Board of Directors – Surplus Lines Stamping Office of Texas
Special Board of Directors Meeting

October 7, 2019
Location: Omni Hotel Austin, 700 San Jacinto Blvd, Austin, TX 78701

Agenda Item 1 – Call to order, establishment of a quorum, public comments

Lorrie Cheshier, Chair of The Board, called the special meeting of the Board of Directors of the Surplus Lines Stamping Office of Texas to order on October 7, 2019 at 9:04 a.m.

Board members in attendance: Expiring terms:
Lorrie Cheshier, Chair 12/31/2019
Charles Gillenwater, Vice Chair 12/31/2019 (by phone)
Kyle Streetman 12/31/2019
Peter Harrison 12/31/2019
Rosemarie Marshall, Secretary 12/31/2020
Penni Nelson 12/31/2020 (by phone)
Teri Brinson 12/31/2021
Leslie Milvo 12/31/2021
Randall Myers 12/31/2021

A quorum of five or more members was confirmed by Cheshier. Cheshier confirmed board members Charles Gillenwater and Penni Nelson were participating by telephone conference pursuant to the Plan of Operation Section C(6). Board Secretary Rosemarie Marshall will record minutes for the meeting with the assistance of staff in attendance.

Staff members in attendance:
Kyle Bols – VP of Finance
Denisse Orellana – VP of Human Resources
Tara Mitchell – VP of ITS
Ashley Corpus – Administrative Project Specialist
Marcelina Gutierrez – Administrative Receptionist

Counsel in attendance:
Alex Gonzales – Duane Morris, LLP
Meredith Gregston – Duane Morris, LLP

Other guests and observers in attendance:
Paul Rainey – TSLA Liaison
Garrett Sprowls – TSLA
Cheshier made the following housekeeping announcements:

1. Antitrust activity or discussion are prohibited at all Stamping Office functions. This prohibition includes the exchange of information concerning individual company rates, coverage, market practices, claims settlement practices, expenses or any other competitive aspect of an individual company’s operation.

2. A public comments session is scheduled as agenda Item 2.

   If you wish to present comments to the Board, please sign in with Ms. Ashley Corpus, including your name and the entity you are representing.

   Each speaker will have two minutes to make comments for the Board’s consideration. The public comment session will end promptly at 10:00 a.m., if not earlier.

   Board members are not permitted to deliberate or comment on matters during public comments, but they may discuss and consider those matters later if those matters are on the posted agenda. Board members will not ask questions of the speakers, and the Board will only be able to answer limited questions during public comments in accordance with the Texas Open Meetings Act. The General Counsel will provide guidance if requested.

   Speakers are welcome to submit written materials for the Board’s consideration, all must understand that the materials submitted will be public records.

3. Representatives of state agencies and members of the public are welcome to observe or record this Board meeting but must refrain from asking questions or interjecting comments during the Board’s deliberations.
4. The state agency personnel present may be asked questions about their agency’s policies if those questions relate to an agenda item.

5. There will be a one-hour break starting around noon for lunch. No Board business will be conducted or discussed during this break.

6. There will be closed executive session during the latter part of the agenda. Only the Board, legal counsel and necessary executive staff will be in this room during such session. We will reconvene in open session after the executive session to vote on agenda items 9 and 10 if appropriate.

Lorrie Cheshier announced that those making public comments were to identify themselves and, if speaking on behalf of an organization or association, to please identify that entity. Further, if comments relate to an agenda item, please identify that agenda item for the Board’s information. Each speaker will be allotted two minutes. She asked that everyone be courteous and mindful of others wishing to speak.

Garrett Sprowls identified as the immediate past President of the Texas Surplus Lines Association (TSLA). Sprowls noted that he wished to discuss the requirement for the reporting of policy limits and finding a way to compliance. He remarked that there are varies ways limits are collected by TSLA member firms and wants SLTX to consider multiple ways to comply since there is no uniformity in how firms currently collect limits information. He commented that changes are difficult and hopes to control “road blocks”. He further commented that he doubts his agency’s system can be updated to capture limits data.

Lana Parks identified as the owner of The Parks Group. She stated she has been in business for 25 years and the requirements involving limits reporting is the single most important thing to affect her business. She stated Vertafore will no longer support policy uploads, the only process available to her agency will be manual uploads. She mentioned the limits section in EFS has only added work. She estimated that 90 to 100 employee hours have been spent so far on limits reporting and requires the skill of very high level employees. There have been reconciliation issues, but she credits the SLTX staff for working through those challenges. She noted that allowing carriers to report policy limits is not shown as an option on the SLTX website. Finally, she asked that SLTX better communicate plans for the launch of the SMART system.

Matt Leicht identified himself as President of TSLA and owner of a small wholesaler. He stated that limits being filed is not so much the issue as the high number of transactions. Leicht stated that a lot of folks are struggling with how to produce the required information without spending extra time. He stated the process was a very complex issue without going back to manual reporting. Most TSLA members reported significant challenges with compliance with the new rule. Leicht requested grace and flexibility in how information is reported and understanding that the significant cost is challenging for many.

Cheshier asked if there were any other individuals who wished to make public comments. No others volunteered. Cheshier closed the public comments session at 9:18 a.m.
Agenda Item 2 – Approval of Minutes

Cheshier stated that minutes of the September 17, 2019 Third Quarter Board Meeting, the September 24, 2019 Finance and Audit Committee Meeting and the October 1, 2019 Finance and Audit Committee Meeting were previously distributed to the Board.

Cheshier requested a motion for approval of the September 17, 2019 Third Quarter Board Meeting minutes.

Kyle Streetman made the first motion.

Harrison seconded the motion.

Cheshier asked for any changes or clarification to the minutes. Hearing none, she asked if there was any further discussion of the motion. Hearing none, she requested that all in favor say “aye”, all opposed say “no”. The motion passed.

Cheshier requested a motion for approval of the September 24, 2019 Finance and Audit Committee Meeting minutes.

Streetman made the first motion.

Harrison seconded the motion.

Cheshier asked for any changes or clarification to the minutes. Hearing none, she asked if there was any further discussion of the motion. Hearing none, she requested that all in favor say “aye”, all opposed say “no”. The motion passed.

Cheshier requested a motion for approval of the October 2, 2019 Finance and Audit Committee Meeting minutes.

