.

"Housed" is too polite a word. There was a roof over their heads and a gym floor under their feet, and air conditioning. Bathrooms designed to meet the needs of a few people during the day were now their primary latrine. Outside there were portable toilets. The men and little boys could also find relief behind the many trees in the park; the women and some children were more limited in their options. At night they had blankets to cover themselves. Some had a duffel bag or suitcase with their other worldly possessions. Their world was not about comfort or convenience; it was about survival.

In New Iberia, the American Red Cross

teams came in unprepared for and mostly clueless about the task awaiting them. Shortly thereafter, local leaders, individual volunteers and civic groups took charge. The process improved greatly, but the evacuees were still far from home; their world remained in chaos, and most were fearful of the destruction awaiting them back home.

In an effort to diffuse the tension that was reaching dangerous levels, Mayor Hilda Curry asked me to facilitate a "listening session," so the evacuees could be heard. Her instructions were simple, "Let them vent, let off their steam safely and voice their frustrations." Fifteen years later, a few vivid memories remain.

Congressman Charlie Melancon, whose district included St. Bernard and other low lying parishes of south Louisiana, was one of the first speakers that night. He had been able to visit the area by Coast Guard boat earlier that day. Charlie, normally unflappable, was visibly shaken. He said, "I planned to bring some hopeful news to you, tonight. I can't. There is no more St. Bernard Parish."

Today, from the media reports and friends in the area, Hurricane Laura has left Calcasieu Parish and Lake Charles in a similar condition. Normal is years away. A livable new normal is many months away.

Throughout the program that night nearly every attendee was trying to reach someone, somewhere, on their cell phones. Unfortunately, all were unsuccessful. The phones that had already become a part of our lives were not effective. A brick to our ear could have at least started a conversation; the phones could not. Cellphone towers and utility lines are often destroyed in the storm. After a major disaster, life will more closely mimic the Flintstones, not the

Jetsons. If you don't know these folks, google them while you have electricity.

A few speakers were empathetic and tried to feel the evacuees' pain. Too many were bureaucratic and just told the audience what they thought the evacuees needed to do. Unfortunately, what their procedure manuals suggested as solutions, the evacuees were not able to do in the wake of the destruction in their parishes, absence of phones and utility infrastructure and closed roads. Access to their homes (if indeed they remained) was verboten. All assumed they had a major loss awaiting them at home; their only question was, "How bad?"

That is a nagging question to have on your mind 24/7.

A local government bureaucrat was speaking to the group, when he was asked by a very large and angry evacuee an important and appropriate question that this emergency expert should have been able to answer or, at least, empathetically respond to with the promise to get an answer to the evacuee at the shelter the next day. Unfortunately, the bureaucrat said, "You don't understand my problems." You could see the rage in the face of the questioner and the rest of the crowd. I quickly responded to the bureaucrat, "It is your job to understand and help solve his problems; it is not his job to understand your problems."

Here's reality. As agents our most important role and service provided is not to process paper, negotiate better rates and answer questions about coverages. These are our job but not our most important role. Our role is to pick up the pieces when our clients' lives, communities and businesses have fallen or are falling apart. Our most important job starts when others leave

home in a crisis or head home after it. If Hurricane Laura just leveled your town, would you be up to the job you signed on for as an agent?

You claim to be different, even better than your competitor. The marketplace of chaos is where you prove your brand. Success is not in what you say; it is in what you do.

I have vivid memories of individuals and organizations that rose to the challenge. My two favorite success stories include the chancellor of a medical school in New Orleans who evacuated to Baton Rouge for the storm and returned to the city to discover that the medical school could not reopen in New Orleans for a long time. He, his team, and the students relocated the medical school to Baton Rouge in a week. They made it work. It is an amazing story. Amazing stories are created by disasters.

A New Orleans insurance agency principal stayed with friends in Baton Rouge. Most of his team had evacuated there as well. After the storm, he realized this was to be his home and his agency's "office" for a long while. He quickly rented apartments to house his team and office space to serve his customers. It was not easy, but it was what had to be done. A tentative decision-making process or waiting to see what happened may have resulted in no housing and limited options, as Baton Rouge filled up fast with evacuees, their families and businesses, and entrepreneurs committed to restarting their lives. Would you have had the resources and courage to act quickly in chaos? Remind yourself: The worst of times creates the playing field for champions in our industry. Your best is needed when the worst is the norm.

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and an MBA from Stanford University Graduate School of Business.

Evelyn Boswell has been tapped by the National Association of Insurance Commissioners to become the organization's first diversity, equity and inclusion director, a role that will focus on creating a diverse and inclusive workplace at the NAIC and oversee its newly created DE&I Council. "One of NAIC's core values is creating a community where diverse voices are heard and valued," said NAIC CEO, **Michael Consedine**. "We look forward to

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Breaking from other negative reviewers, AM Best sees reinsurance sector as stable

While other rating agencies continue to rate the global reinsurance market's outlook as negative, at the end of 2018, AM Best changed its view of the reinsurance market segment to stable from the negative outlook it had held between 2014 and 2018. As Best sees it, there are negative and positive forces in the market that offset each other.

AM Best explained the battling negative and positive forces in its Market Segment Report titled Global Reinsurers Maintain Equilibrium through COVID-19 Turbulence, which was released Sept. 2.

Negative factors include increased uncertainty on claims reserve development associated with previous years' property catastrophe events; social inflation, and more recently, business interruption and casualty lines related to COVID-19. Combined with an overcapitalized sector, these factors have translated into reinsurance companies struggling to meet their cost of capital.

On the positive side, reinsurance renewals during the first half of 2020 started to show strong momentum, with clear signs of a hardening market. All of which is reinforced by third-party capital providers reassessing their role in the industry after being affected by loss creep, trapped capital and a perceived higher risk as a result of discrepancies between actual and modeled claims experience.

In August, AM Best organized a webinar for a panel of experts to discuss the reinsurance market. Best's coverage of the panelists' discussion is five pages of the 89-page Market Segment Report.

AM Best's Meg Green moderated the panel, which featured Carlos Wong-Fupuy,

senior director of Global Reinsurance Ratings, AM Best; Scott Mangan, associate director, Global Reinsurance, AM Best; Silke Sehm, executive member of the board, Hannover Re, and Jonathan Isherwood, CEO of Reinsurance Americas, Swiss Re.

Wong-Fupuy led off the panel by saying that Best's stable outlook on the reinsurance segment does not mean nothing changed. To make his point, he described a number of developments, both positive and negative, in the past year.

He attributed Best's negative outlook between 2014 and 2018 to excess capacity. "Excess capacity from traditional capital and a continued influx from third-party capital providers were pressuring rates," he said. "The result was soft market conditions, low investment returns and companies struggling to meet their cost of capital."

According to Wong-Fupuy, AM Best changed the outlook to stable at the end of 2018 because things were stabilizing, albeit at a lower level. "Expectations for return on equity were definitely lower than what historical trends would have suggested," he said.

Over the past three years, Wong-Fupuy pointed out, claims activity has increased. Natural catastrophes have caused third-party capital to look at insurance risks more closely. Their skepticism is not just about losses. Concerns relative to loss creep and trapped capital emerged.

Wong-Fupuy noted that the situation is complicated with COVID-19 increasing the expectation of an improvement in pricing on the one hand, while there is concern about claims on the other hand.

Despite the stable outlook, Wong-Fupuy

believes that all companies will not respond the same; their differences will be exacerbated.

Mangan speculated that it could take a while for reinsurers to flush off their balance sheets and take advantage of rising rates. He is not sure that anyone knows what COVID-19 losses will look like, but they could affect companies' ratings. Market conditions, he said, will affect companies differently, and he's not sure what rating action will be taken.

Despite the stable outlook, Mangan said, some reinsurers may not be able to weather the conditions because of lagging Enterprise Risk Management practices, business profile, capitalization or operating performance.

