March 26, 2019

A Board of Directors meeting for the Surplus Lines Stamping Office of Texas was held at Surplus Lines Stamping Office of Texas headquarters at 805 Las Cimas Parkway, Suite 300, Austin, TX 78746.

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ALSO PRESENT
Norma C. Essary, CEO, SLTX
Alex Gonzales, SLTX General Counsel and with the Firm of Duane Morris, LLP
Kyle Bolls, VP, Finance, SLTX
Tara Mitchell, VP, ITS, SLTX
Denisse Orellana, VP, HR, SLTX
Ashley Corpus, Receptionist, SLTX
Paul Rainey, TSLA Liaison
Joanna Just, CPA, RSM
Taylor Frost, CPA, RSM

CALL TO ORDER

At 12:12 PM, the meeting was called to order by Norma Essary, CEO, SLTX. A quorum was established.

Essary introduced the new TSLA Liaison, Paul Rainey and the Auditors, Joanna Just and Taylor frost. She then directed the board to the conflict of interest forms placed in front of them. Essary noted the conflict of interest forms are signed on
a yearly basis by our board members at SLTX’s first quarter board meeting. Essary
turned to Chairman, Rubel to proceed with the meeting.

**ACTION ITEM**

(Greg Rubel, Chairman)

**APPROVAL OF 2019 SLATE OF OFFICERS**

Greg Rubel, SLTX Board Chairman, began the meeting by welcoming the SLTX board, and guests. Rubel discussed the new 2019 slate of officers. The three officer nominations were: Lorrie Cheshier, Chairwoman, Charles “Buddy” Gillenwater, Vice Chairman, and Rosemarie Marshall, Secretary. He asked for other potential nominations from the floor. There were no other suggestions. Rubel asked for a motion to approve the 2019 officers. Robby Neill gave the first motion. Penni Nelson seconded the motion, and the motion was passed.

**Motion:** Robby Neill
**Second:** Penni Nelson
**Text of Motion:** Approval of the SLTX 2019 Board Officers

Rubel then announced the 2019 Committee members. Kyle Streetman is the Chair of the Finance and Audit Committee, Peter Harrison, and Penni Nelson were also on the committee. Rubel then announced the Executive Comp Committee members. Lorrie Cheshier, Chairwoman, Rosemarie Marshall, and Charles “Buddy” Gillenwater. The 2020 Nominating Committee are Lorrie Cheshier, Kyle Streetman, and Charles Gillenwater.

Rubel noted that he, Andrew Fieker, and Robby Neill would continue on the board until new members were appointed by TDI.

With Rubel’s term as chairman expired, Cheshier took over as Chairwoman in the board meeting.

**APPROVAL OF 2018 BOARD MEETING MINUTES**

(Lorrie Cheshier, Chairwoman)

Lorrie Cheshier, SLTX, Chairwoman asked if there were any comments or questions regarding December 2018 Board minutes. Hearing none, Lorrie requested a motion to approve the December 2018 board minutes. Andrew Fieker gave the first motion. Kyle Streetman seconded the motion, and the motion was passed.

**Motion:** Andrew Fieker
**Second:** Kyle Streetman
**Text of Motion:** Approval of the December 2018 board meeting minutes.
Rosemarie Marshall recommended the PowerPoint presentation from the previous board meeting, be included in the board packet as a reference guide to the board minutes. This provided board members a refresher of what was discussed during the previous board meeting, allowing board members to better review the packet, and board minutes. Board members agreed with Rosemarie’s request to include PowerPoint presentation as part of board packet.

**APPROVAL OF 2019 SPECIAL BOARD MEETING MINUTES**  (Lorrie Cheshier, Chairwoman)

Lorrie Cheshier asked if any members of the board had any comments or questions related to the special board meeting minutes. Hearing none, Lorrie requested a motion to approve the February 2019 special board minutes. Rosemarie Marshall gave the first motion. Andrew Fieker seconded the motion, and board motion was passed.

