February 20, 2019

A Board of Directors meeting for the Surplus Lines Stamping Office of Texas was held in the Darrell K Royal Boardroom at the University of Texas Club at 2108 Robert Dedman Drive, Austin, TX 78712.

**BOARD MEMBERS PRESENT**

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<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term Expirations</th>
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<tbody>
<tr>
<td>Greg Rubel</td>
<td>Chairman</td>
<td>12/31/2018</td>
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<td>Robby Neill</td>
<td>City of Garland</td>
<td>12/31/2018</td>
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<td>Andrew Fieker</td>
<td>Hallmark Financial Services</td>
<td>12/31/2018</td>
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<td>Lorrie Cheshier</td>
<td>McClelland &amp; Hine, Inc.</td>
<td>12/31/2019</td>
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<td>Charles Gillenwater</td>
<td>City of Mesquite</td>
<td>12/31/2019 *</td>
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<td>Kyle Streetman</td>
<td>The Littleton Group</td>
<td>12/31/2019 *</td>
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<td>Penni Nelson</td>
<td>Hillwood Group</td>
<td>12/31/2020 *</td>
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<td>Peter Harrison</td>
<td>Public Member</td>
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<tr>
<td>Rosemarie Marshall</td>
<td>AmWINS Group</td>
<td>12/31/2020</td>
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*Board members were available by telephonic means.

**SLTX STAFF**

- Norma C. Essary, CEO
- Alex Gonzales, General Counsel, Duane Morris, LLP
- Tara Mitchell, VP, ITS
- Ashley Corpus, Receptionist

**GUESTS**

- Moya McKenna, Financial Counsel, TDI
- Jeff Hunt, Director, Company Licensing & Registration, TDI
- Christian Hertzberg, Company Licensing & Registration, TDI
- Paul Rainey, RSI International
- Garrett Sprowls, TSLA Immediate Past President, PLUS, Inc.
- Matt Leicht, TSLA President, Craig & Leicht
- Shirley Bowler, Reporter
CALL TO ORDER

At 11:10 AM, the meeting was called to order by Norma Essary, CEO, SLTX. A quorum was established.

Greg Rubel, SLTX Board Chairman, began the meeting by welcoming the Board and guests. Rubel stated the purpose of the Special Board Meeting was to discuss the new rules in Chapter 15 of the Texas Administrative Code, specifically policy limits, which have caused a reaction in the industry. He announced the first portion of the meeting would be held in executive session.

Lorrie Cheshier asked if executive session was necessary.

Alex Gonzales stated that after executive session, others would have the opportunity to voice their concerns.

Rubel asked if there were any other comments from the Board Members on the phone lines, which included Kyle Streetman, Charles Gillenwater, and Penni Nelson. After hearing no additional comments, the Board went into executive session at 11:14 AM.

Shirley Bowler, a reporter with The Texas Surplus Line Reporter & Insurance News, announced that she objected to the idea of the meeting going in to executive discussion.

Gonzales assured Bowler that he would do his duty to guarantee the Board followed open meeting laws.

At 12:32 PM, the meeting reconvened in an open meeting.

Rubel stated the meeting was about trying to comply with statute that requires policies to include limit information. He also reminded those in attendance that SLTX’s obligation is to help agents comply with the new rules and ease some of the burden on the industry. Rubel asked Jeff Hunt, Assistant Deputy Commissioner with the Texas Department of Insurance (TDI), to give TDI’s perspective on the situation.

Hunt said that concerns had been bought to his attention by SLTX (January 2019). He stated there had been some confidentiality concerns about sharing policy limits, as well as others. Hunt mentioned there was a previous meeting (January 2019) with SLTX, TDI, and TSLA to discuss the topic. He stated the Commissioner believed at the conclusion of the meeting that SLTX and TSLA
would continue to communicate in order for TSLA members to reach compliance.

Rubel asked if the Board had any questions for Hunt.

Cheshier responded by asking Hunt if a date had been set.

Hunt stated there had not been a date set.

After no further questions, Rubel noted it was important to state on the record that Chapter 15 was revised to include the word "limits." He asked Tara Mitchell, VP, ITS, to give some insight from her time at TDI and give a general timeline of the process.