Hardening market brings new money

Sehm said, "We definitely see capital flowing into the reinsurance space." She added, "New money has been coming in to start new reinsurance companies." According to Sehm, the number being mentioned is about \$4 billion in comparison to the Bermudan class of new companies after the 2005 hurricanes, which was around \$5 billion, and the class of 2001 after the attacks on the World Trade Center, which was \$8 billion.

"Clearly, there is a change in rates," Isherwood said, which accelerated through the first half of the year, from January through June/July renewals and across most lines.

According to Isherwood, there is a lot of capital looking at returns for the last few years that don't meet expectations.

At this time, Mangan opined, specialty

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Evelyn's leadership as we work to strengthen NAIC's culture and her expertise to support the efforts of the new Special Committee on Race and Insurance." Boswell has more than 20 years of experience in human resources, leading such initiatives with several Kansas City organizations including Hallmark Cards, GEHA, the Federal Reserve Bank of Kansas City, and Ronald McDonald House Charities. Boswell received her master's degree from Webster University in Human Resources Management and her bachelor's degree from Arkansas State University in Health Services Management.

MEETINGS/EDUCATION

The Federation of Insurance Women of Texas has moved its 76th Annual Convention to a virtual event, Oct. 20-24. Sessions will offer four hours of continuing education credit and classes are open to all. Fees to attend the C.E. classes are \$25 for members, \$35 for nonmembers. Sessions conducted by **Eric Johnson** include topics of COVID-19, policy coverage, health group benefits and improving quote spreadsheets. Board meetings and business meetings associated with the convention will be conducted by Zoom on Oct. 24. Convention plans include virtual exhibit booths, complete with a door prize for visiting. No registration is required for the virtual exhibit hall. Visit www.FIWT76convention.com for more information.

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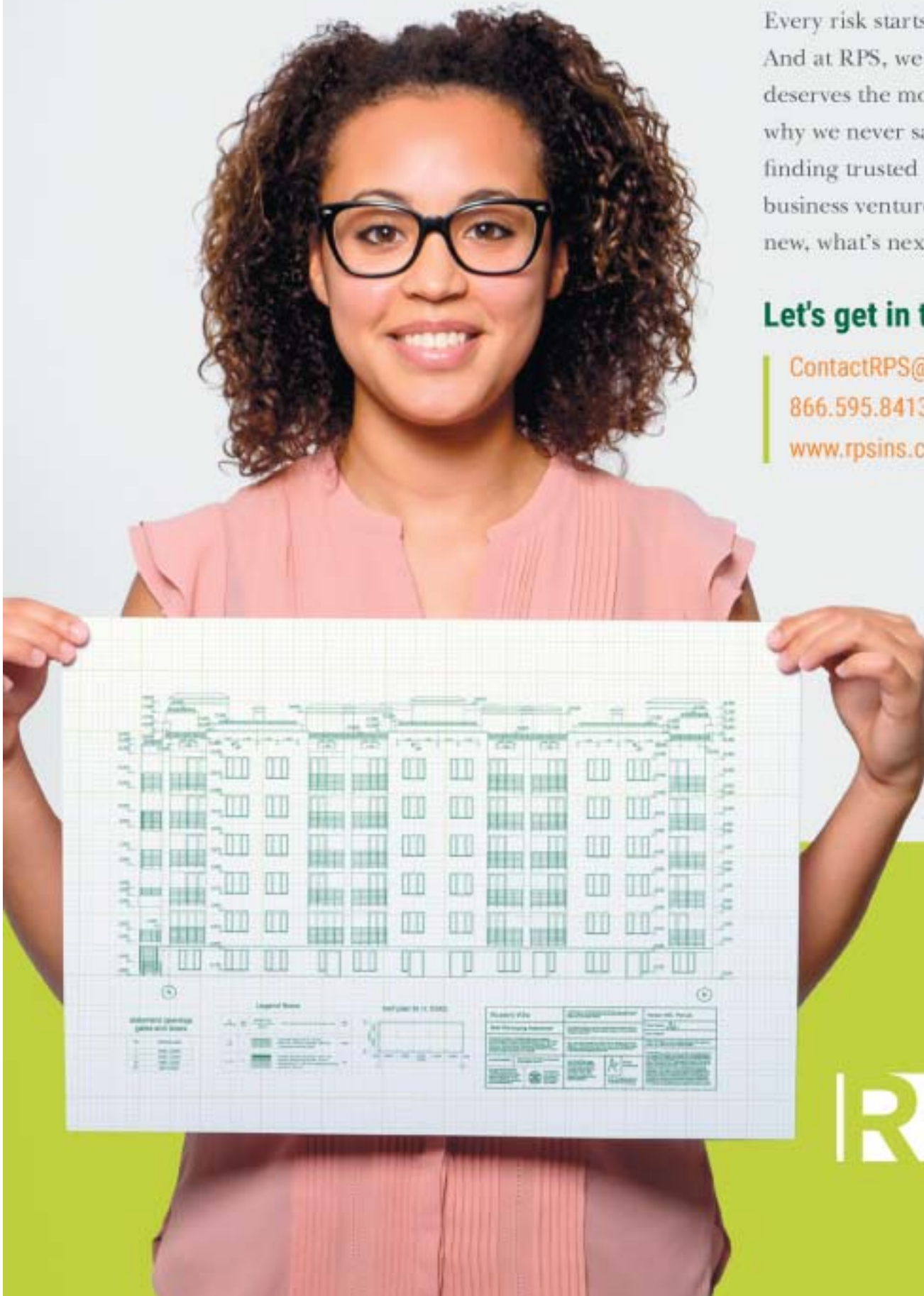
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and E&S type business seems to have a lot of the momentum going forward.

Wong-Fupuy said that companies need to recover from underperformance, adding that the settlement process for losses is taking longer than expected. Property catastrophe risks have a tail because of loss creep, which affects reinsurers' ability to swiftly enter and exit the market. Even if there is not a dramatic decline in availability of third-party capital, growth could slow down and investors become more selective.

Isherwood said there has been some retrenchment. Those set up to generate asset returns were not so successful. He pointed out that 2018 was "the worst typhoon year ever," and it was followed by 2019, which was "even worse."

Wong-Fupuy said that companies required return has increased and that there are risk tranches in which the return "may not be met." He observed that new capital is mainly coming from traditional capital providers.

Panelists indicated that escalating reinsurance pricing is not being driven by capital depletion as it was in 2001 and 2005, when capital depletion resulted in widespread market hardening.

Mangan opined that underwriting discipline is the key to this hardening market, in contrast to hard markets in the past. He is not certain that the market hardening is as widespread as it was in 2001, and to some extent, 2005.

He explained that the underlying mechanics of the current hardening market are different. This time around, there is uncertainty relative to COVID-19, and there is uncertainty about the investment environment going forward. Supply and demand issues are not driving the rates up, market uncertainty is.

Previously, there was a capital void; existing market participants were not deploying capital. The difference is that, now, the industry is very well capitalized; to some extent, there is excess capacity in the market.

Are rate increases sustainable?

Sehm believes the rate increases are sustainable for the next two years because of uncertainty regarding COVID-19, which "means a lot of fuel for further rate increases."

Amid the volatility and uncertainty, Sehm said, highly rated reinsurers have value again. Wong-Fupuy agreed, saying, "There is a flight to quality, so there is value in being highly rated."

For his part, Isherwood said, "It is a different environment in many different ways. Each marketplace is slightly nuanced. ... We're on the tail end of many years of market softening. That is not just rates, but also terms and conditions." Isherwood believes there is a "fundamentally different" yield environment, which is the lowest it has ever been. Considering the metrics, he said, "There is no chance to rely on the asset side of the balance sheet over the next few years."

Interest rates effect on pricing

There was general agreement among the panelists that interest rates have been lower for longer and probably will continue to be low.

Sehm said that low interest rates are only part of reinsurers' pricing measure. There may be reinsurers trying to mitigate lower return on equity by investing more aggressively, but Hannover Re is prudent and sticks to asset and liability management principles.

In many ways, Isherwood said, the low yield environment could be the longest last-

ing legacy out of COVID-19. He believes there is not an easy fix on the asset side without significant risk or capital issues. As of 2018, U.S. 10-year yields were close to 3.0 percent and are currently just over 0.5 percent.