**Motion:** Rosemarie Marshall  
**Second:** Andrew Fieker  
**Text of Motion:** Approval of the February 2019 special board meeting minutes.

**FINANCIAL REPORT ONLY**  (Kyle Bolls, VP, Finance)

Kyle Bolls began the financial portion of the meeting with the audit report. He welcomed the auditors, Ms. Joanna Just and Ms. Taylor Frost, who would present a summary of the final 2018 audit report.

Joanna Just introduced herself and Taylor Frost for the SLTX audit. Ms. Just began her audit presentation by reviewing the financial report.

Ms. Just went over the unmodified opinion given by the auditors. She stated there were no issues or concerns during the audit process. She noted the audit was done in accordance to Generally Accepted Auditing Standards (GAAS), and that SLTX was considered a component unit of the government (SLTX is not considered a state agency). Being a quasi-government entity, Ms. Just indicated that SLTX is able to appropriately report its business as business type activities and reports financials similar to a corporate sector (entity).

Rosemarie asked Ms. Just about the differences between government reporting and business reporting.
Ms. Just explained that government type reporting is similar to commercial, while also following government accounting standards. She compared the governmental reporting to a modified cash basis. As for a corporate business type, it is similar to an enterprise entity.

Ms. Just proceeded to discuss SLTX’s current assets. She reported the current assets as of 12/31/18, were $17M, with $16M of the current assets situated in cash and investments. Most of the assets were liquid investments. The capital assets are nearing $4M, inclusive of software development. Net position was $21M, a portion of which was designated to capital asset and board designated asset replacement and real-estate. $3M of the $21M is undesignated. Ms. Just paused to address any questions related to this portion, and hearing none, she moved forward with her presentation.

Next, Ms. Just noted there was an increase in revenues of about $1M, with expenses also increased during this period. Despite the increased expenses, SLTX’s Net Position increased by $5M. She asked if the board members needed a more in-depth explanation on the footnotes for accounting policies, and there were no questions from the board members present.

Ms. Just went on to discuss the Audit Report addressed to the Board and Audit Committee, on the final audit results. She assured the board the audit was completed with no issues or difficulties. She also noted no audit adjustments were made. Again, Ms. Just asked if the board had any questions.

Rubel requested information related to the footnotes, regarding 2017 versus 2018 cost per policy. Rubel asked if there was unusual activity that cause a drop during those years. Ms. Just quickly stated that in no manner did she (or the auditors) suspect anything unusual and added that the auditors did a comparison of the prior year as well. The MDA numbers were/are verified by the auditors to make sure everything was accurate.

Rubel stated he was content with Ms. Just explanation, and directed the conversation to Kyle Bolis, VP, Finance, of his agreement.

Bolls stated he was also in agreement with her explanation. He also pointed out to the Board the decrease in cost per items filed. Bolls indicated there have been a larger number of filings. Bolls explained that if they took into consideration the price per policy, the larger the denominator, the smaller the final number will be. Bolls noted it would keep the same cost but have more policies come up to reduce that average.
With no further questions, Ms. Just concluded her presentation. Bolls told the board to let him know if any more questions arise, he would get in touch with the auditors.

Cheshier announced Andrew Fieker would be presenting the Audit and Finance Committee Report.

Fieker notified the board that the auditors provided an in-depth presentation to the Finance and Audit Committee earlier. Fieker stated the committee voted and recommended acceptance of the audit by the board.

**APPROVAL OF THE 2018 FINANCIAL AUDIT REPORT** (Lorrie Cheshire, Chairwoman)

Cheshier asked if the board had questions or comments related to the audit. hearing none, Lorrie asked for a motion to accept the committee’s recommendation. Robby Neill made the first motion. Peter Harrison made the second, and the motion was passed.