Peter Harrison made the first motion.

Streetman seconded the motion.

Cheshier asked for any changes or clarification to the minutes. Hearing none, she asked if there was any further discussion of the motion. Hearing none, she requested that all in favor say “aye”, all opposed say “no”. The motion passed.

Cheshier announced that the minutes would be posted on the SLTX website after any necessary revisions and signature by the Secretary.

Agenda Item 3 – Information Technology: Discussion/consideration and appropriate action for each of the following agenda items:

- Status of data backup and management systems
- Update on the SMART system conversion
- Status and plans for policy limits reporting and data capture
Cheshier asked Tara Mitchell, VP of ITS to present her report on the status of data back up and management systems. Mitchell started her report by explaining that SLTX systems are backed up every six hours for critical applications, including production, network files, payroll and accounting. A complete restore tested production databases on February 10, 2019. The test met the 6 to 12 hours Recovery Point Objective and the 48 hour Recover Time Objective. RSI (Renaissance Systems Inc) houses a continuous replication of backup. EPS/MIS is constantly replicated; process was reviewed on September 30, 2019. Internet disruptions can cause failure which is the reason for constant data replication. Mitchell stated the next steps are to determine reliable colocation/disaster recovery options; continue testing back up restores.

Cheshier asked if any Board members had questions for Mitchell in regard to this section of the presentation. Hearing none, she asked that Mitchell continue her presentation.

Mitchell continued by reporting on Project Management for Infrastructure and security. In February of 2019, a network validation and disaster recovery restore test was successfully completed. From February through May, upgrades were made to web filtering and a system deployed for desktop monitoring. In June, disaster recovery and business continuity plans were developed. In August, upgraded email procedures were put into place. Mitchell stated that the next steps include upgrading of network monitoring; upgrading of firewalls; consideration for the position of a Chief Information Security Officer; updating of all network policies; review of internal audit findings and implementation of any suggested changes.

Cheshier asked for details of the deployment of desktop monitoring. Mitchell stated it allows ITS to see all software run on desktops, ability to wipe information if needed and can view any devices such as USB’s, have been used. In response to a question by Gregston, Mitchell confirmed that the desktop monitoring can monitor usage, but not specific documents viewed by the user. Mitchell further confirmed that the monitoring team consisted of both internal staff as well as staff of RSI.

Cheshier asked if there were any further questions from the Board concerning Mitchell’s presentation on data backup and management systems. There being no further questions, Mitchell introduced David Burgeson, COO of Renaissance Systems (RSI) to make a presentation.

Burgeson started his presentation by stating that RSI and SLTX staff first met in September of 2018 to review projects that needed to be developed and completed. He reviewed a project list with estimated completion dates including:

- Disaster Recovery – completed Q1 2019
- Business Continuity – completed Q1 2019
- Compliance & Security – completed Q2 2019 and ongoing
- Data Governance – to be completed Q3 2019
- Data Science – to be completed Q3 2019
- Operational Efficiencies – to be completed Q4 2019

Burgeson stated that industry standards and regulations would guide all compliance.
He then reviewed an estimated timeline of current and existing projects and stated that by end of 2019, they should be ready to determine “what’s next”?

Burgeson provided a more detailed report regarding various projects and deadlines. He stated he joined RSI in April of 2018 and in May met with SLTX staff and general counsel. From June to September 2018, he evaluated the current status of SLTX systems and brought in a new skill set to help put together a plan to deliver strategic and technical expertise. He stated that the “why” was determined by SLTX and the organization’s mission, vision and core principles.

Burgeson then moved on to the March of 2019 review of web and email security. Updates started in March and are ongoing to encompass areas around employee permissions, security compliance risk assessments, and review of the web applications security policy.

Throughout 2019, production server version updates are to be completed. Burgeson presented a future road map which included, 2020 – Unified Threat Management; Decommission of SLSOT domain; Migration to Private Cloud; in 2021 – Move backup/DR relocation – migrate current backup site at RSI headquarters to SLTX headquarters; in 2023 – move backup by migrating current production at STLX headquarters to Tier 3 or 4 cloud.

Burgeson stated that current backups are working as intended. There are incremental backups done four times a day and one full backup. Backups go to both SLTX and RSI servers.

With respect to restoration of data, Burgeson stated two tests were conducted. The non-EFS back up took approximately 6 hours and a full 48 hours with inclusion of the EFS database. Burgeson stated the sheer volume of data (40 terabytes) accounts for the long restoration timeframe. He then reviewed the current back up process.

Burgeson stated that future projects would include migration to a cloud environment. The cloud would be fully redundant, secure and managed, with constant systems replication. It would also provide multiple points for backup and restoration of data.

Burgeson went on to state that RSI has been involved with various SLTX IT projects since 1997. He believes RSI has had meaningful impact by providing support around the clock, improving best practices, working on operational effectiveness, and business continuity. With respect to 2019 initiatives, 10 projects were embarked upon, 7 are completed and 3 are ongoing.

Cheshier asked the Board if there were any additional comments or questions for Burgeson. There being none, she asked that Mitchell present her report on the Smart System Conversion.

Mitchell started her report by stating that the original RFP was signed in November of 2016. The original goals of a systems upgrade were: streamline automated files; creative intuitive user interface; upgrade legacy technology; transform core systems; unify technology experience for users; role defined data; integrated 3rd party solutions; long term ownership; enhance workflow, reporting and processing; and integrate disparate systems.

In 2015, SLTX worked using a very aged IBM AS system. SLTX decided there was a need to start here to rebuild a platform. The need for data has continued to grow and systems have to keep up. Data governance is key as to who gets what data. Mitchell discussed the original scope of the SMART roadmap and listed the following requirements to integrate EFS and MIS.2 into one platform —
integrated automated filing formats; filtering capabilities; rules/roles based on users; integrate single sign on; hardware/software partners; website redesign; intranet/workspace management; OCT scanning technology; ACH payment portal; HR solution; financial accounting solution; accounts receivables module; robust reporting capability; dashboard analytics.

Mitchell also mentioned detailed scope changes in the original project related to accounts receivables, search capabilities, automation processes, dashboard enhancements and changes required due to legislative and regulatory changes.