Isherwood explained that, on a blended casualty book when comparing the combined ratio to yield, it turns out that it takes a two percent improvement in the combined ratio for a one percent increase in the return on equity.

He mentioned other factors that affect the momentum for casualty rates, including pricing uncertainty, tail volatility and social inflation. In this environment, casualty needs to be priced like a short-tail volatile line. "That's fundamentally different than in the past."

From a rating agency perspective, Mangan said, investment risk consumes capital. If a reinsurer is holding capital to support riskier investments, that capital is not available for underwriting without it affecting AM Best's assessment of balance sheet strength.

Agreeing with Mangan, Wong-Fupuy said it is not all about rates. Reinsurers need to keep an eye on limits and the terms and

conditions, which may not have been as tight in previous cycles. He said reinsurers have no option but to pay attention to underwriting.

Reserve releases affect bottom line

Turning the topic to the consistent decline in the benefit of reserve releases, Wong-Fupuy said companies are struggling to meet their cost of capital, and not being able to rely on favorable loss reserve developments just adds to the pressure.

Mangan said that about half of ROE, going back, is attributable to reserve releases. He pointed out that the "low interest rate environment can translate into lower cost of capital, but it is not an offset" for investment returns.

Remarking that reinsurance has been coming off a softening cycle, Isherwood observed that reserving and the yield environment are coming together with other factors, leaving no option but to focus on underwriting.

Aside from underwriting and investment, Mangan said the only "other lever to pull" is on the expense side. "Technology has gone a long way to help in that area,"


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Drew Brown installed as president of IIAD for 2020-2021

Drew G. Brown, co-president and chief operating officer of TexCap Insurance, became president of the Independent Insurance Agents of Dallas during a Zoom meeting and installation ceremony on Aug. 19. From the outset, Brown has found virtue in the virtual.



Drew Brown, IIAD president 2020-2021

With fewer in-person activities to plan and coordinate, Brown seized what he considered a “window” of time to strategically plan the future of IIAD. “With not as much happening face-to-face as is typical of our association, the board was challenged to do something different,” he said.

Expecting that by spring the association will return to in-person activities, Brown is using his first six months in office to “focus on strengthening the foundation of the association to be relevant for the decade ahead.” To that end, he asked the board to lead four task forces devoted to oversight, technology, membership and engagement.

The oversight task force, said Brown, is charged with reviewing all governance and accountability documents and processes to make certain the association is properly aligned.

Since technology has become so important in maintaining association connections since March, the tech task force will make sure we are using the right systems and platforms. Beyond that, said Brown, this task force will look toward using data analytics to help the IIAD leadership and staff make good decisions for the future. “We are also looking at other technologies to incorporate live streaming when that’s appropriate,” he said.

The membership task force is formally acknowledging the change in membership demographics that has occurred over the last 10 years. Brown said the association still attracts agents, carriers and vendors, but there are vastly different types of agents in the association now. Over the last decade, he said, mergers and acquisitions have transformed the association from predominately privately owned agencies to individual agencies, aggregated agencies, alliances, national networks, bank owned agencies, national brokers and more. Maintaining relevance to all these diverse members becomes a real mission for the association, said Brown. “We must make sure we are offering things of value, how they perceive value,” he said.

Hence, the engagement task force members are putting their heads together to find ways to encourage more attendance at association activities. Brown hopes to go deeper into each member agency to find not only more employees there who will attend activities, but will do so with greater frequency.

Brown said IIAD’s Jim Millerman Annual Convention is planned as a virtual event on Nov. 5. As soon as the schedule of events for the day is finalized, details will be available on the association’s website. Meanwhile, monthly C.E. and other guest speakers continue to be offered through GoToWebinar. September’s meet-

ing featured Tai Williams, Texas Mutual, who spoke on workers’ comp issues, and Lee Loftis, IIAT, who presented the state association’s plans for the 2021 legislative session. All IIAD webinar meetings happen on the third Wednesday of the month, starting at 9 a.m.

As of now, the annual Account Manager Appreciation Luncheon is planned as an in-person event for Oct. 21 at the Royal Oaks Country Club. It will be preceded by a two-hour C.E. presented by Enya He of Lloyd’s and feature the luncheon speaker Missy Payne, author of *Cheer 4 Your Life*.

Brown’s tenure with IIAD began the day he joined TexCap Insurance in July 2010, since the agency has been an IIAD and IIAT member since the agency started in 2005 as a bank affiliated agency, then remained active when the current owners bought the agency from Texas Capital Bank in 2007.

In 2017, Brown was elected to the board of IIAD, then rose to his current office after serving as secretary/treasurer in 2018

and president-elect in 2019. His father, Gaylon Brown, CEO and managing partner of TexCap, is currently the president-elect of the Independent Insurance Agents of Texas and served as president of IIAD for the 1993-1994 term. Drew Brown is the fifth person affiliated with TexCap to serve as president of IIAD.

Drew Brown holds the CIC designation. He is a 2009 graduate of McCombs School of Business at the University of Texas. He holds a double major degree in business honors and finance. After graduation, Brown worked for a corporate financial consulting firm, which he said gave him tremendous experience in data and financial analysis, a major skill set he was able to bring to TexCap when he joined the agency in 2010.

In 2012, Brown became a partner of TexCap, then in January 2019, he was named to his current position of co-president and chief operating officer. Brown said he is neither 100 percent producer/sales nor 100 percent analytics for the agency, but a combination of both. As COO, he oversees the operations team and the day-to-day workings of the agency and advises business insurance clientele.

Brown looks forward to the part of his term when in-person activities resume. The biggest value of IIAD, he said, is it provides a place for insurance relationships to happen. “Everything we do is to foster relationships,” he said, noting that the COVID challenge kept the members from being together physically.

Still, the traditional role of IIAD in community activities remains strong, he said. The association’s financial support and big send off for a Make-A-Wish honoree will happen in February. IIAD’s \$40,000 annual scholarships for upperclassmen enrolled in

the Risk Management and Insurance program at UT-Dallas continues, said Brown. Each year, the association chooses two rising juniors in the program for \$10,000 awards, then continues the award for their senior year provided they remain eligible. Brown said IIAD’s support for this award is among the largest scholarship programs of the Naveen Jindal School of Management at the university.

Brown is on the advisory board of ELITexas, and he serves as deacon of Park Cities Baptist Church.

Of the new president, Tammy Land, executive director of IIAD, said, “The association is in good hands with Drew Brown. He is an experienced diplomat and leader with a fresh perspective.”

Also installed with terms officially starting on Sept. 1 were Adam Sammons, Marsh and McClennan Agency, president-elect, and Kelsey Swingle Robertson, Swingle Collins, secretary/treasurer. Immediate past president, Rhonda Cox, CoVerica, remains on the executive board.

New directors to IIAD’s board for two-year terms include Gary Lindsey, Hotchkiss Insurance; Dan Thomas, Patterson and Associates; John Delay, CLA USA Insurance Group, and Paul Fredette, Box Insurance Agency. John Marek, K&S Insurance, was appointed by the board to fill an open slot for one year.

They join returning directors Ray Deaton, Commercial Insurance Solutions; Kyle Dixon, Boyd, Shackelford, Barnett and Dixon, and Lauren Allen, BrookStone Insurance Group.

Bruce Sams, Champion Insurance, was tapped by Brown to serve as ex officio member of the board. Sams is a past president of IIAD and serves as advisor to the president.



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Insurance

serves — FROM PAGE 3

I pray you never have to work through this sort of crisis. I pray harder that if you do, you are prepared. It’s the promise you made when you chose this industry or this industry chose you.

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.

Hurricane Laura

Laura's rapid intensification over abnormally warm Gulf waters was similar to Hurricane Harvey in 2017 and Hurricane Michael a year later. Prior to Laura, Harvey and Michael were the two most recent Category 4 or stronger storms to hit the U.S., according to AIR.

AIR expects the combination of Laura's track through relatively lower populated areas to keep insured losses down somewhat, despite its major hurricane status at landfall.