**Motion:** Robby Neill  
**Second:** Peter Harrison  
**Text of Motion:** To Approve the 2018 Financial Audit Report

Fieker began to review the discussion of the previous Finance and Audit Committee meeting. He noted the committee discussed 2018 expenses, broken down into specific categories. The committee was in complete agreement and aware of the actual results versus previously approved budgeted lines. Fieker stated the committee discussed the current investment and cash policy adopted in the second quarter of 2017. SLTX provided an update on investment activity and all asset classes were within 5% of the target ranges. Fieker indicated the SLTX staff will continue to monitor the activity and keep the board updated.

Once Fieker completed his committee report, Bolls moved on to the February financial statements.

First, Bolls reviewed the actual versus budgeted expenses. Bolls noted in the current month, total revenue was above budgeted revenue. Bolls stated he continued to see growth in the surplus lines market, as a result there had been higher than expected premium processes in the market which made revenue increase, despite the number being lower than budgeted. Bolls noted SLTX now has a strong investment portfolio, due to over the past year there had been a better return as short-term assets rolled over. Bolls indicated, there had been changes in the fair market value which provided significant increases in January and February. He stated that even though the changes in the fair market value
appeared on the revenue statement, they were no gains that had been realized. Bolls stated SLTX’s investment advisor had constructed a successful strategy and had given the investments great value. Bolls noted the investment portfolio’s fair market value had increased by $200,000. Bolls asked if the board had any questions over the revenue-related items. Hearing none, Bolls moved on in his discussion on expenses.

Bolls indicated that several positions were budgeted for 2019 and a few were still vacant. Until all positions are filled, there would be a slight decrease in cost. Additionally, benefits were under budget due to the unfilled positions. Total cost line items may likely remain under budget for the year with the decreased cost recognized during the beginning of 2019.

While professional services were on budget and anticipated for an active legislative year, the education expenses were slightly over for the month, but also under for the year. Bolls noted the variance was due to a timing of when items were incurred.

Marshall questioned what SLTX considered an education contribution as opposed to an education expense.

Bolls stated that SLTX considered an education contribution to be a donation to insurance or risk management related program. He indicated that SLTX began formal contributions decades before. Cheshier asked if the board had input on the recipients chosen to receive contributions.

Bolls noted the recipients for donations are mainly selected before the September board meeting. They include organizations where the donation made the most impact on marketplace growth and participants (i.e., risk practitioners, students, trade associations, educational endeavors, disaster assistance/recovery, retail/wholesale broker programs, YRP, industrial insureds). Kyle Streetman requested Bolls list an example of the funds, to which he named the WSIA as one example of the funds. He indicated that WSIA provided scholarships to college student that are part of a Risk Management program. Bolls also mentioned the Insurance Industry Charitable Foundation who extended disaster assistance to agents and their firms (after Hurricane Harvey). Bolls noted SLTX mainly focused on contributions that supported Texas and the endeavors of the specialty market.

Marshall questioned bundled categories; however, Bolls indicated grouped under a large general category with appropriately budgeted subcategories. Gonzales suggested Bolls speak to interested board members about the education contributions after the board meeting, so Bolls could elaborate more on the matter on such expense categories.
Occupancy and operating expenses were under budget for the month and for the year. Bolls said SLTX had continuously evaluated its vendors in order to find better pricing. Bolls stated the total expenses were $120,000 under budget in February and $235,000 underbudget for the year.

Next, Bolls discussed the contingency expense. Bolls stated the expense is mandated by The Plan of Operation. He explained that SLTX must keep an extra 5% of the budget pre-contingency for any unexpected catastrophe type events.

Bolls stated SLTX generated revenue over expenses of about $373,000, which was $184,000 better than budget for February. Bolls predicted the trend will continue throughout the year. Bolls then asked the board if there were any questions related to the revenue and expense comparison for this year. There were none.

Bolls moved on to the unrestricted undesignated fund balance. From the beginning of 2019, Bolls monitored the $3M in the fund balance. He stated the change of the balance was $926,000 of revenue over expenses. At the end of February, the new balance was $3.9M, which was $2.9M below the maximum amount. He mentioned that by the end of 2019, he estimates it to be $6M, if the contingency budget is not used. Bolls asked the board if there were any questions or discussion. Hearing none, the financial discussions were terminated.