Mitchell began by stating her time at TDI was from 2008 to 2015. She noted during that time the NRRA was passed and prompted a change in the state statute, Chapter 981 of the Texas Insurance Code, in 2013. She stated that after the conclusion of the legislative session, TDI began to review areas of the rule, which included Chapter 15 of the Administrative Code, Title 28. She noted the rule needed to be updated to comply with the national law and the new state law. Mitchell stated that while she was at TDI, she participated in a public hearing that allowed the industry to voice their opinions on revising Chapter 15. In 2014, TDI began drafting some of the new rules. She mentioned Chapter 981 allows collection of specific information, and if allowed under statute, then TDI presumes they should be collecting it. Mitchell also stated SLTX received policy limit information even "before the EFS system" was implemented as policies were provided during this era.

Rubel asked Mitchell if risk zip code was also required during that time.

Mitchell stated in 2014, the NRRA required the collection of taxes for certain jurisdictions to avoid double taxation issues. Mitchell said this led to the zip code becoming a requirement. She stated that in order for agents to input the correct zip code, they had to associate it with the highest limit or greatest risk exposure, and this was one of the first moments policy limits became a concern.

Moving on from the process of the rule change, Rubel asked Essary to explain TDI’s purpose for requesting policy limits and what benefits it would provide for the industry.

Essary stated most needs would most likely be derived from legislative requests, including issues with catastrophic losses, complaints, or capacity of the marketplace. (Another reason Essary stated was the increase in various export lists into the surplus lines area, such as the exporting of the ECP, the industrial
insured, and now recently, the new legislation on the flood market for consumers. Essary stated TDI was impressed by the growing market but wanted to gather information to make sure they continue to have an understanding of the capability and health of this industry to ensure its continued grow and promotion as an important segment for major risks.

In response to Essary’s comment, Hunt noted TDI gathers large amounts of data on the admitted and non-admitted market to respond to various requests from the media, public, and others. Hunt noted “when TDI does not possess enough facts for policymakers, it could result in questionable concerns or a possible policy change.” He stated the more relevant information TDI can gather, the less concern it brings.

Rubel noted confidentiality is one of the main concerns the industry had relating to policy limits. He asked Essary or Mitchell to address the issue for the Board.

Essary highlighted a Texas statute in place since 2003 that provides protection for such policy information. Essary referred to Section 981.158 of the Texas Insurance Code (TIC) exempting individual surplus lines policies from public information law. She proceeded to read the statute aloud for the benefit of the Board and guests.

Essary stated the only time information had been requested was in cases of fraud or complaint-driven issues by TDI.

Rubel asked if SLTX had ever given policy information to anyone other than TDI or the Legislature. Essary stated SLTX had not, with Gonzales adding that SLTX had received subpoenas requesting policy information, in which case the third party is notified.

Rubel mentioned SLTX does not make the laws but is required to facilitate them. He asked Cheshier if she had found any discussions about limits in the 2016 4th Quarter Board Meeting minutes. Cheshier stated the Board had not discussed the policy limit issue in the 2016 4th Quarter Board Meeting minutes. (note: Gillenwater, Streetman, Cheshier, Marshall, Harrison, and Nelson were not members of the SLTX Board during FY2016; Ch 15 report provided to SLTX Chairman Rainey and board, in addition to TSLA, NAPSLO, in June 2016).

Essary stated that, per discussions with others, and prior to her time, there had been department discussions after Hurricane Ike on values (policy limits) they had been unable to secure.
The discussion about zip code and NRRA began during that time as well. Essary pointed out that she was first informed about policy limits from TDI and Mitchell after her arrival in 2015, and supported the requirement given her experience in risk management and current statute. (note: statute 981.215 has always specified limits under “contract file”, (2)).

To clarify for the record, she pointed out that a report was provided to the Board with information about policy limits and zip code, both underlined in the documents, as far back as 2016, with specific copies to TSLA executive staff and counsel. Given the complexity and comprehension of the rules, perhaps this is where oversight may have occurred by those reading the volume of comment information.