Wind damage was the greatest in Louisiana, particularly in areas closer to the eyewall near landfall. Preliminary maximum wind reports from the National Weather Service reported 133 mph gusts at Lake Charles in Calcasieu Parish. There are reports of damage from torn off roofs and facades to structures that were destroyed, along with upended vehicles, and damage to power lines, roads, railways and other infrastructure.

As AIR described the storm, Laura's winds diminished after landfall, but remained at hurricane strength for nearly half the day, pummeling the region for hours as

the storm's center traversed north through Louisiana. Laura's storm surge was not as severe as expected, as the storm tracked a bit east of the Calcasieu Ship Channel, a waterway that connects the town of Lake Charles with the Gulf of Mexico, and pushed less water forward. The highest storm surge recorded thus far was around 15 feet measured at the USACE river gauge on the Mermentau River at Grand Chenier in Cameron Parish.

Kafali concluded, "Residential buildings in and around Lake Charles saw significant damage to roofs of all geometries and with various roof cover types. Residential building envelopes were breached due to debris impacts, and the damage was further exacerbated in many cases due to the impacts of storm surge. Residential homes in Louisiana are founded primarily on crawlspace and slab foundations, both of which are vulnerable when it comes to flood damage."

Fitch comments

While Laura generated devastating economic and insured losses in Louisiana, the storm is unlikely to trigger downgrades of

individual property/casualty insurers or reinsurers, Fitch Ratings said in an Aug. 28 commentary.

While losses will take some time to reconcile, there are indications that this will be an earnings and not a capital event for the industry. Fitch-rated insurers with the largest property market share in Louisiana have capital positions that remain robust at midyear 2020 despite the impact of the coronavirus pandemic, Fitch said.

The ongoing pandemic may compound the normal logistical challenges of assessing damage to property following a catastrophe event and lead to modestly elevated levels of loss adjustment expenses, Fitch predicted. Company-specific insured loss estimates remain uncertain, Fitch said on Aug. 28 in its Non-Rating Action Commentary. Information will be more forthcoming as third quarter financial results are announced.

Losses generated by Laura in combination with previous named storm landfalls in the U.S. in 2020, ongoing wildfires and losses related to the coronavirus, puts added stress on the industry earnings, ac-

FROM PAGE 2

ording to Fitch. Personal lines writers were relatively unaffected by underwriting losses from the coronavirus in the first half of 2020 and remain well positioned to absorb losses from catastrophe events through the remainder of the year.

Fitch expects that traditional and insurance linked securities reinsurance markets will see claims from Laura through both quota share treaties and excess of loss business that has seen an accumulation of catastrophe losses in 2020. However, given the expected moderate size of the loss, the event is likely to have a greater impact on primary insurance companies than reinsurers. The impact of Laura on insurer and reinsurer earnings is expected to add to the push for higher rates on property reinsurance at upcoming renewals.

According to Fitch, homeowners market share in the states most affected by the storm – Louisiana, Texas and Arkansas – is dominated by the top five companies, which collectively represent over 56 percent of direct premium written: State Farm, Allstate, USAA, Farmers and Liberty Mutual. Commercial lines of business that are exposed to the impact of a hurricane landfall include allied lines, fire, commercial multi-peril, non-liability and inland marine. The commercial insurance market is less concentrated than the homeowners segment, with the five largest writers representing 24 percent of direct premium written, including CNA, Liberty Mutual, Travelers, Chubb and AIG.

Reinsurance

he said, and it's probably an area on which, going forward, companies will have to focus "in order to help get those combined ratios to more reasonable levels."

COVID-19 is uninsurable

The panelists agreed that the nature of a pandemic risk makes it non-insurable. They see the need for some public-private partnership to help economies become more resistant to such risk.

Mangan is "not sure there is the appetite for the industry to underwrite COVID." He and other panelists agree that the insurance industry cannot diver-

sify away a pandemic risk.

The insurance industry can only play a limited role due to capacity restraints and the systemic nature of the risk, Sehm explained, but Isherwood believes there is a role for the insurance industry to play given its experience in risk management and claims assessment. If government takes the bulk of the risk and reinsurance a small piece, Isherwood said, it could work.

Should a second wave of COVID-19 or other large catastrophe occur, Sehm said "2020 could well become one of the costliest years for the industry. Still, capacity

FROM PAGE 6

is very strong as the industry entered the pandemic with strong balance sheets, very strong ratings and regulatory regimes ... which emphasize risk management and stress testing."

Calling it a "moving feast," Isherwood said that it is "hard to speculate," and capital is not the issue, but flight to quality is.

NOTE: The webinar took place a little over two weeks prior to Hurricane Laura coming ashore in Cameron Parish, Aug. 27 and causing destruction from the Gulf coast through Lake Charles and continuing to north Louisiana as a hurricane.

NEWS IN BRIEF

FROM PAGE 4

The National African-American Insurance Association DFW Chapter announced that it will award scholarships to minority North Texas high school seniors interested in pursuing a career in insurance and to Texas minority college students majoring in risk management, insurance, business, math, actuarial science, finance, accounting or engineering. Awards range from \$1,000 to \$2,000. Applications are due by Dec. 4, and winners will be formally recognized at the NAAIA DFW scholarship luncheon on Jan. 22 at the Doubletree Hilton Campbell Centre. Visit www.naiadfw.org for more information.

FUNDRAISER

The Independent Insurance Agents of Houston will host its second annual Fishin' with a Mission tournament on Oct. 29 through Oct. 31. Tournament headquarters is the Beachfront Pavilion in Rockport. Proceeds will benefit Brookwood Community, Camp Hope and Company on Stage. The competition is a two-day guided catch and release, with anglers fishing for speckled trout and redfish. Registration includes guided boat, meals, cocktails, an award dinner, and goodies. Registration is \$1,500 for a one-man team, \$2,900 for a two-man team. Lodging options are also available.

NAIC

Longtime insurance consumer advocate Birny Birnbaum proposed a model law to the National Association of Insurance Commissioners during an online meeting of the Consumer Liaison Committee. Birnbaum's proposal would define fair and unfair discrimination in insurance; define and ban use

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QBE's leadership disrupted by CEO's failure to follow ethics/conduct code he helped write

Australia-headquartered QBE Insurance Group has announced that its CEO, Pat Regan, is to leave the company following a complaint from a female employee and the outcome of a subsequent external investigation into workplace communications, several news organizations reported Aug. 31 and Sept. 1.

The investigation led the QBE board of directors to conclude that Regan had not met the standards of QBE's code of ethics and conduct.

Reports indicate that a woman in QBE's North American division made the complaint which led to the investigation conducted by a large Australian law firm. Later, QBE confirmed that the complaint about Regan came from a female employee in the United States.

Word is that the female complainant hired an attorney, and that she resigned about the same time as her complaint was lodged.

In a way, Regan was gored by his own ox. In 2019, he oversaw an update of QBE's code of ethics and conduct, which among other things, promoted a speak-up culture. His noncompliance led to his ouster.

Details of Regan's transgression and the consequent legal findings remain under wraps; however, The Sydney Morning Herald reported that the financial penalty to Regan was hefty. While he received over \$300,000 in severance, he leaves a position that last year earned him \$4.4 million. Also lost to Regan were share rights estimated to be worth up to \$10 million.

Going forward, Mike Wilkins will assume the role of executive chairman, taking day-to-day oversight of QBE during the

search for a new CEO.

Previously with British insurer Aviva, Regan joined QBE in 2014 as group CFO and was appointed to the role of CEO, Australian and New Zealand operations in 2016. Regan was appointed CEO in January 2018, replacing John Neal, who had his pay docked by \$550,000 in 2016 for failing to tell the board he was in a relationship with his secretary. Neal has since become CEO of Lloyd's.

When Regan took over, QBE had operations all over the world, in both advancing and emerging markets. Regan set about trimming down the company. He pulled QBE out of Asian and Latin American markets where damage from increasingly frequent extreme weather events posed too great a risk.

His strategy won him praise, and he was viewed as steering the company into safer waters, according to news sources.