Mitchell next discussed the SMART Connector which is designed to replace the current integration with firms using similar filing solutions. API must incorporate all law changes into schema/logic.

Gonzales asked how scope changes are accounted for?

Mitchell responded that in 2016, the previous Chair of the Board advised any changes over 25% of original budget should be brought to the Board for review and approval. She also stated that the Board approved an additional $500,000 for the project in 2018.

Gonzales asked who made decision on whether the changes would be beneficial to the stakeholders of SLTX?

Mitchell stated that the decision was made by SLTX staff.

Mitchell stated that SMART Release 1.0 involves several tracks of work that are in production and in various stages of completion. Changes in the original $4.8 million budget for SMART were determined by Memorandum of Understanding and added to the budget. The MOU’s were signed by Norma Essary. There are over $185,000 in changes as of September 2019 and approximately another $950,000 is required by the end of 2019 to fund current MOU’s.

Gregston asked who on the SLTX team made the decisions on various systems enhancements?

Mitchell stated it depended on who’s area the enhancements fell under as to who was involved. Mitchell, Bolls and Essary were the primary staff involved in the decisions involving systems changes and enhancements.

Gonzales stated that the agreements and changes were not brought to legal counsel to review. No board vote was ever made on spending additional funds. Staff went forward based on a side comment made by then the previous Chair Greg Rubel.

Marshall asked which of the incomplete enhancements were most critical. Mitchell reviewed several items, such as interface with stakeholders, which is considered more critical than report design. SLTX has an internal dashboard, but brokers may want an external dashboard to review their own data.

Gregston asked who has been involved in testing the software. Mitchell consulted with staff member Toby Pick and several policy analysts. Gregston asked what feedback has been received. Mitchell stated some has been positive and has helped with workflow. Feedback on various items have resulted in mixed reviews.
Cheshier asked what the impact of the policy limits data collection has had on staff. Mitchell stated compliance with the new rule has resulted in additional data fields, very widespread across the system. Initially very cumbersome for staff as there were no resources allocated for the additional work.

Mitchell presented figures detailing additional costs. Gonzales asked what was agreed for the project management cost of approximately $949K. Mitchell stated it is for overseeing multi-year projects, implementation, technical lead and 2 staff members from Headspring (software vendor). Gonzales asked for details of the $874K in subcontractors and third-party vendors. Mitchell stated majority of the cost is for a new vendor, Square 9 and for OCR development.

Mitchell continued her report with an overview of SMART Connector, an automated filer mapping tool. SLTX owns the source code and a decision needed be made concerning public or private holding of the code. Mitchell stated that next step is to choose the right license for SMART Connector and recommended that the Board engage a software attorney to review and determine the proper licensing in order to begin Beta testing before the year ends.

Gregston asked if licensing can be delayed until the SMART Connector is up and running. Mitchell stated a delay in licensing would delay Beta testing. Bolls explained that SMART Connector allows SLTX to support users that do not have the internal systems necessary to facilitate limits filing as required by TDI rule.

Mitchell stated that other parties have indicated interest in SLTX systems and licensing could be a source of revenue. Gonzales stated the cost of a license review would be approximately $30,000. Cheshier asked Mitchell what the immediate next step would be. Mitchell recommended the Board hire a software attorney. Marshall asked for clarification of the attorney review as a requirement to move forward. Mitchell responded in the affirmative. Gregston asked for confirmation that outside testing is required. Bolls suggested that Headspring make their presentation prior to the Board taking further action regarding licensing. Cheshier agreed to table the discussion regarding licensing until the Headspring presentation.

Board was adjourned for a short break at 10:33 a.m. The Board was called back into session at 10:46 a.m. by Cheshier.

Mitchell introduced the following representatives of Headspring Software – Declan Daugherty, Program Manager and Senior Consultant; Drew Beckley, Director of Client Services and Cody Goodwin, Client Director.

Daugherty began his presentation by stating that Headspring is a software design company that builds custom software for business needs. They consider their company to be thought leaders and provide high end consultancy to their clients. There is no off the shelf products, all work is done by their employees. He continued with a short discussion of their perceived differentiators in the industry.

With respect to an update specifically on SMART, Daugherty noted he has been working on the project since joining Headspring approximately 18 months ago. He provided an overview of their process, which has three components – Discovery, Design and Development, and Continuous Improvement.

Daugherty explained the three components in more detail. Discovery involves striving to understand the value the application will provide to end users; performing stakeholder and user interviews;
prioritizing features based on business value and development complexity; outlining the feature set to include in the MVP (Minimal Viable Product); understanding and outlining the changes needed for success. Design and Development involves involving the user and stakeholders in design of all features; demo the application; create open channels of communication for feedback from users; launching an MVP that immediately provides value to end users and validates assumptions. Continuous Improvement supports the client’s mission and uses analytics to make data driven decisions for future changes.

The discovery process analyzed requirements through surveys and interviews and defined goals for the project. The initial design provided a site map with visual design and mock ups. Validation and usability tests are done, and implementation includes a style guide and coding. The goal of the discovery is to make sure the system is usable. Discovery and design use AGILE Design and Development process which is user focused and collaborative. AGILE involves frequent delivery of smaller changes and allows for earlier feedback and ongoing scope and management changes.

Headspring has worked with SLTX since 2017 to provide resources to empower access to meaningful data. Part of what Headspring provides is project management which adds support to the SLTX VP of ITS. This includes one full-time program manager to oversee and provide input on nine projects within the contract, one technical oversight person, and two executive oversight personnel. There are daily, weekly, bi-weekly and ad-hoc meetings with SLTX staff which results in a savings of fixed costs. Weekly meetings are focused on status of projects and bi-weekly meetings elaborate on planning and design. SLTX pays Headspring a monthly management fee to cover all project management outlined.

Vice President of Service Delivery is also part of the Headspring team; others will join projects as needed. Primary focus has been SMART and SMART Connector, but the individuals have also provided consultation on HR software and SLTX phone system.

Daugherty reiterated the original scope of the project and various change requests, which essentially repeated information previously presented by Mitchell. He stated changes can be made quickly and explained that the scope of work almost always changes as software development is very fluid. AGILE allows for more flexibility.

Changes are determined by ongoing internal stakeholders’ interviews and regular meetings. Internal user touchpoints include walking through clarifications.

