President’s Message

February 2017

On behalf of the Board of Directors of the Derek Hughes/NAPSLO Educational Foundation, I am pleased to offer the Foundation’s 2016 Annual Report for your review. The last year was a successful one for the Foundation, and I encourage you to read the report to better understand the results of many important initiatives that the Foundation was proud to support in 2016.

One of the Foundation’s long-standing cornerstones is the annual A.M. Best Special Report on the U.S. Surplus Lines market. The Foundation has provided a grant for the report’s development for 23 years, and it continues to be an important tool for our industry. The 2016 report confirms a strong record of growth and financial stability for the surplus lines industry. The report was first undertaken in 1994 to examine the solvency of the industry and to clarify the structure of the market. The 2016 report continued to showcase a financially stable surplus lines industry that is in a strong position relative to the entire insurance market. The Foundation again co-sponsored a webinar, produced by A.M. Best, which allowed industry professionals to better understand the report and state of the market.

We also continue to work on a number of other important projects. Last year the Foundation awarded 15 scholarships of $5,000 each to students with an interest in working in the insurance industry. The Foundation promoted its work, NAPSLO’s internship program, and NAPSLO’s Next Generation at the annual Gamma Iota Sigma International Convention and continued our outreach to college students by sponsoring E&S symposiums hosted by Illinois State University and Troy University. These important initiatives help sustain our industry by generating interest within the next generation of talented, young professionals.

The Foundation also continued its support of the Associate in Surplus Lines Insurance (ASLI) designation. We were proud to help honor 94 of our colleagues who have earned the ASLI at NAPSLO’s Annual Convention in Atlanta. With support from the E.G. Lassiter Speaker Series, the Foundation also sponsored the Convention’s keynote speaker, David McCullough.

These efforts are not possible without your support. Your contributions and participation in our annual golf event at NAPSLO’s Mid-Year Leadership Forum are critical to the success of the Foundation’s work. On behalf of the Foundation Board, thank you for your continued support.

Brian Van Cleave
President
A.M. Best: 2.5% growth in DPW during 2015

With the support of the Derek Hughes/NAPSLO Educational Foundation, A.M. Best has published the 23rd annual report on the U.S. surplus lines segment. The 2016 Special Report U.S. Surplus Lines - Segment Review is produced by A.M. Best Company with a grant from the Foundation and is one of NAPSLO’s most important tools promoting and illustrating the industry’s strength and stability.

“The report highlights our industry’s financial resilience and continued growth...”

“The report highlights our industry’s financial resilience and continued growth,” said Brian Van Cleave, President of the Derek Hughes/NAPSLO Educational Foundation. “Perhaps most notable is growth in total surplus lines premium to its highest level in history, exceeding the peak we saw last year.”

For the twelfth year in a row, the surplus lines industry reported no financially impaired companies, in contrast to the admitted property/casualty industry’s 10 disclosed financial impairments in 2015.

Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2016, 100% of surplus lines companies maintained secure A.M. Best ratings compared to 92.1% for the total property/casualty industry.

The surplus lines market more than doubled from 3.4% of total property/casualty direct premiums written in 1995, to approximately 7.0% by the end of 2015. Meanwhile, surplus lines has grown as a percentage of commercial lines direct written premium from 6.3% to 14.2%.

This year’s report indicates that the industry saw growth of 2.5% in surplus lines direct premium written in 2015, with surplus lines premium of $41.3 billion. Domestic professional surplus lines insurers generated a 3.7% increase in direct premium written.

The report continues to provide A.M. Best’s perspective on the state of the market and the relative positions of carriers in the market. It examines the surplus lines sector’s financial condition and ratings distribution, market trends, regulatory and legislative developments, distribution issues and impairment trends.

Copies of the report are available from the NAPSLO website or by contacting NAPSLO at info@napslo.org.

About the Foundation

The Derek Hughes/NAPSLO Educational Foundation, formed in 1991, is dedicated to encouraging the educational development of all those interested in the excess and surplus lines business, to creating an understanding, and overcoming the misperceptions of the excess and surplus lines market.

The Foundation established and supports the Associate in Surplus Lines Insurance (ASLI) designation, a professional excess and surplus lines designation program; the A.M. Best Company’s annual Special Report, U.S. Surplus Lines – Segment Review, a study on the state of the surplus lines industry and scholarships and programs for students pursuing insurance studies.