In commenting on the board's decision, Wilkins said, "We are committed to having a respectful and inclusive environment for everyone at QBE. The board concluded that (Regan) had exercised poor judgment in this regard."

Wilkins thanked Regan for his service by saying, "While these are challenging circumstances, the board recognizes and thanks Mr. Regan for his hard work and contribution to strengthening QBE. However, all employees must be held to the same standards."

Wilkins continued, "While COVID-19 has created significant challenges, QBE is successfully navigating this period of uncertainty, and the group's demonstrable financial strength positions us well to capitalize on accelerating pricing momentum

and emerging organic growth opportunities."

COVID-19 losses have already neared the attachment point of QBE's aggregate reinsurance cover, and the company expects that any business interruption claims from the pandemic will be covered by its reinsurance, Reinsurance News reported.

QBE posted a \$510 million loss for the first half of 2020, driven by underwriting impacts from COVID-19, large catastrophe losses and a poor investment performance, according to Reinsurance News.

Nonetheless, Wilkins said he remains optimistic about QBE's financial prospects despite the disruption a change in leadership will bring.

A financial analyst told The Guardian's Australia edition that a new CEO would probably write down QBE's assets.

"What often happens when a new CEO is appointed, and particularly in the case of an external appointment, a very vigorous approach is taken to provisioning and expected levels of future profits," the analyst said.

The QBE board will put in place additional initiatives in the coming weeks to further develop an inclusive culture at QBE, beginning with a board-sponsored and externally-supported culture review and the creation of an additional avenue for employees to safely raise concerns and receive support that will supplement existing channels.

"We want our people to have the avenues they need to safely speak up, with the confidence that they will be heard and that all concerns raised will be treated consistently across our workforce," Wilkins explained.

NEWS IN BRIEF

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of "proxy discrimination against protected classes"; require regulators to monitor for unfair discrimination involving use of data, algorithms, artificial intelligence, and advisory organizations and statistical agents that collect data for insurance organizations. Birnbaum also proposes creating a Bureau for the Consumer Advocate in each state and funding it through a 10-cent to 25-cent fee on every individual insurance policy issued in the state. The bureau, he said, should have access to all non-public information on each insurance company as is available to the state's regulator.

FLOOD COVERAGE

After Hurricane Harvey inundated Southeast Texas, the number of flood insurance policies in the Corpus Christi area increased. But new federal data shows those gains are eroding. Nearly all Corpus Christi-area counties have fewer federal flood policies in place than two-plus years before, according to the Federal Emergency Management Agency. Across nine counties, the number of policies in effect is down by more than 1,200: Aransas (down five percent as of Sept. 7, 2020, compared to July 2018), Bee (down two percent), Calhoun (down five percent), Jim Wells (down three percent), Kleberg (down three percent), Matagorda (down five percent), Nueces (down one percent), Refugio (down seven percent), and San Patricio (down eight percent). Goliad

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TWIA's rates

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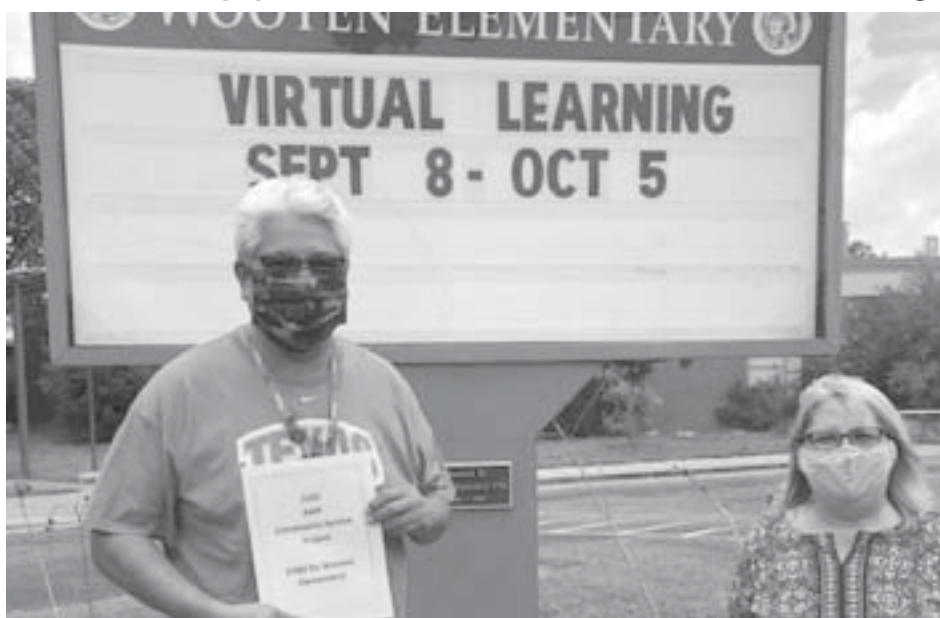
WTW, indicating that both AIR and RMS add sensitivity for roof age, roof anchors, roof geometry and other data factors that TWIA does not currently collect. The WTW report details 11 secondary factors that RMS would apply and 25 factors that AIR would apply in estimating potential loss costs if TWIA's database included the information.

TWIA's Actuarial and Underwriting Committee was slated to meet on Sept. 22 to review the WTW report and make a recommendation to the TWIA board. The

meeting was to be conducted by Zoom, with access and participation by the public. Meeting materials, including the full 67-page WTW report, became available on Sept. 8 on TWIA's website. Consideration of the committee's recommendation moves to the full board which may act on the recommendation in an interim meeting or at its December quarterly meeting.

An archived recording of the Sept. 22 meeting, which occurred after the press deadline, is available on the TWIA website.

AAIP supports Wooten Elementary



Due to COVID-19 restrictions, the Austin Association of Insurance Professionals delivered Office Depot gift cards instead of its traditional school supplies collected from members. Students' families and teachers can purchase what is needed with the total of \$980 in gift cards that AAIP collected and donated. Making the presentation on Sept. 8 was AAIP member and Wooten Project Lead Jean Patterson, TSLA executive director. Bernardo Martinez, parent support specialist, accepted on behalf of Wooten. AAIP has been supporting Wooten Elementary for 18 years.