Gonzales stated the rule had extensive revisions and already included the word “limits.” He noted SLTX never made any more than comments about the policy limits to TDI, as did other stakeholders. He also noted that no one notified SLTX of the technical difficulties associated with limits.

Robby Neill stated that even with the Board Members working in the industry, he questioned if anyone had a complete understanding of the ramifications.

Furthermore, Gonzales noted if TSLA had gone to TDI earlier, there was still no guarantee the Commissioner would have acted differently. He stated even with the current “backlash”, the Commissioner had still not removed the new rule.

Neill asked when the proposal was published in the Texas Register. Gonzales stated the proposal was published in June of 2018 and comments were due in July 2018.

Essary said conversations regarding the new rule started back in 2016 before it was put in the Texas Register. She noted that in recent Board Meetings, the Board had continually asked TDI where they were regarding such rule changes.

Rubel asked Hunt if TDI had any flexibility on the liability side.

Hunt stated the main concern was to come up with a solution to help agents and brokers reach compliance, and he was willing to hear suggestions.

Paul Rainey, 2019 TSLA Liaison, stated the new rule was missed by the industry as a whole. He noted the issue is one of TSLA’s main concerns and that they have been receiving calls non-stop. Rainey said that he had spoken to his IT team to attempt compliance but found it difficult. He also expressed his concern for providing policy limit information over an Excel spreadsheet. He noted that he did not see how supplying the limits would have a positive effect on the industry.
Rainey also noted SLTX does not have a way to file limits electronically on the EFS system, which affected the way he filed policies. He expressed his desire to comply but said he was not sure if he could base on the current options available.

Gonzales responded to Rainey’s comments by stating that TSLA has not commented on the matter since November 2018, when it asked SLTX for permanent voluntary non-compliance in February 2019. Somehow, TSLA was mistaken of SLTX’s statute authority, as Gonzales noted SLTX had to explain to TSLA that it could not enforce or make rules. TSLA was asked to draw up a working resolution and present it to the Board. Gonzales stated that TSLA never submitted any information, besides the official request for “permanent, voluntary non-compliance to the rule”. Gonzales reminded Rainey that during the TSLA Board Meeting, he suggested for members to establish an alternative plan in case the rule was published. Gonzales said that if TSLA were to ask the Commissioner to not enforce the rule, it would have little to no effect. Instead, TSLA would need a resolution or plan.

Garrett Sprowls, Immediate Past President of TSLA, stated it would be a tremendous change to TSLA members’ operations.

Gonzales noted there were more bills in the current Legislature that would possibly affect the industry in the same way.

Sprowls responded to Gonzales’s comment by stating the matter was different. He noted there would be a tremendous administrative burden and cost to comply with the new rule. He stated a lot of individuals in the industry, including himself, had small to medium businesses and were not equipped to comply with the new rule. Sprowls noted he would like a long-term resolution, as well as a short-term resolution to help businesses get to compliance.

Gonzales pointed out that a short-term voluntary compliance resolution was not discussed/ offered by the TSLA Board Meeting. Gonzales said if a plan for a short-term resolution was presented to the Commissioner and was rejected, TSLA would still need another option.

Sprowls noted the only viable solution TSLA had, was to ask for a short- and long-term voluntary compliance solution. He said his intention was to bring it to the SLTX Board and get some feedback.

Gonzales stated that Rainey had previously asked for short-term voluntary compliance. He said that asking for long-term, voluntary non-compliance would give individuals the right to ignore the rule and this would present an issue for the Board.
Rubel stated he did not want to place the Board in a situation where it would have to pick who could facilitate compliance with TDL.

Sprowls stated the first request TSLA made to SLTX was voluntary compliance. He also noted if SLTX did not think long-term compliance was viable then TSLA would need to have additional discussions amongst itself to generate another option. Sprowls also noted there had not been an official statement regarding whether there would be penalties enforcing the new rule.

Robby Neill asked about Sprowls' earlier comment regarding additional ways to get policy limit data. Sprowls said the admitted marketplace provided a lot of the data, which came directly from the carriers. He stated he was not quite sure how others gathered data but believed there were other ways.

