June 18, 2019

A Board of Directors meeting for the Surplus Lines Stamping Office of Texas was held at UT Club at 2108 Robert Dedman drive, Austin, TX 78712.

**BOARD MEMBERS PRESENT**  
Lorrie Cheshier  
Charles Gillenwater  
Kyle Streetman  
Penni Nelson  
Peter Harrison  
Rosemarie Marshall  
Teri Brinson  
Randall Myers  
Leslie Milvo  
McClelland & Hine, Inc.  
City of Mesquite  
The Littleton Group  
Hillwood Group  
Public Member  
AmWINS Group  
LP Risk Inc.  
AXA XL/XL Reinsurance  
City of Austin  
TERM EXPIRATIONS  
12/31/2019  
12/31/2019  
12/31/2019  
12/31/2020  
12/31/2020  
12/31/2020  
12/31/2020  
12/31/2021  
12/31/2021

**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  
Ashley Corpus, Receptionist, SLTX  
Paul Rainey, TSLA Liaison  
Chris Osuna, TDI, Case Management Team

**CALL TO ORDER**  
(Norma Essary, CEO)

At 10:24 PM, the meeting was called to order by Norma Essary, CEO, SLTX. A quorum was established. Essary welcomed everyone to the meeting and passed the meeting over to Chairwoman, Lorrie Cheshier.

Lorrie Cheshier welcomed Paul Rainey, TSLA Liaison and Chris Osuna, with TDI. She announced three new board members were also present, Teri Brinson, Leslie Milvo and Randall Myers. She asked the new members to give a quick introduction.
Teri Brinson introduced herself first. Brinson stated she is an employee at LP Risk located in Houston, Texas and a former president of TSLA. Leslie Milvo introduced herself as the Risk Manager for the City of Austin and a PRIMA board member. Lastly, Randall Myers gave his introduction. Randall stated he was a Senior Property Underwriter for AXA XL/XL Reinsurance. He was also a past TSLA board member and a former Longhorn.

Cheshier thanked the new board members for their introductions.

**ACTION ITEM**

**APPROVAL OF 2019 BOARD MEETING MINUTES**

(Lorrie Cheshier, Chairwoman)

Cheshier asked if there were any comments or questions regarding the March 2019 Board minutes. Rosemarie Marshall stated there were typos in the board minutes. Charles "Buddy" Gillenwater agreed to give the first motion only to the amended changes. Peter Harrison seconded the motion, and the motion was passed.

**Motion:** Charles Gillenwater  
**Second:** Peter Harrison  
**Text of Motion:** Approval of the March 2019 board meeting minutes.

**FINANCIAL REPORT ONLY**

(Kyle Bolls, VP, Finance)

Kyle Bolls, VP, Finance, Began his presentation with an overview of the April financial statement. Bolls stated the budget variance report was above the budgeted amount and the stamping fee revenue was approximately $1M. Bolls noted the summer months usually brought in a higher premium for SLTX. Bolls originally budgeted $2.6M for the stamping fee revenue. As of April, the revenue climbed up to $3.1M.

Interest and other income was over budget. Bolls stated the combination of the new implemented investment policy, appreciation, and the current market resulted in positive gains on interest income and fair market value. Interest income was $17,000 under budget for the month. In addition, there was an appreciation of approximately $50,000 in SLTX’s portfolio in fair market value. Bolls reminded the board that the change in the fair market value was not a realized number but, recorded to help keep pace with inflation. Bolls asked the board if there were any questions regarding the income for April. Hear none, Bolls proceeded with the April expenses.
Bolls indicated majority of the expenses were under budget. Salaries and benefits were also under budget for the month and the year.

Professional services were slightly over budget for the month and the year. Bolls clarified that during the beginning of 2019, SLTX required several professional services to assist with the new rule implementation, the heavy legislative year, and various other circumstances. Bolls projected the expenses would level out during the remainder of the year.

Education and travel expenses were under budget for the month and the year. Bolls stated travel expenses tend to increase at the beginning of the year.

Operating and occupancy expenses were under budget for the month and for the year. Bolls indicated that he anticipated additional costs for new internet and phone contracts. He stated the IT team did well in negotiating the new contracts.

General and administrative expenses were under budget for the month and for the year. The low cost in expenses related to the depreciation and amortization of the new SMART System. Bolls indicated that new elements of the SMART System are continuously implemented which leads to increased depreciation during the year.

Next, Bolls reviewed the contingency expenses. Bolls noted there was an estimated $21,000 in unused contingency expenses for the month of April. A total of $90,000 is located in the contingency expenses.

Overall, for the month of April, there was a revenue of excess expenses of $750,000. The total was higher than the budgeted amount for the month and the year. Bolls stated SLTX was experiencing an increase in income and a decrease in expenses resulting in increased revenue of excess expenses. Bolls asked the board if they had any questions.

Rosemarie Marshall asked if there was a relation between rate increase and volume increase regarding the stamping fee.