With respect to external input, a survey was sent out in November of 2017 to all brokers and agents. There were 132 responders, 71 MGA’s, and 61 identified as wholesale brokers. The main points identified in the survey were 57% correcting entries; 45% coding; 30% navigation; 17% search criteria; 12% reports; 11% multiple file entry, and 10% insurance terms. While needs change over time, the 2017 survey indicated overall dissatisfaction with the systems.

Daugherty stated the scope of work is defined as “EPICS”, or simply a chunk of work. Some “EPICS” that have been completed are currently in use in the public website, ACH payments, broker set up, accounts receivables and improved search & edit functions.

With respect to Accounts Receivables, 20 improvements to the AR process were installed. These were the least disruptive and provided the most value while protecting revenues.
ACH payables allow agents to make payments online. The goal is to protect revenue while saving time and making the process easily assessible. There is a 65% adoption rate.

Search and Edit allows any policy to be intuitively searched on a wide number of search filters.

Security EPIC is highest priority. This involves data governance which is the most critical aspect of security and provided role base access to data with broker identity and private information protected. Security protocols are based on National Institute of Standards and Technology guidelines and involves 108 security controls.

Daugherty stated that all applications being developed are cloud ready. Cloud hosting is suggested as it is safer for data protection.

Daugherty then discussed API or Application Programming Interface. He explained that programmatic filing relieves the burden of manual entry with automatic submission of data and creates an interface connection between two systems – SLTX and the filer. Headspring held interviews with multiple brokers and agents gathering input to understand work flows and main points. There is overlapping functionality since API developing will serve the back ends of both internal and external filers. API will accommodate requirements for the new limits field.

Daugherty then elaborated on SMART Connector, which is specifically designed for Vertafore users. This will support majority of filers. Approximately 40% of items are submitted from AIM and Vertafore Process Manager. However, Vertafore is discontinuing support of VPM, SMART Connector fills a gap for AIM users by allowing user to map coverage and class codes and insurer/syndicates from AIM database to SLTX database. Beta testing is set for a pilot group of users in Fall 2019. There has been ongoing internal testing in-house at Headspring and then internal user testing at SLTX. External user testing has been postponed until a decision is made by the Board on licensing of code. Daugherty stated that SLTX owns the code, owns the application, and intellectual property needs to be protected.

Daugherty discussed internal and external filing. Internal filing refers to SLTX users and delivers the functions of the EFS legacy system. SMART streamlines and modernizes workflows. Inputs will look alike; users experience same screens and processes. External filing does the same thing for the brokers. There is an advantage for users call for support and allows the help desk to emulate the user screen. Prior systems differed from internal and external users.

SMART was required to have the same capabilities as EFS, but faster with improved search and filter functionality, including improved dashboard with geospatial mapping.

Gonzales asked the purpose of geospatial mapping in dashboards. Mitchell stated that the dashboards would facilitate data calls by TDI avoiding having to pull several reports to respond to specific data requests.

Gonzales then stated there was a need for additional wording regarding dates being reported, i.e., specific policy data is private and cannot be released.

Daugherty then went on to explain that reporting would be automated and is currently working on several projects to modernize current reports. Mitchell stated there is an internal development team, including Mitchell and two entry level developers on staff working this project as well. Mitchell also stated surveys have been sent to stakeholders for ongoing feedback. Gonzales stated more focus needs
to be placed on smaller brokers as they seem to have the biggest issue with compliance on limits reporting. Mitchell stated SLTX is open to any additional feedback.

Mitchell further stated SMART Connector is about four weeks from completion of development but restated that a decision was needed on licensing to move forward.

Gonzales stated SMART Connector needs to be up and running by January 1, 2020 as TDI wants full data reported for 2020.

Mitchell mentioned the goal for full roll of the system was for March of 2020.

Mitchell then state that vendor Square 9 was a 3rd party solution for the global capture of data. The application would be fully integrated into SMART by Headspring.

Daugherty continued his presentation with a discussion of training and development transfer. The goal is for SLTX to have full management of SMART. Program knowledge would remain in-house at SLTX with Headspring providing ongoing support and training as needed.

Daugherty reviewed the budget figures that were previously presented by Mitchell. The original budget for the project was $4.3 million. An additional 500K was approved by the Board in 2018. An additional $1 million is mostly due to support TDI rules changes, such as limits reporting as well as reporting requirements for risk purchasing groups and exempt commercial purchasers. Approximately 75% of that figure is currently due for work already completed.

Gonzales stated that the $6.8 million cost is roughly double the original figures. Mitchell stated that the first IT project for EFS cost nearly $12 million, so this cost is still slightly over half.

Gregston asked if anything enhancements and support through December 2020 were listed in the original budget. Mitchell responded that some of those enhancements have already been delivered.

Gonzales states that prior administration of SLTX put the cost of a new system as $8 million; new administration came in at $4 million. The Board is being presented with $6.8 million. Use of public funds must be better documented.

Daugherty discussed improvements delivered to date which include customized reports, online payments, policy detail search, third party integration. Also response time to TDI data calls has decreased.

Mitchell then introduced Mike Fratini and Doug Fraser with Square 9 who joined the Board meeting by phone conference.

Fratini explained that Square 9 is a manufacturer of enterprise content software solutions. They specialize in the capture and transfer of digital images, the storage and retrieval of content, and automation of document based workflows.

The project was to come up with a solution to extract key information from policy documents with a 90% capture rate and at least a 70% accuracy rate. Square 9 was to provide a platform to store data, a workflow for internal validation of extracted data, and a workflow to facilitate Headspring’s development of an agent portal. The project was estimated at 660 hours for the current phase.
Current status is that Square 9 has delivered upgraded functionality from initial proof of concept. The validation experience has been improved for end users and the company has delivered the logic to automate the extraction of policy data. The next step was a mid-project onsite engagement for internal training prior to round one testing. Next, they configured and optimized the round robin validation process. Square 9 provided API guidance and database access to Headspring for their development of an integrated agent portal.

Testing on 978 unique documents showed a capture rate of 95% and accuracy rate of 89% using a general template and a capture rate of 98% and accuracy rate of 93% using a specific template.