Hunt stated he did not think there was another way to collect policy limit data.

Rubel stated that WSIA should be brought into the conversation to see to what extent E&S carriers would be willing to provide such information.

Robby Neill noted for the record that TSLA was asking for permanent voluntary compliance and the Department wanted a pathway to compliance. He suggested the two are not on the same page, and a conclusion would not be reached if things continued.

Essary assured Sprowls that she tried to find a way to ease the situation and had actively taken the initiative. Staff had reached out to IT vendors to see what IT capability the vendors had. She also reached out to Texas insurance agency (and compliance) staff to see what assistance they needed to reach compliance. Essary also did not think there should be penalties against those who are currently not in compliance because of the new rule. She did note that the decision for penalties was something SLTX could not control.

Sprowls stated SLTX had not properly communicated with the surplus lines community to address the possibility of late fees for those who could not comply with the new rule. Sprowls questioned whether he would have to file policies a second time, if there were no repercussions for filing late now. He said it would take a large amount of time and money.

Gonzales recommended TSLA and SLTX each establish a subcommittee and work out a proposal to take before the Commissioner.

Rainey noted there were others that were being affected by the new rule, not just TSLA.
Essary mentioned that SLTX had previous discussions with TDI to see what assistance they could extend to the industry that has not yet been officially approved. Essary noted TDI needed to see some compliance (on the part of TSLA) before making any recommendations or approvals.

Matt Leicht, 2019 TSLA President, stated SLTX should have released a bulletin after the TSLA Board Meeting stating there would not be penalties for late filers.

Gonzales reminded Leicht that SLTX could not issue a bulletin on enforcement and SLTX would not want to issue something that did not have input (final approval) from the industry/TDI.

Sprowls stated TSLA did give SLTX input for voluntary short-term compliance. He did admit TSLA had not discussed a long-term plan.

Gonzales asked Hunt if TSLA’s solution was made clear to him in the TSLA meeting.

Hunt noted the request for short-term voluntary compliance was spoken in the meeting but there were no details about what TSLA meant by voluntary short-term compliance. Hunt stated he needed a realistic time frame that TSLA would need or other details describing how TSLA could reach compliance. Hunt noted that without any stipulations for TSLA to follow, they would simply be ignoring the law.

Gonzales asked Hunt if he got the impression Jamie Walker, Deputy Commissioner of Financial Regulation Division, TDI, told him SLTX had the discretion to issue a bulletin not to comply with the new rule in a previous meeting. Hunt stated he never had that impression and thought SLTX would come back to TDI with details on how to help TSLA comply.

Rainey asked Hunt if TDI had an understanding of the situation. He noted TDI published the new rule, but SLTX did not have a way capture the data.

Hunt stated he understood this and that there had been lost communication about the new rule. He said he would need to know what TSLA needed before he could take it back to his colleagues and the Commissioner.

Rainey stated that many other agencies did not have the time to dedicate to the situation. He said the lack of communication was making other agencies believe they were out of compliance, since there had not been a formal statement about penalties.
Moya McKenna, Financial Counsel, TDI, said she believed TSLA would have brought some solutions to the table to further discuss what TDI can do to help.

Neill asked Hunt if the industry could get assurance there would be no penalties at the present time.

Hunt stated the request could be discussed but would require quick follow up on the industry’s part.

Essary noted the assurance was needed but there were other aspects that played into the situation. Essary stated there were technology and operational needs to be addressed from all sides.

Rainey noted his timeline to compliance needs to be in sync with SLTX. He said if he established a way to file limits in his system, there would be no way to test it until SLTX had a new program up and running. He also stated the process could possibly take up to a year, depending on the programmers. McKenna advised Rainey to make that point when the issue was brought to the Commissioner.

Following the discussion, Rubel noted it would be unlikely for the new rule to be removed. He advised those present to accept the new rule and try to reach compliance as efficiently as possible. He also stated SLTX did not have the capability to remove the rule.

Sprowls stated he would need to discuss the matter further with other members of TSLA.