Bolls answered by stating there was an increase in filings as well as premium. Bolls noted the premium dollar amounts contributed a bit more to the increase in stamping fee revenue. Overall, Bolls indicated both elements contributed to the revenue increase.

Norma Essary agreed with Bolls’ statement and stated premium across the U.S. market has continuously increased. Essary anticipates conducting further research on the relation between rate and volume.
Marshall suggested SLTX monitor the rate increase and compare the increases to the industry as a whole.

Bolls stated SLTX would have a better sense of the market and rate increases once the mid-year evaluation is complete. Bolls reaches out to all other stamping offices every 6 months to gather data regarding the filing and premium numbers.

Cheshier asked if SLTX initiated the interaction between the stamping offices and if other offices request similar information in return.

Bolls explained that SLTX initiates first contact between the stamping offices. Once all the data is collected, SLTX generates a report and post the report for interested parties to view. Bolls stated a copy of the report is send directly to all stamping offices.

Randall Myers asked if the mid-year report was broken down by product line.

Bolls stated the focus of the report is not directed towards coverage category or lines of liability. Bolls said the report acted more as an overview and list risk categories.

Next, Bolls discussed the fund balance report. Bolls gave a quick summary of the unrestricted undesignated fund balance to the new board members. Bolls stated the unrestricted undesignated fund balance totaled $5.2M at the end of April. Bolls projected the balance will be between $6.7M and $6.9M at the end of 2019. Bolls asked if the board had any questions regarding the fund balance report. With no questions, Bolls ended his presentation.

**OPERATIONS**

**REPORT ONLY**

(Norma Essary, CEO)

Norma Essary, CEO, began her presentation by discussing the 2018 Annual Report. Essary stated the final version of the Annual Report was completed. Essary indicated the Annual Report celebrated SLTX’s 30th anniversary and included notable changes the organization went through over the years.

Essary stated she received several inquiries regarding SLTX’s premium. Many interested parties have asked for the current status of the premium and if there were any changes. Essary stated SLTX has seen an increase in premium. She noted there was an increase of 12% over 2018 and an increased in filings as well.

Next, Essary discussed the lines of business. She noted a few sources indicated there was an increase on inland marine premium across the U.S. Essary stated
she is monitoring the inland marine premium to note any changes. Also, Essary is looking at different coverage areas in Texas to identify any trends in the market.

Essary moved on to recent weather disasters in Texas. Essary said there were several tornadoes and hail storms that caused significant damage to many homes and businesses. Essary also stated she is in the process of researching what impact the severe weather has had on the industry. She plans on comparing previous years of heavy weather activity to the current market in order help grasp a better understanding.

Next, Essary shared a market report with the board. Essary stated the report provided an in-depth analysis on the market place. She noted the report included lost ratios and premiums which are difficult to obtain without purchasing the information.

Essary provided a brief update on SLTX's current audits. She stated all audits have been suspended due resources SLTX is working on. Essary noted she will update the board once there is more to share. Essary also updated the board on the new launch date for the SMART System. She indicated the launch date has been moved to 2020.

Next, Essary discussed the WSIA Committee. Essary noted she and Bolls are active members of the committee. Tara Mitchell recently joined the technology committee and attended her first meeting in May. Before arriving at the WSIA meeting, Essary and Mitchell toured a facility called TierPoint. Essary noted she was very impressed by the technological capabilities the company possessed.

Essary stated SLTX recently sent out its first request to all other stamping offices for information regarding the mid-year report. Essary stated it can take time to gather all the data from each office. Essary noted the information collected for the mid-year provides valuable data to all interested parties. Several publications including the Insurance Business America and Insurance Journal have contacted SLTX regarding the mid-year report.

Lastly, Essary commended Alex Gonzales for his recent achievement. Essary stated Gonzales was ranked as a band one attorney by the Chambers and Partners, a very prestigious organization. The achievement recognized Gonzales for his exemplary work in insurance regulatory law.

**TECHNOLOGY**

**REPORT ONLY**

(Tara Mitchell, VP, Technology)

Tara Mitchell, VP, Technology, updated the board on the first two quarters of the year. One of the main achievements Mitchell listed was the new limit field
added to the EFS system. The new field was officially announced to the public on May 28th. Since the launch, SLTX has experience approximately 1,000 submissions per business day. Mitchell received positive feedback from agents and stated many have found the new field easier to use, others have chosen to continue with the spreadsheet method. Along with the new limit field, Mitchell stated an agent user guide and the programmer’s technical reference was updated. Additionally, a feature was also launched to help agents add in limits to previous submissions. Due to the efforts Mitchell and her team put into implementing the new rule, 81% of all agents have attempted to comply as of June 12th. In addition, 40% of that group had submitted all required limits.

Next, Mitchell stated SLTX formed two outreach programs for agents and brokers. The purpose of the first program confirmed all policies submitted to SLTX were correct. The second program indicated what companies have not submitted any type of limit to SLTX. Mitchell’s goal was to ensure each company received the proper education on the matter. Mitchell also stated SLTX will soon be able to view missing limits on existing policies.