Outstanding items include finalizing capture and accuracy results and fine tuning of extraction rules if necessary. There is a five date onsite engagement planned for training for go live. In addition, Square 9 will provide continued support for Headspring development.

Fratini asked if there were any questions from the Board, there were none.

Cheshier asked if there were any questions from the Board regarding any of the presenters.

Cheshier and Mitchell thanked all the presenters for their updates on various aspects of SLTX IT projects.

Meeting was adjourned at 12:17 p.m. for lunch.

The board reconvened and was called to order by Cheshier at 1:20 p.m.

Cheshier asked Mitchell and Bolls to provide a report on the status and plans for policy limits reporting and data capture.

Mitchell began the report by showing a slide which outlined policy limits as agreed by SLTX/TLSA working group and TDI and explained that the limits requirement had been simplified to the highest aggregate limit. This was further defined as per below:

- Property – Total Insurance Value (TIV) for all properties, both in and out of state
- Liability – aggregate limit
- Package – TIV of property
- Accident & Health – maximum benefit

Mitchell pointed out the above definitions were also on the SLTX website.

Mitchell then explained that there were several methods for filing policy limits.

- File upload via temporary portal
- EFS policy limit field
- Programmatic filing
- Mailed submission using the policy list form on the website for transmittal
- Excel spreadsheet or full pdf file of policy. If this is done through the portal, no cover page is required but must provide contact information
Bolls clarified that option 1 is only if some form of information has already been filed with SLTX. Policy list form is not required if policy was previously filed via EFS or via mail.

Mitchell stated that automated portal upload facilitates limit filing in bulk and helps with reconciliations back to December 30, 2018.

Mitchell then stated that next steps include finalizing legislative changes in SMART and exploring new workflows based on industry feedback.

Gonzales questioned the statement regarding reconciliations back to December. TDI was content with some compliance for 2019 with full set of data for 2019, so why is SLTX reconciling back to December?

Mitchell stated the TDI rule was effective December 30, 2018.

Moya McKenna stated there is no waiver on the rule but expects the industry to attempt its best efforts to file what can be filed in 2019.

Bolls stated that limits are not required but SLTX had the ability to captured limits as of December 30, 2018. SLTX will not go back to agents to say limits were not reported, but the filing is not considered incomplete if limits are not provided.

Marshall asked what training has been provided to SLTX staff for pulling/reconciling correct limits?

Bolls stated that staff has been provided with definitions and examples of different policy types. SLTX is developing a training manual for internal staff to use as well as for agent staff.

Cheshier asked if the Board had further questions for Mitchell or Bolls. There being none, she called on Jennifer Mier to make a presentation on behalf of the Texas Surplus Lines Association (TSLA).

Mier opened by stating that Mitchell’s presentation clearly highlighted some of the issues. Cost and time involved is high, as a technical insurance person is needed to determine the correct limits to file. Manpower costs may be easier for a larger firm to absorb, but smaller firms may not have the ability. She stated the industry is giving their best effort to comply with the new rule. TSLA wants to collaborate more closely with SLTX to determine best practices to keep TSLA members informed.

Mier stated the use of data and analytics is another concern. Reporting may include sensitive or proprietary program information. TSLA has requested details on how the data will be used. There is a fear of private or sensitive information being leaked which could damage specific firms. TDI limiting data is one thing but there is a concern about what other information will be allowed to be disseminated to the public, especially through dashboards.

TSLA wants to be able to discuss issues in a case study format or scenarios to help with unusual reporting situations. Encouraging staff to use TSLA as a sounding board and resource. Mier recommended re-establishing a working group through development of software for more industry input and working towards best practices.

Mier requested confirmation that SLTX is moving towards providing a secure portal for uploading of policies. She also appreciated confirmation that the cover sheet is only needed if mailing policies as a way to file.
With respect to reconciliation back to rule effective date of December 30, 2018, she wants SLTX to agree not to go back to December date but to work towards best effort solutions going forward. Brokers are looking for ways to report information but want to be sure it is accurate and used responsibly.

Mier suggested TSLA meet on a monthly basis with SLTX staff and include someone from Beta testing who is filing the information. TSLA’s goal is to comply with rule but wants to keep TSLA’s best interests of members in mind.

Specific requests:

1) Working group to discuss ongoing issues/best practices

2) Monthly meetings/calls for next few months with SLTX Staff and TSLA members.

Cheshier suggested through end of June 2020, and then determine if it needs to be extended. Suggested monthly calls be between SLTX staff and TSLA Executive Committee.

Gonzales mentioned that Keith Strama, counsel for TSLA, had brought up that the working group needs to include “worker” bees, i.e., those who actually make the filings.

Marshall asked for clarification of expectations for the working group versus monthly phone calls.

Mier stated the working group would be built more around Beta users working towards compliance.

Cheshier asked if the Board was ready to identify positions for the working group.

Mier stated six to eight members at most; Gonzales stated seven. Mitchell stated that the initial Beta user group was for testing SMART Connector. It was suggested that three Beta users, one compliance person, two TSLA members for the group.

Gonzales stated the working groups sounded more like an advisory board. He reminded the Board that a working group would require three Board members, and a working group would have no authorization to vote.

A motion was made to form an advisory group with Jennifer Mier and Tara Mitchell as co-chairs.

Marshall made the first motion

Randall Myers seconded the motion.

Cheshier asked for additional comments or discussion. Hearing none, she asked all in favor say “aye”. All opposed say “no”. Motion passed.

Bolls stated SLTX staff has attempted to work closely with TLSA to identify issues, stay engaged, and try to address concerns. He hopes the advisory group will also help in improving communications.

Cheshier brought up Mitchell’s prior recommendation to hire a software attorney to review licensing options for SMART.

Teri Brinson stated she does not feel she has enough information to hire an attorney to review license options.

Penni Nelson stated the Board should hire an attorney to help determine if a license is necessary.
Cheshier stated that SLTX doesn’t necessarily want or need to be in the software business.

Nelson stated millions have been spent on building proprietary systems and it is pertinent that the Board determine if licensing will benefit SLTX.

Marshall stated that engaging an attorney to provide additional information is different than engaging an attorney to determine the best licensing option.

A motion was made to authorize general counsel to engage an intellectual property attorney to advise and report to the Board on the processes, legalities and ramifications of licensing of SMART.