Rubel stated the Board would create a subcommittee to establish a “stay” with TSLA and other parties. Rubel clarified that the Board would help establish a stay; however, would not participate in trying to have the rule removed with TSLA.

Cheshier asked how the stay would be communicated to the industry.

Rubel stated TDI would issue the stay, which would then be published by SLTX.

Essary asked Mitchell if she could share any reports with the Board.

Mitchell stated she did not have a report that contained missing policy limits. She indicated that from an IT standpoint, she did not have the capability. Mitchell noted she had been trying to set up all systems to be able to collect the data she needs.
Gonzales requested Mitchell share the number of agents who had filed in compliance with the new rule. She stated that during the first three (3) weeks the rule was implemented, 27,151 policies were reported to SLTX and 13,159 of the filings contained limits. She also said 366 agents reported policies, while 181 supplied limits. Thus, the compliance rate was 49% to 51% in merely the first 3 weeks using the short-term, temporary portal established by SLTX in Jan 2019.

Neill stated he had his concern for those companies already in compliance. He said they may not be receptive to the idea of other companies receiving more time. He was concerned as to how the Board would address the issue if it was presented (lack of fairness of those in compliance versus those who are not).

Leicht noted the companies already in compliance were most likely doing manual spreadsheets and had not poured a great deal of money into their IT departments.

Rubel noted that the Board and SLTX had to consider the IT perspective, as well. He said some software vendors would need a lot of time to adjust their systems.

Essary stated SLTX was meeting with various IT vendors who represent portions of the industry to better understand the limitations.

Leicht noted his system would not capture all the data even when SLTX had their new program up on running. He said a good percentage would still need to be done manually.

Rubel asked for a motion to create a subcommittee that would work with TSLA to develop a long-term plan for compliance. Lorrie Cheshier made the motion and Andrew Fieker seconded.

**Motion:** Lorrie Cheshier  
**Second:** Andrew Fieker  
**Text of Motion:** Approve the creation of a subcommittee of the Board to discuss with TSLA, and other interested parties, a plan to request a stay of enforcement that is compliant, with a plan to work with interested parties in the creation of a long-term solution.

Neill requested to amend the motion to change interested parties to interested parties designated by TSLA. Lorrie Cheshier made the motion and Andrew Fieker seconded.
Motion: Lorrie Cheshier
Second: Andrew Fieker
Text of Motion: Approve the creation of a subcommittee of the Board to discuss with TDI, TSLA and other interested parties designated by TSLA. To request a stay of enforcement, compliant, with a plan to work with interested parties designated by TSLA, to craft a long-term solution.

After the motion was approved, Rubel asked if the Board would need to make another motion requiring the subcommittee to report back to the Board for final approval.

In addition, Leicht asked if SLTX could accompany TLSA to TDI and lend its support.

Rubel stated, “No, SLTX cannot lend its support to one party since that would be considered lobbying.” Rubel also stated the issue at hand was a Board issue. He said that everyone else’s opinions had been considered, but in the end, the Board would do what was best for the industry.

Referring to the motion, Sprowls asked if another Board Meeting would be needed if the subcommittee reported back to the Board.

Gonzales stated that if the Board was present and established a quorum, then it would need to be an open meeting.

Neill indicated that he was content with letting the subcommittee make any final decisions rather than having an additional full Board Meeting. Essary indicated that, in general, committee decisions rest with the Committee, with merely a report back to the Board, as appropriate.

Gonzales noted that if the subcommittee had the authority to make the final decision, then it too must comply with open meetings law.

The Board decided to try and approach TDI with a reprieve and move forward from there. The agreement is to schedule another Board Meeting, if proven necessary.

Before the meeting was adjourned, Hunt reminded the SLTX Board and TSLA that TDI was willing to work with those involved so long as everyone was willing to reach compliance.
Rubel asked for a motion to adjourn the meeting. Peter Harrison made the motion. Rosemarie Marshall seconded, and the meeting was adjourned at 2:10 PM.

**Motion:** Peter Harrison  
**Second:** Rosemarie Marshall  
**Text of Motion:** Motion to adjourn the meeting.

Signed:

[Signature]

Elected Secretary