Mitchell reviewed the cost for the technology enhances made for the new rule. She stated SLTX’s current contract with a software developer for the legacy system resulted in 101 billable hours. Mitchell stated SLTX will also continue to use the capital budget to help fund the added features for the new rule on the SMART System.

Mitchell said the SLTX office has continued to operate at the same head count during the implementation of the rule. Year to date, the office has recorded 100,000 limits. Mitchell stated there was a back log of limits due to the restrictive intake of SLTX’s database. Mitchell indicated that once more agents use the new limits field in EFS the back log will reduce significantly.

Next, Mitchell discussed feedback she received from stakeholders regarding limits. She stated a firm in San Antonio found the spreadsheet method more efficient for their needs. Mitchell indicated she had no issue with companies continuing with the spreadsheet method if it helped with overall compliance.

Mitchell directed the conversation toward a new development in the SMART System. Mitchell was working alongside 25 other end-users to develop “SMART Connector”. The new development will allow SLTX to integrate with all end-users to create an open source API and help map their system’s information to SLTX. Mitchell stated all 25 end-users made up one-third of the policies and premium for the first half of 2019. The end-users were spread across Texas and other nonresident states including Alabama, Arkansas, Florida, Illinois, Kansas and
Louisiana. Mitchell stated she had one agent from Austin express his gratitude for SLTX’s interest in establishing the SMART Connector.

Mitchell indicated that SLTX currently has 71 automated agencies which consists of 73% of all filings. Mitchell recognized the automated filers to be the ideal group to be introduced to the SMART System. Mitchell sent out surveys to the automated filers in December of 2018. From the survey results, Mitchell was able to identify a focus group. Currently, Mitchell works with 10 key stakeholders and has held many interviews to establish who will be become beta testers for SMART.

In addition, Essary stated the SMART Connector will help eliminate a respectable portion of the work other agencies would otherwise have placed on their IT staff. Essary indicated SLTX is continuously conducting outreach to agents in order to gather knowledge on different systems. Essary’s goal was to ensure all agencies were accounted for as SLTX applies new technology.

Mitchell stated the API will act as a solution for agencies that are unable to use SMART Connector.

Lastly, Mitchell informed the board that there was a variety of changes and additions to the SMART System. The SMART Connector and the new rule implementation increased the workload for Mitchell and her team. Due to the increase, Mitchell stated the release date for the SMART System is likely to be pushed back 6 months. Mitchell stated the delay was a possibility in 2018 and all additional expenses were accounted for to date. Mitchell asked if the board had any questions before concluding her presentation.

Lorrie asked when the new release date should be.

Mitchell stated the new release for the SMART System will be some time in the first half of 2019. With no more questions Mitchell ended her presentation.

**LEGAL & REGULATORY**

*REPORT ONLY*  
(Alex Gonzales, General Counsel)

Alex Gonzales began with an update and legislation. Gonzales said the legislative session recently ended and two bills of interest to the board passed legislation. The first bill to pass was bill 1306 which eliminated the diligent effort requirement for flood insurance. Gonzales stated there was still federal regulations for the bill. Bill 1940 was the second bill to pass. Gonzales stated the bill clarified that agents no longer needed approval from TWIA.

Next, Gonzales discussed bill 1648 which was one of the most anticipated bills. However, due to the limited time remaining in the legislative session the bill did
not pass. Gonzales stated he worked with APCIA to oppose the bill. Gonzales projected the bill will return next session. Gonzales also shared two bills that were set to appear in the next legislative session. The first dealt with collateral reinsurance. The second bill, Bill 258 sparked interest in the industry. The bill related to named drive exclusion, dealing with substandard auto. Gonzales predicts the bill will drive many substandard auto carries out of business.

Gonzales indication the recent legislative session had a lot of anti-insurance legislation and none passed. Gonzales stated the focus was health, pharmacy benefits and auto. Despite the efforts of others, many of the bills concerning those categories did not pass.

Essary noted the legislative year was intensely consumer driven.

Gonzales predicated the next session will once again focus on insurance.

Cheshier asked if there was any questions for Gonzales.

Gillenwater enquired about the next legislative session and if it will concentration on consumer protection.

Gonzales believed the next session will continue the same trend. Gonzales elaborated by stating the house will move more toward the center due to a stronger democratic presents.

Essary noticed a larger volume of young voters then previous years. Essary indicated that many of the younger voter have established a greater influence on the public.

Gonzales also notice a change in his district. He stated recently a Democrat named Vikki Goodwin won the District 47 state House Race. Gonzales stated Texas will never be a liberal state, it instead will move to the center.

Essary called for a break at 11:36 AM.

Executive session began at 11:45 AM and ended at 1:19 PM.

APPROVAL OF ADJOURNMENT

Motion: Peter Harrison
Second: Kyle Streetman
Text of Motion: To approve adjournment of the Board Meeting for June 18, 2019.

Signed:

Rosemarie Marshall, Secretary