Brinson made the first motion

Peter Harrison seconded the motion.

Cheshier asked if there was further discussion. Mitchell moved that the motion be amended to include SMART Connector. Brinson accepted the change to her motion. Harrison seconded. Cheshier asked for any further comments or discussion. Hearing none, she asked all in favor say “aye”, all opposed say “no”. Motion passed.

Agenda Item 4 – HR Department update; Discussion/Consideration and appropriate action for each of the following agenda topics:

- Review and revision of HR manual and job descriptions
- Current staffing levels and recommendations

VP of Human Resources, Denisse Orellana stated that the human resources manual and procedures are currently under review with assistance from counsel Gregston. She is maintaining a spreadsheet of all suggested changes for presentation to the board. Some topics being addressed are travel, expense reimbursement, employee disclosures, conflicts of interest. Other items will be reviewed as suggested by counsel. All job descriptions are also under review with full report to be provided to the Board at the scheduled December meeting.

Orellana stated Human Resources training for all employees is scheduled for November 4 and December 4 which will cover basic HR policies, non-discrimination, harassment, and handling of complaints. Best practices to be reviewed and training conducted on a bi-annual basis.

Cheshier asked if there was a new hire training process.

Orellana stated HR does general on-board training and each department has specific position training. All employees sign a document confirming onboarding.

With respect to current staffing, there are currently 18 employees. Two vacancies were approved to be filled in 2018 for data analysts. The job was posted on October 3; there are currently 33 applicants. Orellana keeps track of all applicants on both Indeed and in a separate spreadsheet. Pre-screen interviews are performed by Orellana and the initial pre-screen is the same for all applicants and positions. The documented answered are then shared with managers for their interviews. All managers follow a panel of questions based on the specific position being considered.
There is a position open for a Database Administrator. Orellana is still working on the job description with input from Gregston and wants to post by mid-October.

Job postings provide a 30-day posting period, but Orellana reviews candidates on a daily basis as received.

Pending Board approval of the 2020 budget, SLTX is recommending five new positions for 2020. Once the 2020 budget is approved, a new organization chart will be presented for the Board to review at the November special meeting.

Chesler asked if there were any questions or comments on the HR report. Hearing none, she thanks Orellana for her report.

**Agenda Item 5 – Finance and Audit Committee Report: Discussion and appropriate action on each of the following agenda subjects:**

- **Selection of Internal Controls Audit/Financial Exam Vendor**
- **Status of IT security audit**
- **Proposed 2020 Budget**

Bolls provided a report related to the selection of an internal controls audit vendor. An RFP was sent on October 2, 2019 to 13 firms, posted to the SLTX website and posted in the Austin-American Statesman. Deadline for receipt of RFP’s was midnight, October 6, 2019.

Bolls offered a review of the proposal provided by Weaver and Tidwell. Opening pages provided a review of services, business processes, analysis. Page 7 reviewed certifications and affiliations. Page 8-9 detailed recent clients and a description of services provided. Page 10 provided a full list of representative government client and page 11 references. Bolls then directed the Board’s attention to pages 12-15 which provided a detail of the work to be provided. Chair of the Finance and Audit Committee will be Board’s point of contact. The RFQ provided details of the scope of work, scope could be broadened depending on risk evaluation. The RFQ also includes internal peer review and quality review of audit. Pages 16-21 of RFQ detail the key personnel to be involved in the audit. Bolls called attention to page 19 which detailed the qualifications of Adam Jones who has specific qualifications for an audit of this type and will be relied on heavily for his expertise in public entity operations. Pages 22-23 detail compensation and fees, as well as a review of engagement assumptions. Total fee proposed was $59,675.

Bolls asked if there were any questions or comments. He confirmed that the proposal from Weaver and Tidwell was the only proposal received.

Myers asked how difficult it would be to find a second firm to bid.

Bolls advised that the time of year is difficult, plus the added constraint of a short time frame to provide final report to the Board by the December Board meeting.

Myers asked if there was any other frame of reference for the fees being proposed by Weaver.
Bolls stated that the SLTX’s regular annual audit is approximately half the proposed fee but added that the RFQ asked for very specific details plus some items not allowing for simple data sampling. He further stated that the hourly rate is in line with the SLTX annual audit fees.

Cheshier asked if SLTX has ever worked with Weaver.

Bolls stated that Weaver prepared the initial RFQ which he believes helped them respond more quickly with a proposal. There was no other experience with them to his knowledge.

Gonzales asked if Weaver was aware that the firm would need to keep TDI apprised of the audit findings.

Bolls stated that will be part of the final engagement letter to detail all reporting. He stated he will build in communication to the Board as well as TDI.

Leslie Milvo asked if SLTX must comply with all state purchasing requirements and if those requirements would apply to this contract.

Gonzales stated that DIR statutes do not apply to SLTX.

Bolls recommended a motion that the Board of Directors engage Weaver and Tidwell to perform the Internal Controls and Financial Examination Audit at a cost not to exceed $65,000 without prior Board approval.

Marshall made a motion to accept Bolls’ recommendation.

Streetman seconded the motion.

Cheshier asked for any changes or further discussion. Hearing none, she asked for any abstentions or recusals from a vote. Hearing none, she asked that all in favor say “aye”, all opposed say “no”. Motion carried.

Bolls then stated that RSM will conduct an internal IT security audit, approval and definition of scope being delegated to the Finance and Audit Committee. Engagement letter was obtained, reviewed by counsel as acceptable, and signed. The IT audit is currently underway, and the report will be completed and presented to the Board at the scheduled December Board meeting.

Cheshier then asked that Bolls continue to the 2020 proposed budget. Revenue is budgeted at $10,170,000, approximately 27% increase over 2019 budget. Also anticipates an increase in interest income due to a new investment policy which increased the pool of funds for investment primarily from real estate fund which represents about half of interest income.

Increase in salaries and wages and related taxes and benefits due to adding five new positions and changes in organizational structure. There is an anticipated increase of 24% in 2019 budget.

Brinson requested an explanation for the increase in contract labor expense. Bolls advised that temporary positions were added to fill in while hiring for open positions. Actual 2019 temporary expenses were actually higher and closer to proposed budget for 2020.
Brinson asked about insurance expense not going up by the same percentage as salaries. Bolls explained that insurance expenses should be relatively flat as some people hired in 2019 did not have as much of a dollar impact due to the lack of dependents.