OPERATIONAL REPORT ONLY

(Norma Essary, CEO)

First, Essary discussed the Plan of Operation. Essary reminded the board SLTX’s Plan of Operation is no longer in the Rule, for the first time since the SLTX was created 30 years ago. Essary stated that The Plan of Operation can be updated to better fit the needs of the organization and board members.

Gonzales indicated the new rule stated that it is SLTX’s duty to create The Plan of Operation. He mentioned there were certain portions of The Plan of Operation that needed to be rewritten to avoid future lawsuits or antiquated issues. Gonzales explained that SLTX has a great opportunity to rewrite The Plan of Operation to make it pertain more towards board, fiduciary governance.

Marshall suggested the Plan of Operation be updated in order to provide direction on how the board of directors should operate. Rubel asked if the board should conduct an annual review of The Plan of Operation. Essary explained that if modifications to The Plan of Operation are done efficiently, similar to when the organizational mission statement was developed, the
updated version should remain relevant for many years, given that the current Plan of Operation still meets today’s TDI’s Rules and compliance requirements.

Cheshier asked if a subcommittee would be created to review the Plan of Operation. Essary stated current procedures require the full SLTX Board to review Plan of Operation at the Annual Meeting. However, (over the last 30 years), changes were not at the board and staff’s complete discretion, but by the Department’s by specific rule changes and informal/formal processes. Marshall asked if there was a timeframe the board had to complete the updated Plan of Operation. Essary assured Marshall that there was no official timeline or need to rush.

Gonzales indicated that The Plan of Operation will also now be published on the SLTX website and will no longer be published in the Texas Department of Insurance Code.

Cheshier asked if the original Plan of Operation would be posted on the SLTX website until a new one is established.

Essary stated that the original Plan of Operation has been posted for several years, and must remain posted on the website until changes are made.

Next, Essary discussed the 2018 Annual Report. Essary stated since SLTX recently celebrated its’ 30th anniversary, the Annual Report included the historical premium for all 30 years. Essary noted the lines of business were listed. Essary mention the addition of the premium by county, which became more relevant after Hurricane Harvey and the zip code requirement.

Marshall asked if the premium by county is filed by one zip code, which one gets reported. Marshall stated the data gathered by the zip code may not be very accurate if there are multiple locations.

Essary noted the data recorded was extremely beneficial, despite the margin for error, as SLTX data analysis was able to pinpoint to street and geographic level with newer technologies in determining coverage. This information was used to evaluate the effects after Hurricane Harvey. Essary also indicated that the data will only continue to be more, and more helpful as time and advancements occur. Essary asked if the board had any questions.

Gonzales noted the Commissioner of Insurance was very appreciative for the simplicity of the recent Annual Report.
ACTION ITEM

APPROVAL OF 2018 ANNUAL REPORT
Cheshier asked if the board had any questions or comments regarding the Annual Report. Hearing none, Cheshier asked for a motion to approve the 2018 Annual Report. Peter Harrison gave the first motion. Rosemarie Marshall seconded, and the motion passed.

Motion: Peter Harrison
Second: Rosemarie Marshall
Text of Motion: Approval of the 2018 Annual Report as Presented

Next, Essary went over the compliance rate for brokers filing policy limits. She stated the compliance rate was 53%. She noted the process would take time and it is expected to rise. Essary asked Tara Mitchell if she had any more dates or information to share regarding policy limits.

Mitchell stated she was gathering data at a granular level, but did not have an update at the moment.

Essary noted she was asked, if monthly filings had been affected by the new policy limit rule. She indicated that the monthly filings were not affected, at all. Essary stated it was still too early in the year to predict the rest of monthly filings for 2019.

Marshall asked if the increase in monthly filings were due to premium or policy count.

Essary indicated that the premium was the main factor for the increase, and added that other states had also seen an increase in premiums.