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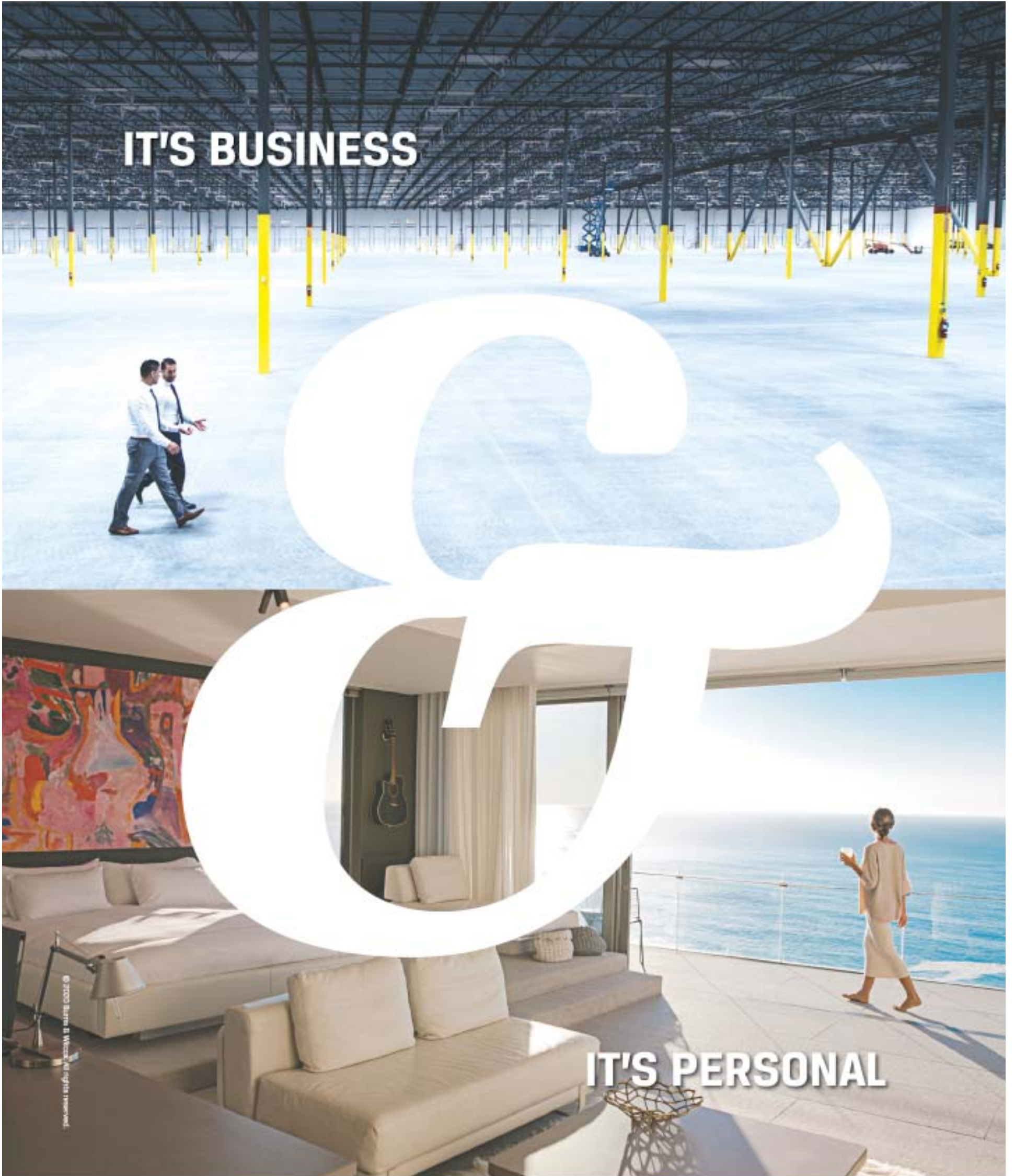
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London views

Lloyd's plan each month, affecting the vast majority of classes of business and all geographies.

The bad news is these increases were offset by an 8.6 percent decrease in business volume across the market. Some commentators believe this is not a bad thing as it shows the market is focusing on higher quality business that it renews or writes for the first time. Marine and aviation were among the higher loss-making lines of business, and Lloyd's expects more syndicates to leave the market. However, this does not worry anyone at 1 Lime Street because Lloyd's has a strong pipeline of new applicants.

The market's strong capital and solvency position means it can easily withstand the impact of COVID-19. Figures show the market's net resources increased by 7.2 percent to \$42.64 billion which strengthened Lloyd's balance sheet further, and the central solvency ratio reached 250 percent from 238 percent a year earlier, al-

though this is expected to fall to 200 percent for the second half of the year as COVID-19 losses begin to bite.

John Neal, Lloyd's CEO said, "The first half of 2020 has been an exceptionally challenging period for our people, our customers, and for economies around the world. The pandemic has inflicted catastrophic societal and economic damage, calling for unparalleled measures to stifle the spread of the virus, and to get businesses and economies back on their feet.

"Our half year results demonstrate that our robust approach to performance management and remediation has begun to take effect, evidenced by a significant turnaround in the underlying performance metrics, which give the truest indication of our market's profitability."

On these figures no one popped a champagne cork. The results aren't good, but they are encouraging. With underwriters worldwide beginning to factor the costs of COVID-19 into their rates, premiums are

only going to rise, and that can only be good for Lloyd's.

Marsh reports hardening market

Lloyd's broker Marsh's second quarter report on worldwide insurance rates makes happy reading for insurers and strengthens the case for the hard market. The increase in the second quarter was the largest since the index was launched in 2012 and follows year-over-year average increases of 14 percent in the first quarter of 2020 and 11 percent in the fourth quarter of 2019.

For the second quarter of 2020, the rate increases in global composite insurance pricing and commercial property insurance pricing were both a record 19 percent, driven by the COVID-19 crisis. Global casualty pricing increased by seven percent, and global financial and professional liability rose by 37 percent.

Lloyd's shows losses for 2018 and 2019

Every quarter Lloyd's publishes an update on how its underwriting years are developing. At the moment, things do not look

good; the worst case scenarios for the 2018 underwriting year show a 9.08 percent market loss and a 6.07 percent market loss for the 2019 year of account.

On the worst case figures for the 2018 underwriting year, only one syndicate, Chaucer 1176, shows profit, while one other syndicate expects to break even. The largest losses are with Hiscox Syndicate 6104, which predicts a 55 percent underwriting loss, and Premia 1844, which predicts a 52.51 percent loss.

The mid-case figures suggest a market loss of 6.07 percent, and again, Chaucer predicts a healthy 35.00 percent profit, but five other syndicates hope to be in the black, and one hopes to break even.

The best case figures predict a market loss, but down to 3.07 percent, with Chaucer expecting a 40.00 percent profit. Fourteen other syndicates hope to declare underwriting profits, but only one of these

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NEWS IN BRIEF FROM PAGE 10

County experienced a two percent increase in flood policies, and Live Oak County saw a three percent increase.

MARIT'S READS

Non-Negotiable: The Story of Happy State Bank and the Power of Accountability by **Sam Silverstein** tells the real life story of **J. Pat Hickman**, a man with a purpose who uses his values to build an organization that is grounded in his personal convictions. Non-Negotiable is all about understanding what you believe, what you can control, what your mission is and ultimately how to create accountability around your beliefs. Regardless of your religious background, this story is an inspiration for any leader or team looking to establish a culture that promotes personal and organization accountability. My personal favorite non-negotiables are: do what's right, attitude is everything, and respect and appreciate others...there's no difference between officers and employees. This is a great conversation starter with your team.
-**Marit Peters**, IIAT president and executive director

TDI

The Texas Department of Insurance is circulating an informal working draft of a new rule on pet insurance that will classify pet insurance as inland marine insurance and allow insurers to sell it through individual or group policies. The change would designate pet insurance as a non-regulated class of inland marine, meaning that rules, rates and forms would not be subject to filing requirements or uniform standards of application. Comments on the new proposal are due by 5 p.m. on Oct. 8.

TDI issued Commissioner's Bulletin #B-0036-20, informing insurers and their agents that all regulated entities are responsible for the accuracy of the data used in rating, underwriting and claims handling, even if the data is provided by a third party. TDI warned that it may pursue enforcement action against an insurer if its use of inaccurate data harms policyholders. TDI encouraged insurers to provide policyholders with a way to review and cor-

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London views

is in double digits. At least the loss making syndicates can comfort themselves by reading Marsh's forecasts of increased rates.

Things are better for the 2019 underwriting year. On the worst case scenario six syndicates expect to be in the black, and four predict a breakeven. Chaucer's 1176 leads the pack with an expected 10.00 percent profit. The 22 loss making syndicates are led by Hiscox 6104 with a projected 40.50 percent underwriting loss.

The mid-case figure for the market is a 2.74 percent underwriting loss, with 17 syndicates in the black and one at breakeven. There is a new profit leader with MAP's Syndicate 6103 expecting a 25.00 percent return. Thirteen syndicates predict losses; with Hiscox's 6104 at 35.50 percent, the largest.

With the best case figure, the market at last has a profit, a modest 0.59 percent. Twenty-two syndicates forecast profits ranging from 0.14 percent to MAP's Syndicate 6103, which expects an underwrit-

ing profit of 33.50 percent. Seven syndicates predict underwriting losses, and Hiscox expects a loss of 30.50 percent.

Reinsurance conferences canceled

Usually at this time of year, the reinsurance world meets at Monte Carlo Rendez-Vous de Septembre to discuss renewal terms for the following season, and then comes the Baden Baden conference, where the deals are made. Unfortunately, the 64th annual Rendez-Vous and Baden Baden were among the many victims of the pandemic. Both conferences are difficult to duplicate digitally and were canceled. The conference sessions can be replaced by web conferences, but there is no replicating the quiet drinks or dinners with clients or with fellow reinsurers.