Bolls noted an overall budget increase of 5% for professional services. Some of the increase is due to warranties on equipment that was bought in 2017-2018 running out, so adding services for hardware maintenance, plus additional expenses related to moving backup sites.

The committee discussed separating education and travel expenses and will implement new coding to track better detail on these expenses. Contributions and sponsorships will require Board approval going forward. More money is to be allocated towards staff education focused on specific surplus lines market training. Finally, additional money is to be allocated for IT staff to obtain required certifications.

Milvo asked if the expenses for education and travel will be detailed between internal and external.

Gonzales stated that staff will be required to present all anticipated travel to the Board for approval.

Bolls stated most sponsorships are education related. Some may not fit the scope of surplus lines. A full analysis will be provided for Board review prior to actually spending any funds. Expenses will be provided on a quarterly basis for the following quarter – i.e. December Board meeting will review and approve expenses for Q1 2020.

Bolls moved on to occupancy and operating expenses and noted that more spending will be focused on maintenance and repair rather than amortization of equipment. Also, SLTX will be moving to a new internet provider. General and administrative expenses are mostly flat, but expects some increase in insurance premiums and alternatively, a decrease in bank service charges. He went on to explain that amortization changed due to a change in the original scope of deployment of SMART; with AGILE implementation of short springs over a period of time, amortization is spread out and accrues at a slower rate.

Contingency expense at 5% of total budget expenses as required by the Plan of Operations.

Revenues expected at $4.1 million above expenses which is up significantly over 2019 budget due to anticipated increase in collected stamping fees.

Bolls then moved on to the capital budget. The Finance and Audit Committee tabled staff request for $1,000,000 in software enhancement for SMART as well as $25,000 for hardware. $20,000 is being requested for office improvements and build out due to anticipated increase in employee count.

Gonzales asked if $1,000,000 requested would cover everything needed per the earlier IT report.

Mitchell stated that the number needed is actually $2,000,000 to complete all items detailed by RSM.

Marshall asked for an explanation in the difference between the $1 million and $2 million. Mitchell stated $1 million is needed to launch, $2 million would include all requested enhancements. Approximately $1.6 million to get to estimated MVP plus training, broker support, and ongoing technical support from Headspring.

Kyle Streetman asked if the budget should be increased to $2 million to account for software enhancements.
Bolls recommendation to increase software budget to $2 million and hardware budget to $25,000.

Harrison asked if budget changes for software are due to change in scope of work.

Gonzales asked if memorandum of understandings were intended to be turned into contracts for work.

Mitchell stated that MOU’s are contracts.

Gonzales stated that counsel will need to review all MOU’s to be sure all are in order.

Brinson asked if the $1 million shown on the capital budget is included in the $5.7 million to MVP?

Mitchell confirmed yes and it will get the system to March 2020.

Nelson stated the motion for Finance & Audit committee to table was to make sure the Board had full understanding of the amounts being requested.

Bolls recommended the Board approve the budget as presented with $2 million for software, an increase from original budget request of $1 million.

Streetman made a motion to accept recommendation.

Milvo seconded the motion.

Cheshire restated motion and asked if there was any further discussion. Hearing none, she asked all in favor to vote “aye”, all opposed “no”. Motion passed.

Board adjourned for a short break at 3:38 p.m.

3:55 p.m. Cheshier called the Board back to order.

Agenda Item 6 – Chair’s Report – Discussion and consideration of and appropriate action for each of the following agenda topics:

- Designation of executive director search committee
- Executive director search committee procedures
- Designation of Plan of Operations Working Group
- Nomination of consultant to conduct an in-depth SLTX and Board governance review

Cheshier stated she is appointing the following Board members to the executive director search committee: Rosemarie Marshall, Committee Chair; Teri Brinson and Penni Nelson. This will be an advisory committee which will make recommendations to the full board for approval. As with all committee meetings, all Board members are invited to attend and participate in the Committee meetings. She noted the committee meetings will need to be posted if five or more Board members attend a meeting.

Cheshier asked for any comments or questions. Hearing none, Cheshier asked if there was a motion approving the designation of an executive search committee with Rosemarie Marshall as Chair, and Teri
Brinson and Penni Nelson as members and with direction that all final decisions must be made by the full Board?

Gillenwater made the first motion.

Harrison seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked that all in favor say “aye”, all opposed say “no”. Motion passed.

Cheshier then requested the Board’s guidance on appropriate procedures for the executive director search committee.

Marshall recommended that the Board allow the search committee to engage with an executive search firm.

Milvo asked what would be the parameters of such a search.

Marshall stated the search would entail looking for input from the Board.

Cheshier asked Gregston for her input.

Gregston stated that the Board should understand what the previous duties were for the Executive Directors.

Gonzales suggested that the executive search committee put together an RFP for a search firm, obtain proposals, and bring findings back to the Board for the November special meeting.

Milvo stated she would be able to provide names of several search firms.

Marshall withdrew her motion for the Board to allow the search committee to engage with an executive search firm.

Milvo suggested the committee collect job descriptions and salary information as available from other stamping offices.

Gonzales stated that Orellana has local compensation information. Orellana confirmed and stated she would forward to the necessary information to Marshall.

The executive search advisory committee is in charge of collecting compensation, updating job description and obtaining a list of search firms. There will be a Board Conference Call scheduled for October 21 at 9 a.m. to discuss findings.

Cheshier stated at the last Board meeting, the Board approved a Plan of Operation working group. She stated she is appointing the following Board members to the working group: Rosemarie Marshall, Working Group Chair; Board members Randy Myers and Leslie Milvo. Additionally, she stated that she is appointing Lana Parks and Steves Sprowls to represent the surplus lines industry, and Mike MacCory and Buddy Gillenwater to represent surplus lines insurers. Additionally, a representative from the Texas Department of Insurance and the Texas Comptroller of Public Accounts will participating in the Working Group as designated by the agencies. The Working Group will operate in an advisory role and all decisions on the final document to be presented to the Commissioner of Insurance will be made by the
full Board at the 2020 Annual Meeting in March 2020. As with all Board committee meetings, all Board members are invited to attend and participate in the Committee meetings. Cheshier recommended that the working group meet prior to the November special meeting to determine governance issues, such as how to vote or resolve disputes and how to divide work and tasks. The working group should present a report to the full Board on these subjects by the date of the November special meeting. She further recommended that Working Group members be reimbursed for reasonable travel costs for working group meetings.