Next, Essary discussed the Legally Speaking event SLTX would be hosting. She noted Gonzales would be a speaker at the event along with Julia Van Buren with MarketScout. Essary stated Julia will present a segment on Ethics in the Insurance Industry, with another speaker, Chris Griesel, presenting on the Surplus Lines Legislature Impact. Essary encouraged members of the board to attend.

Essary moved on to the working group update. She noted the meeting was held at SLTX in March. Essary stated the outcome of the meeting was not a resolution but, everyone had a chance to voice their opinions and concerns. Essary noted the next step for the working group is to meet April 11th, and discuss the definition of the policy limits for the new rule.
Marshall explained that the working group meeting was able to give TSLA a better understanding of the background information that led up to the new rule of policy limits. She stated Bolls and Mitchell were instrumental in giving some of the TDI background. Marshall indicated that the two groups need to find a compatible solution and asked Rubel and Cheshier what they took away from the conference call made after the meeting.

Rubel stated it would benefit all parties to have material to present to TDI after the next working group meeting in order to show progression on the issue. Rubel noted that TDI wanted to see effort put in before being approached. He also added that TDI seemed to be unsatisfied with the current situation and felt not much had been accomplished.

Cheshier stated she did not get the same impression as Rubel. She believed TDI had already seen progress.

Essary stated that the most important thing TDI wanted from the working group was a definition for the policy limits. She indicated that TDI did not want to hear about the lack of compliance by the TSLA working group participants when so many others are in compliance. It would also be beneficial for TSLA to become more aware of the existing law to understand the parameters of information that have been in the Rule for the last 30 years. Essary also stated it was important to receive feedback from TSLA in order to make sure the definition on policy limits benefited the industry, but there was great importance on getting movement on the situation.

Marshall asked if TDI gave a time frame for the working groups. She noted the lack of communication is not good for the industry. Marshall stated many brokers were wary of late filer fees and penalties.

Essary stated TDI had not provided her with a timeline and is not willing to make any statements regarding the issue, for various reasons.

Marshall asked if the lack of response from TDI was due to the busy legislative session. Marshall also expressed her concern about future repercussion or impact if the issue was not resolved; however, Essary stated TDI is more interested in receiving a joint solution from SLTX and TSLA, than making comments.

Essary stated for the upcoming meeting she would provide an agenda and survey to the working group participants, before the next meeting, in order to move the participant’s understanding to more of a solution base. She mentioned that SLTX staff would supply the working group with survey results on
how each subcommittee member or TSLA participant of the working group would define limits.

Essary stated Mitchell recently returned from an automation conference. She noted Mitchell had come in contact with a broker who had already made the limits a required field in their data base.

Rubel stated the definition of limits was not the only issue at hand. He noted the other main component was making the process easier for the brokers and agents who needed to provide the information. Rubel also said the new rule was official in December and it is important to solve this issue as quick as possible to insure no brokers or agents are penalized.

Gonzales noted TDI may get involved in the process if the working group cannot solve the issue in a timely manner. He mentioned that several months ago Jamie Walker, Chief Examiner, stated she would be in contact with SLTX. He wanted to caution everyone that, that time may be near. Gonzales believed as long as some progress is presented to TDI, then the pressure will be lifted.

Essary assured the board that if TDI knows SLTX still had to adjust to the new rule, then TDI will not penalize brokers who are still in the process of achieving compliance. She spoke on behalf of TDI that they are in tune and would not hurt the industry in any such manner. However, on the other hand, this is their Rule and compliance will be required, at some point. Either way, SLTX is charged with facilitating compliance and our technology solutions will be available sooner than expected.

Rubel stated his concern for those in the TSLA working group participants who wished to remove the new rule all together. He did not believe asking the Commissioner for removal of the rule was a feasible option, given the situation. Rubel indicated that the working group should turn their focus solely on making the definition easy for the industry to follow the rule.

Essary noted the recent conversation she had with the Speaker of the House legislative counsel gave her the impression that the removal of the new rule was not an option, in light of data being the focus of future technology growth and transition in this industry.