With the renewal season still coming up, reinsurers and brokers are forced to use other ways, such as Zoom and Microsoft Teams, to communicate with each other and their clients. There is a lot to discuss – reinsurers have seen large rate increases in the primary market and will now want some of that action for themselves. With the last major renewal season being midyear, so far, reinsurance rate increases have been modest, but this may be about to change.

With digital communications, it's going to be more difficult for brokers to get a feel for how bullish reinsurers are, but brokers are confident they can stay on top of things via the internet, telephone and emails. One thing is certain: The insurance and reinsurance press will be more carefully scrutinized than ever as the information flow dries up.

If the brokers were talking to reinsurers at Monte Carlo, they would learn that reinsurers believe rate increases are insufficient. Thierry Léger, group chief underwriting officer at Swiss Re AG, recently told journalists that this year's rate increases hardly cover companies' lost interest rates. Reinsurers have seen premiums fall, while catastrophe exposure increases. On top of that, reinsurers have to pay their share of COVID-19 losses. Swiss Re believes its share of COVID-19 losses will be at least \$20 billion, and for reinsurers generally, the final bill could hit \$80 billion.

Those who work digitally while COVID runs riot across the world say they have benefitted from working from home with less commuting and more time to think. There is talk about how the London market will operate in the future, with the possibility of some staff going into the office

only once or twice a week. While that might work for a digital market, it won't for conferences, so the world's reinsurers hope and expect to be back in Monte Carlo and Baden Baden next year.

Lloyd's reopens at 45 percent capacity

For the first time since March, Lloyd's reopened the underwriting room. Admittedly, only hundreds, instead of the thousands who normally work at 1 Lime Street, crowded into the building on Sept. 1, but it was a start.

Lloyd's said its number one priority is allowing the market and the Lloyd's community to connect and collaborate safely and productively. There are new rules and regulations to make sure everyone stays safe. The underwriting room looks a little different from when it was closed.

U.K. government social distancing rules require people to stay two meters apart

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NEWS IN BRIEF

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rect data being used by the insurer. For questions about this bulletin, TDI provided the contact information for the Property and Casualty Actuarial Office, PCActuarial@tdi.texas.gov.

TDI's Division of Workers' Compensation has set the maximum weekly benefit rates for Oct. 1, 2020, to Sept. 30, 2021 at \$1,007, up from \$971 for the prior 12 month period. The temporary income minimum wage benefit rose from \$146 to \$151 for the next 12 months. Benefit rates are based on the date of the injury. For a full table of all rates applicable since Jan. 1, 1991, visit TDI's website.

On Sept. 1, TDI notified Texas workers' comp system participants of a rule change that brings DWC rules in compliance with a law that went into effect Sept. 2019, authorizing death benefits payable for life to spouses of peace officers, regardless of remarriage. The new law applies only to an eligible spouse who remarries on or after Sept. 1, 2019.



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Fake Navy SEAL invents Beirut heroics, steals disability

Claimed PTSD and Silver Star, yet never served in military

by JIM QUIGGLE

What a hero, Richard Meleski bleated about his harrowing exploits as a Navy SEAL during a covert operation in Beirut, Lebanon.

"Eighteen-hour hostile takeover. Became POW, during this tour. Beaten, shot, head injury, tortured. Hospitalized in Germany for injuries sustained. Crushed hand. Shrapnel," the Chalfont, Pennsylvania, man wrote in applying for federal veterans medical benefits.

The physical and emotional trauma were overwhelming, he wrote. Meleski claimed he had posttraumatic stress disorder and

injuries during his life-and-death escape from the supposed terrorists back in the 1980s.

Yet none of it happened. Meleski invented the elaborate fairy tale to steal nearly \$300,000 in healthcare treatment and \$2,271 in prescription medicines from the Veterans Administration. His haul included monthly disability checks.

His scam is called Stolen Valor – inventing or embellishing military service.

Never served in military

In fact Meleski never served a day in the military. He lived in New Jersey during his claimed Beirut heroics.

Meleski took pains to invent convincing details. He injured his left knee jumping out of a window carrying a dead SEAL comrade on his back, he said. On top of that, Meleski said he suffered a traumatic brain injury when

he leapt through the window.

The ordeal was so traumatic that he couldn't speak for three months, he insisted.

Meleski even was awarded the Silver Star for his gallantry in action, he lied.

The story was convincing enough. As a former POW supposedly suffering from PTSD, Meleski was given priority over real veterans for healthcare. He received free treatment with no copays or premiums.

Meleski used the same phony military record to steal Social Security disability benefits. To lend that story credibility, Meleski included the obituaries of real Navy SEALs he lied that he served with.

Convicted of arson

While living in New Jersey during his claimed Beirut heroics, Meleski carved yet another trail of crime. He was convicted

of arson four times, receiving 19 years total in prison. In one case, he set fire to a home where a priest and several nuns devoted their lives to solitary prayer. Up to 68 years in federal prison awaits Meleski when he's sentenced for his latest crime.

"Meleski faked a record as a decorated U.S. Navy SEAL in order to steal numerous forms of compensation," U.S. Attorney William McSwain said.

"Everything about this case is profoundly offensive. Our veterans fought for the freedoms we hold dear, and we owe them a debt that we can never fully repay. But holding individuals like Meleski accountable for their crimes is one small way that we can honor our veterans' service."

JIM QUIGGLE is senior director of communications for the Coalition Against Insurance Fraud.

London views

where possible. This is difficult when workers sit next to each other, so things have to change, which means people in the market cannot return all together. To solve this problem, Lloyd's organized a business class rota. Monday is reserved for financial and professional lines and third-party casualty placements, both direct business and facultative reinsurance. Tuesday is reserved for property, terrorism, construction, again both direct and facultative reinsurance. Wednesday is mariners' day, when marine, aviation and transit business can be transacted. Treaty reinsurers have to wait until Thursday to access the underwriting room, where they will be joined by the underwriters and brokers who place kidnap and ransom, accident and health, political risk, bloodstock, and energy insurance and reinsurance.

The rest of the time brokers and under-

writers will have to go back to communicating digitally, apart from Friday, when the room will be open for all classes of business.

Over 12,000 transactions were completed and bound in June, so the simpler risks will be placed digitally, and the more complex risks will be traded traditionally face-to-face in the underwriting room. The emergency trading protocols Lloyd's set in place to supplement face-to-face and electronic trading continue. They will stay in force for a period of time as yet undefined, while Lloyd's gets a better understanding of the market's requirements and how to support non-face-to-face trading throughout the continuing disruption.

With only 45 percent of the market operating, Lloyd's suggests that all brokers book appointments for face-to-face trading. Not all underwriters will want to trade in the room, especially if they are in the at-

risk-group of older people or anyone with an underlying medical condition, such as asthma.

When brokers arrive at a box, they will find plastic screens have been installed. The screens are at each of the boxes and also across the box to stop COVID-19 spreading. All the seats on each underwriting box have been allocated into three categories. Brokers can sit on underwriting chairs alongside the underwriter, and this practice will continue while government social distancing guidelines remain in place.

Other measures Lloyd's has taken to make the market practical and safe to operate include the new digital booths created for brokers and underwriters to use for negotiations. With access to the room limited, brokers and underwriters will be able to connect to those outside of the room via these booths. They have enhanced net-

work connectivity, greater privacy and screens, and effectively offer a virtual meeting room for clients and colleagues who are outside of the underwriting room.

Lloyd's is creating a virtual underwriting room that will enable brokers and underwriters to connect online wherever they are, as well as when they are alongside the physical trading environment in Lime Street.

To make this work Lloyd's has had to upgrade its Wi-Fi system throughout the underwriting floors. The systems for the virtual room are being tested and should go live soon.

So, it's all systems go for the brave new world of Lloyd's, but with one missing ingredient. Lloyd's, synonymous with coffee, no longer has an operating coffee shop. The shop is being used for the digital booths,

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"The best way to predict the future is to create it." Peter Drucker

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and brokers and underwriters can only get a takeout. Costa and Starbucks must be rubbing their hands with glee.