Cheshier then asked if there were any comments or questions from the Board. Hearing none, she asked for a motion approving the designation of the Plan of Operations Working Group with Rosemarie Marshall, Working Group Chair; Board members Randy Myers and Leslie Milvo and Lana Parks and Steves Sprowls to represent the surplus lines industry, and Mike MacCory and Buddy Gillenwater to represent surplus lines insureds and a representative each of the Texas Department of Insurance and the Texas Comptroller of Public Accounts.

Streetman made the first motion.

Harrison seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.

Cheshier asked for a motion that the Plan of Operation Working Group serve in an advisory capacity with direction that all decisions on the final document to present to the Commission of Insurance will be made by the full board at the 2020 Annual Meeting.

Marshall made the first Motion.

Harrison seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.

Cheshier asked for a motion that the Plan of Operations Working Group meet prior to the November special Board meeting to determine governance issues, such as how to vote or resolve disputes, and how to divide work and tasks. Further, the Working Group should present a report on these subjects to the Board by the November special meeting.

Brinson made the first motion.

Myers seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.

Cheshier asked for a motion that Working Group members be reimbursed for reasonable travel costs to attend working group meetings.

Brinson made the first motion.

Myers seconded the motion.
Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.

Cheshier then asked Bolls to report on the nomination of a consultant to provide an in-depth SLTX and Board governance review. Bolls referred Board members to the proposal offered by Weaver and Tidwell. He commented that the first 11 pages of the proposal mirrored the proposal presented by this same firm for the Internal Controls Audit. Pages 12-13 detailed their plan for review including meetings with SLTX management and Board and related field work. Pages 14-18 followed previous proposal with respect to personnel assigned that would be assigned to the audit. Pages 19-20 detailed compensation and fees with a total of $16,625.

Cheshier asked if there were any questions or comments from Board members.

Marshall asked if there was any issue with the same firm conducting both audits and if there was any potential conflict of interest.

Gonzales stated he saw no future no issue.

Cheshier asked if Bolls was recommending any Board action. Bolls recommended that the Board of Directors contract with Weaver and Tidwell to conduct an in-depth SLTX and Board governance review at a cost of not to exceed $17,500 without prior Board approval, with report to be made by the December 2019 Board of Directors meeting.

Marshall made the first motion.

Streetman seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.

**Agenda Item 7 – General Counsel’s Report: Discussion/consideration of and appropriate action for each of the following agenda topics:**

- Review and analysis of archived Board minutes, resolutions and Board policies for use in Plan of Operations Drafting and SLTX and Board Governance Review
- Procedures for approving SLTX contracts
- Procedures for reporting potential contract disputes

Gonzales stated that he had requested copies of prior Board minutes and received documents dating back to 1987. All documents should be reviewed and analyzed. Gonzales will have the all minutes digitized and will contract another law firm to review, with Duane Morris overseeing the process.

With respect to SLTX contracts, Gregston commented that it was very unusual for there not to be some kind of contract review and approval process in place. She recommended the Board consider all contracts in excess of $1000 be approved by the Board of Directors or Board Chair. Also all contracts be reviewed and approved by counsel and a written policy be drafted.

Harrison asked if there was enough work to consider a procurement specialist for staff.
Gonzales does not believe so but has asked for all outstanding contracts for review by counsel.

Milvo stated that long term contracts generally have built in performance guarantees.

Gonzales stated that the current set of contracts appear to be weak on hold backs.

After discussion, it was agreed that Duane Morris would draft a suggested policy for Board consideration and adoption at the November special board meeting. Such report to include suggested procedures for potential contract disputes and creation of a reporting structure.

The Board of Directors will now go into closed session, pursuant to the Texas Open Meetings Act, on

Agenda Item 8: Discussion/consideration of the executive director’s employment, evaluation, reassignment, duties, discipline or dismissal; complaints or charges against the executive director to deliberate personnel matters, and contemplated and pending litigation [Texas Government Code Sections 551.074 and 551.071]; and attorney-client matters in which the duty of SLTX’s counsel clearly conflict with provisions or the Texas Open Meetings Act [Texas Government Code 551.071.].

The Board will also go into closed session, pursuant to the Texas Open Meetings Agent, on Agenda Item 9: Role ad scope of duties for SLTX VP/Directors to receive legal advice from its counsel under section 551.071 of the Act; and to consider personnel matters under section 551.074 of the Act.

All members of the public, state agency representatives, and SLTX staff, unless otherwise directed, are requested to leave the meeting room at this time.

At 4:39 p.m. and the Board will take a short break. Prior to break, Bolls provided a new conference number for Board Members attending by phone conference to attend the Executive Session.

The closed session was called to order by Chair Cheshier on October 7, 2019 at 4:48 p.m. The Secretary will take notes for the certified agenda. Board members are reminded that all matters discussed in a closed session are confidential and privileged. Also, Board members are encouraged to freely express their opinions and can indicate how they expect to vote, but the Board may only vote in an open session. Straw votes are not allowed.

The closed session concluded at 6:31 p.m.

The Board reconvened in open session at 6:43 p.m.

Cheshier asked if there were any comments or discussion in open session on Agenda Item 8.

A motion was made that the Board of Directors proceed with termination of Norma Essary’s employment with cause effective October 17, 2019.

Marshall made the first motion.

Brinson seconded the motion.

Cheshier asked for any further discussion. Hearing none, she asked all in favor to say “aye”, all opposed to say “no”. Motion passed.
No action or discussion on Agenda Item 9.

Board agreed that the next special board meeting would be scheduled for November 8, 2019.

The Finance and Audit Committee meeting confirmed for December 9, 2019 with full Board meeting confirmed for December 10, 2019. The Board Agreed the date for annual meeting in March would be set at the November special meeting.

There being no other business, Cheshier entertained a motion to adjourn.

Brinson made the first motion.

Harrison seconded the motion.

The meeting was adjourned at 6:49 p.m.

Rosemarie Marshal, Secretary