Cheshier asked what consequences would SLTX face if agents were to mail in policies. Essary said the process would be very similar to manual filers. She stated more man power would be needed to handle the high volume of policies. Marshall expressed her concerned for the increase in manual filing. She was concerned SLTX would not want to move forward technology wise if the process went back to filing manually. Mitchell added that SLTX will eventually
have a new OCR capability to scrape data off policies. Once the new technology is deployed the process would be easier. This alone would change all manual processes to a much more simplified manner, not seen today.

Bolls stated Mitchell had previously implemented a paperless procedure and noted that once the policies were received through the mail, each one is upload to SLTX's network within a few hours. Policy Analysts can complete the process on the computer. Bolls mentioned if the number of manual filings did increase, resources would need to be redetermined in order to ensure that paperless procedures continue to be a strategy for the organization.

Paul Rainey asked if he was able to speak. Cheshier granted Rainey an opportunity to speak. Rainey stated his company sent files electronically. He wanted to know the process for manual filers. Mitchell explained that policies could be mailed or submitted through a secured manner.

Gonzales quickly interjected and advised the full SLTX board that communications needed to be curtailed with regards to allowing non-board members (guests) to speak during Open Meetings (due to meeting act violations).

Essary redirected the conversation back to Cheshier's question regarding manual filings. Firstly, Essary stated SLTX would probably require more staff. She also indicated some agents still have original documents from Vertalore, which will no longer be update. She also said there are groups with no plans to upgrade their systems. Essary stated that SLTX will be researching the various type of situations (platforms) and hoped to adapt to everyone’s technology capabilities.

Marshall added that it will be difficult to adhere to everyone’s specific situation.

Essary agreed and stated staff will view all options and predict how majority of companies would be affected depending on their software, hardware or IT capabilities. She noted some of the smaller companies may have to establish necessary changes, and even so, as Marshall added some companies may not have the time to deploy new technology on top of current work load.

Essary pointed out that in prior discussions, Robby Neill had previously suggested starting out by using the property limits as the definition. Marshall added that everything appeared to derive from the beginning of Hurricane Ike in 2008. Essary suggested staying along those lines of that information.
Marshall asked when the working group should expect the surveys, and information Essary mentioned earlier. Rubel stated the information will be sent several days in advance.

Essary noted the working group will be receiving a survey and the results of the survey will be discussed at the upcoming working group meeting with participants.

Rubel asked general counsel, Gonzales, if the Chairman could recognize a guest, or liaison and allow them to speak during board meetings.

Gonzales advised against it, unless a formal public comment period on the agenda, was provided. This would allow guests to speak without interfering or violating the Texas Open Meeting Act.

Board member Neill agreed and stated the SLTX board should be cautious about letting outsiders speak during meetings. He stated that letting guests speak, can lead to an overly long meeting.

Cheshier announced Mitchell would start the technology portion. The board decided to break before beginning Mitchell’s presentation. Cheshier called for a break at 1:46PM.

Cheshier reconvened the meeting at 2:00 PM

TECHNOLOGY
REPORT ONLY

(Tara Mitchell, VP, ITS)

Mitchell started her presentation by listing high level technology goals, which focused on the SLTX network and risk assessment. She noted that the team completed a basic network assessment, wherein all the inventory was reviewed, and equipment diagrams updated. Mitchell reviewed the critical, medium, and low priority systems to ensure everything was well documented.

Mitchell moved her discussion to Disaster Recovery, to which the process had already started, and her team was able to restore the most critical data, which was the EFS database. She stated the disaster recovery program will continue to ensure policies and procedures were up to date.