Lloyd's appoints new head of U.S. claims

With U.S. business becoming more and more important, Lloyd's has strengthened its U.S. claims team by appointing Carey Bond as U.S. head of claims. Bond assumes this newly created role as part of the Future at Lloyd's strategy. He will collaborate with London brokers and underwriters

on the design and delivery of claim solutions for policyholders in Lloyd's largest market to improve the U.S./Lloyd's relationships.

Bond joins Lloyd's from Canal Insurance Company. He has more than two decades of claims management experience with a strong background in improving operational efficiencies at several insurance companies. Prior to that, he was the director of claims at Access Corporate Services

and served as corporate auto property damage manager at American Independent Companies.

A graduate of the University of Tennessee, Bond served in the U.S. Army as a senior military advisor in Iraq during Operation Iraqi Freedom and in Afghanistan during Operation Enduring Freedom, leaving the reserves with the rank of lieutenant colonel in 2011.

In his new role, Bond will report to

Hank Watkins, regional director and president of Lloyd's, Americas, and Phil Godwin, Lloyd's head of claims in London. Based in Greenville, South Carolina, Bond will be responsible for overseeing U.S. claims processing across the Lloyd's market, with a goal of improving outcomes and customer experience. Bond's immediate priorities will be to provide support for Lloyd's customers through the U.S. hurricane season.

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TDI Final Disciplinary Actions, August 2020*

Date	Name and City	Action Taken	Violation	Date	Name and City	Action Taken	Violation
8/27/2020	Ivan Alvarez, San Diego, California	(SOAH Docket No. 454-20-4290.C) General lines license revoked	Failed to disclose DUI felony conviction and failed to report other states' administrative action	8/5/2020	Principal Life Insurance Company; Principal National Life Insurance Company; Principal Life Insurance Company of Iowa, Des Moines, IA	Multistate regulatory settlement agreement (RSA); \$145,000 examination, compliance and monitoring costs to be distributed to signatory states associated with the multistate examination; requires company to perform other acts set out in the RSA ^{C1}	Lead states have concerns about the adequacy of Company's policies and procedures to ensure that life insurance policies, annuities and retained asset accounts are timely paid to beneficiaries and are timely reported or remitted in accordance with unclaimed property laws and insurance laws
8/20/2020	Misty Renee Anderson, Richardson	(SOAH Docket No. 454-20-4160) Denied adjuster all lines license	Criminal history; pleaded guilty to felony theft, forgery and hot check law in 2001 and hindering secured creditors in 2009	8/21/2020	Tonia Sanders, dba S&S Training, Wylie	Fined \$5,200 ^{C2}	Provided an adjuster pre-licensing course after the course certification had expired
8/4/2020	Block Vision of Texas, Inc., Fort Worth	(SOAH Docket No. 454-20-1537.C) Fined \$10,000 ^{C2}	Failed to provide copies of trust fund account audit reports for several years and failed to timely pay fees to the Texas Title Insurance Guaranty Association	8/20/2020	Scott and White Health Plan, Temple	Fined \$200,000; must implement corrective plan and file detailed report with TDI ^{C2}	Failed to provide evidence that its utilization review agent issued timely adverse determination, failed to include procedures for filing an appeal, failed to timely pay prompt pay penalties, failed to timely complete appeal process, partially similar to violations found in previous examination
8/6/2020	Mauricio Borja, McAllen	(SOAH Docket No. 454-20-3779.C) General lines license revoked	Engaged in fraudulent or dishonest acts or practices; failed to notify TDI of administrative action taken against him by a financial regulator; failed to respond to TDI inquiries	8/27/2020	Tami Machelie Senchal, New Waverly	Fined \$1,000; general lines agent license with property casualty qualification suspended for one year, probated; required to file quarterly reports on business contracts with insurers, brokers, MGAs and any person or entity in the business of insurance ^{C2}	Misappropriated, converted to her own use or illegally withheld money belonging to an insurer, insured or beneficiary in violation of Texas law
8/28/2020	GEICO County Mutual Insurance Company, Richardson; GEICO Advantage Insurance Company; GEICO Choice Insurance Company; GEICO General Insurance Company; GEICO Indemnity Company; GEICO Secure Insurance Company; Government Employees Insurance Company, Washington, DC	Jointly and severally fined \$3,000,000; paid \$2.2 million in restitution, with additional restitution agreed to; required to implement systems changes that support future compliance and to report weekly progress on the changes to TDI; required to submit restitution report to TDI ^{C1}	Failed to timely pay certain personal automobile claims and failed to pay statutory interest on late paid claims.	8/21/2020	SHA, L.L.C., Temple	Fined \$125,000; required to implement corrective action plan and report to TDI ^{C2}	Failed to provide evidence that its utilization review agent issued timely adverse determination, a reasonable opportunity for provider to discuss treatment plan, and failed to include procedures for filing a complaint, similar to violations found in previous examination
8/6/2020	Kristy Kay George, Lucas	(SOAH Docket No. 454-20-3195.C) Application for general lines license with property casualty qualification denied	Attempted to obtain license by fraud or misrepresentation; engaged in fraudulent or dishonest acts, convicted of a felony	8/6/2020	Tiffany Michelle Simon, Fort Worth	Adjuster all lines license denied	Prior criminal history; engaged in fraudulent or dishonest acts or practices; felony conviction
8/6/2020	Elaine Louise Hebert, Leander	(SOAH Docket No. 454-20-3525.C) Escrow officer license revoked	Misappropriated or converted to own use or illegally withheld money belonging to a title insurance agent, direct operation or another person; fraudulent or dishonest practices	8/4/2020	Superior Healthplan, Inc., Austin	Fined \$225,000; required to implement corrective action plan and report implementation to TDI ^{C2}	Failed to provide the health care provider a reasonable opportunity to discuss treatment plan prior to issuing adverse determination; failed to provide URA's contact information to health care provider prior to adverse determination, failed to include notice of independent review process, violations similar to findings of previous examination
8/6/2020	Jabari Asim Jackson, Texarkana	(SOAH Docket No. 454-20-2527.C) Application for general lines property and casualty license denied	Pleaded guilty to felony offense of injury to a child in 2009	8/20/2020	Porfirio Tapia, Corpus Christi	(SOAH Docket No. 454-20-4186.C) General lines licenses with Life, accident, and health qualification and property casualty qualification revoked	Misappropriated premiums, converting to his own use; engaged in fraudulent or dishonest acts and practices
8/13/2020	Jonathan Vasquez Luna, Canyon	(SOAH Docket No. 454-20-3926.C) General lines licenses with Life, accident, and health qualification and property casualty qualification revoked	Engaged in fraudulent or dishonest acts; made a material misstatement in his license application; obtained or attempted to obtain a license by fraud or misrepresentation; felony conviction, willfully violated an insurance law of this state	8/20/2020	Kacey Adam Toliver, Merkel	(SOAH Docket No. 454-20-4133.C) General lines license with life, accident, health and HMO qualification revoked	Created and presented fictitious certificates to consumers and misappropriated premiums, converting to his own use
8/3/2020	Memorial Hermann Health Plan, Inc., Houston	Fined \$100,000	Failed to send acknowledgment letter after complaint received; failed to resolve complaint timely; utilization review agent failed to issue adverse determination letter timely and failed to describe appeal procedures; failed to provide evidence that it monitored its delegated entities	8/28/2020	Transact Title, LLC, Sugar Land	Fined \$3,000 ^{C2}	Failed to timely file its 2018 title insurance agent business data to TDI
8/20/2020	Victoria Ashley Mendez, Cotulla	(SOAH Docket No. 454-20-4219.C) General lines license with life, accident, health and HMO qualification revoked	Misappropriated premiums, converting to her own use				

*Except for consent orders, actions may be appealed to State District Court.

^{C1}Consent order: Parties agreed to consent order with express reservation that they do not admit to a violation of the Texas Insurance Code or of a rule and that the existence of a violation is in dispute.

^{C2}Consent order: Parties waived rights to other procedures.

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