Essary wanted to give credit to board member Peter Harrison for advising SLTX to provide a better disaster recovery program in the past. She thanked him for his recommendation.
Lastly, Mitchell discussed the risk assessment, which was the pre-assessment before undergoing an IT audit. She stated the assessment provided the opportunity to review environmental vulnerabilities as there were tools already in place to monitor security. For added assurance, SLTX contracts with a third party for additional network security. Mitchell made sure to keep up with the patching schedule, ensuring SLTX has the latest version of software. Security processes are reviewed and updated internally, as appropriate. This, along with employee training will move the organization forward to ensure a complete IT audit.

Mitchell went on to discuss progress made on the future SMART system. A successful restore test for the SMART system was conducted wherein the IT team was able to fully restore all the data in the co-location back-up site within 24 hours.

Streetman asked if the recovery was shown in real time. Mitchell responded in the affirmative and indicated it was both in real time and took place over a weekend, to ensure little disruption.

Mitchell noted the next part of the system she would like to test is a complete fail-over to see how the system will cut over on a non-disaster situation. Mitchell stated she could run tests every 6 months to a year or anytime there are software changes.

Next, Mitchell wanted to discuss the policy limit issue from a technology perspective. She stated her work began as soon as she was made aware of the new rule starting date. Mitchell met with technology vendors to see what could be done within a small amount of time. She stated the development began on January 8th. Mitchell noted her team is 64 hours into the project and had a purchasing group flag created. Mitchell mentioned once a decision is made on the definition of limits, her team will be able to implement it quickly in the system. Mitchell noted the initial plan for the limits was to gather the property, liability, and Other – A/H. However, once SLTX started to receive negative feedback, a new plan was devised to simplify the request “for the highest aggregate limit” only.

Mitchell moved on to discuss the technology time line. Essary noted that the SMART system release date may be slightly delayed due mainly for the basic development of the policy limit features required by the Rule. Pushing back part of the implementation is appropriate and can easily be modified as the system is more flexible than the current legacy. Mitchell agreed and indicated that the data files transmitted from brokers will be implemented only in SMART, to avoid duplication. Mitchell also said SMART had more technology capabilities such as API end point integration. She stated the API had been deployed to test
internally. Mitchell noted that she planned to start testing over the next several months.

Cheshier asked if there were any questions for Mitchell. With no questions, Gonzales moved on to his presentation.

LEGAL & REGULATORY
REPORT ONLY

(Alex Gonzales, General Counsel)

Gonzales started his presentation by stating he and Essary had just returned from the House Insurance Committee meeting. Gonzales indicated the House is focusing on consumer protection. Gonzales stated he was not surprised since Eddie Lucio, two Physicians, 4 Democrats and Sarah Davis were present.

Next Gonzales went over some key trends. He stated the 2018 elections in Texas were a lot closer than usual. Gonzales noted Dan Patrick had not pushed many social issues this year. Gonzales stated the House had moved more to the center. He noted the reason began back with 2000 census and in 2001 Tom DeLay passed many judiciary statues. He stated in 2018 Paul Workman lost the Republican District, which resulted in the legislature moving towards the center. Gonzales indicated there was a twenty-year cycle for the redistricting to lose steam and that time was coming up. Gonzales noted if the Democrats gain control of the legislature in 2020 the legislature will look completely different for the next twenty years.

Gonzales noted Hurricane Harvey had driven a lot of consumer protection issues. He stated homes and business were wiped out and many people had no way to contact their agents which led to them complain to the legislature. As a result, many bills on the property and casualty side are directly related to Hurricane Harvey. On the health and life insurance side, the bills are geared toward consumer protection bills. Gonzales stated there had been more interest in the Surplus Lines market. He mentioned there was usually one Surplus Lines bill every four years. Currently there are 6 Surplus Lines bills and more that touch on the subject.

Gonzales reviewed Bill 649 by Krause et al. He stated the bill had already received a lot of support and sponsors. Gonzales noted the bill only applied to admitted companies, and the bill dated back to Harvey. Many home and business owners needed to know how much coverage they had but were unable to receive information due to the extensive damage several companies received by Harvey. Gonzales stated people tried to contact TDI, but were redirected to SLTX. SLTX did not have access to this data.
Rubel asked how disclosures by liability insurers and policy holders are related to Hurricane Harvey. Gonzales stated the bill also had property, casualty, and liability. Gonzales reminded Rubel that consumers were unable to request their coverage since their agents could not be reached during Harvey.

Streetman asked if this was for first party confinement limits or third-party claimants that could request limits. Gonzales responded by stating it was first party.

Mitchell noted to the full Board that oftentimes the meaning is tied to liable versus liability, so when reading the bill as “Liable Insurers not Liability Insurers”, to help better understand the intent of the bill. Rubel shook his head in the affirmative and indicated this made sense.

Gonzales noted the bill might not pass but he wanted to provide an overview of what was occurring in the legislature and how the House is consumer protection bent.

Next, Gonzales reviewed Bill 1306, by Frullo, and TSLA sponsored. Gonzales noted the bill might not make too much of a change in the industry.

Gonzales moved on to discuss Bill 1403, by Ortega. Gonzales assumed the bill would not pass since there is another bill that addressed the same issue with the same verbiage.

Gonzales then discussed Bill 1648, by Lucio III. He mentioned the bill had the most market interest. He also noted Lloyds and Lexington are concerned about the bill. The bill would make companies change all of their policies to have Texas venue for arbitration. Gonzales stated the bill also included the admitted market, but he had not heard much concern from that side. Gonzales indicated homeowner policies do not have arbitration, larger commercial insurers would want arbitration in New York, the problem was the “inbetweeners”.

Next, Gonzales mentioned Bill 1940, by Lucio III. The bill is similar to the flood insurance bill Gonzales stated earlier. Gonzales noted Lucio wanted the bill to pass for clarification purposes.

Gonzales then discussed Bill 1942, by Lucio III. He stated there were many bills that related to Bill 1942. This bill only applies to admitted companies, but had been addressed to apply to the Surplus Lines market. He said he would keep an eye on the bill.
Next, Gonzales talked about bill 1658. He stated the bill may require data similar to the guaranty fund disclosure. He asked Mitchell how SLTX kept tracked of disclosures.

Mitchell said SLTX does policy audits to validate disclosures.

Gonzales stated if all surplus lines policies have Texas venues, then a policy audit was appropriate as a “follow up” measure.

Gonzales shared an anti-consumer bill. He stated the statute was in Title 5 which dealt with consumer protection.

Gonzales then began to discuss Bill 2289. He noted Commissioner Sullivan stated the bill would be better if it went to TDLR, not TDI. Gonzales stated this particular bill had a good chance at passing.

Next, Gonzales discussed Bill 2587, by Lucio III, regarding travel insurance. He assumed that the travel insurance will have to be written in the admitted lines, if the bill passed.

Gonzales stated Bill 2679, regarding truck insurance. He noted TxDot now has the right to sue directly against an insurance carrier.

Gonzales then discussed Bill 3073, by King. Gonzales noted the bill will require the amount of insured risk across the stated. Gonzales stated that this requirement is similar to the limits requirement. He indicated the goal for the bill is to gather data that stated the capacity of insurance, and how much is written.

Gonzales noted there were a lot of other bills on the admitted side that had common trends regarding data. He asked if he board had any questions. Hearing none, Gonzales concluded his presentation.

**OTHER BUSINESS**
**DISCUSSION**

(Lorrie Cheshier, Chairwoman)

Cheshier stated the board would discuss the rest of the years board meeting dates for 2019.

The board agreed on June 17th and 18th. In September, the board meeting will be held on the 16th and 17th. Lastly the board decided to have the December meeting on the 9th and 10th.
Cheshier asked if the board had any other discussion before adjourning the meeting. Hearing none, Cheshier motioned for the meeting to adjourn at 2:41 PM.

APPROVAL OF ADJOURNMENT

Motion: Rosemarie Marshall
Second: Andrew Fieker
Text of Motion: To approve adjournment of the Board Meeting for March 26, 2019.

Signed:

Rosemarie Marshall, Secretary