The Foundation was named for retired Western World Insurance Group President, Derek Hughes. Mr. Hughes, who began his insurance career in 1957 with the Royal Exchange Insurance Group in Liverpool, England, also served on NAPSLO’s Board of Directors and chaired the Education Committee.

To learn more about the Derek Hughes/NAPSLO Educational Foundation or to donate, visit www.napslo.org/Foundation.
The Derek Hughes/NAPSLO Educational Foundation selected 15 students to receive $5,000 scholarships for the 2016-17 school year. The scholarship program’s goal is to further the study of insurance and encourage, support and reward students who have an interest in insurance.

**Heba Raja**, Temple University, was awarded the Russell Bond Education Scholarship, started in 2007 to recognize the founder of Russell Bond & Co., Inc.

**Nicholas Free**, Florida State University, was awarded the Gary E. Frohn Memorial Scholarship, established in 2008 to recognize Mr. Frohn.

**Samuel Knoechel**, Olivet College, was awarded the Richard E. Hull Educational Scholarship, established in the name of the Hull & Company founder.

**Vance Langdon**, Appalachian State University, was awarded the Herbert W. Kaufman Memorial Scholarship, founded in 2001 from proceeds donated in memory of Herbert W. Kaufman.

**Matthew Pauszek**, Butler University, was awarded the Kevin A. McLaughlin Memorial Scholarship, added in 2000 in memory of Mr. McLaughlin.

The Scott W. Polley Memorial Scholarship was established in 2003 in memory of Mr. Polley. Three students were selected to receive a Scott W. Polley Memorial Scholarship: **Nathaniel Jones**, Indiana State University; **Aristotle Moulopoulos**, Appalachian State University; **Praneeth Raj Singh**, Drake University.

**Sabba Manyara**, St. John’s University, was awarded the Michael J. Sneed Memorial Scholarship. It was established in 2009 to recognize Mr. Sneed, a former NAPSLO Board member and an industry leader.

The Rolland L. Wiegens Education Scholarship was made possible by a donation from the Scottsdale Insurance Co. in honor of the company’s founder. Four students were selected to receive a Rolland L. Wiegens Scholarship: **Brian Eidelbus**, Florida State University; **Tiffany Francisco**, St. John’s University; **Jessica Groenewegen**, St. John’s University; **James Pappas**, St. John’s University.

The Foundation Insurance Scholarship recipient was **Molly Peddicord**, University of South Carolina.

**Briana Allen**, Illinois State University, was awarded the Insurance Scholarship sponsored by NAPSLO.

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**Symposiums and GIS Annual Conference sponsorships facilitate important outreach**

**Student Outreach**

- **3** Symposia and conferences sponsored
- **1,118** Students reached at symposia and conferences
- **60** Universities represented at sponsored symposia and conferences

During 2016, The Foundation sponsored symposia presented by Illinois State University and Troy University, and the Gamma Iota Sigma International Conference.

More than 1,100 students, representing 60 universities, attended the events, including approximately 108 at the 12th Annual Extreme Risk Takers Symposium, hosted by the Alpha Kappa Chapter of Gamma Iota Sigma at the Katie School of Insurance at Illinois State, in March in Chicago. The symposium is an educational program sponsored by the Foundation on the surplus lines insurance market that offers sessions and networking opportunities with students and industry professionals. This event also has a career fair and networking opportunity.

Approximately 190 students, representing 24 universities, attended the Excess & Surplus Lines Symposium in Atlanta, presented by Troy University’s Risk Management & Insurance Program, led by Dr. Edwin Duett. The symposium took place in October and featured presentations on topics including the NAPSLO Internship Program and challenges facing the surplus lines industry. The symposium also featured a career fair and networking opportunities.

Foundation representatives also attended the GIS International Conference in Columbus, OH in September 2016. Approximately 520 students from 57 colleges attended the conference and experienced a two-day Career Fair, interviews, educational sessions, and networking opportunities.
Foundation assets exceed $6.7 million

Thanks to generous contributions from NAPSLO member firms and a successful Golf Invitational event at the 2016 NAPSLO Mid-Year Leadership Forum in Miami, the Foundation reported $6.7 million in assets on July 31, 2016, the end of the Foundation's fiscal year.

“Generous support to the Foundation from individuals, NAPSLO-member firms and other organizations allows us to offer programs to help educate people in our industry and students who would like to join our industry in the future,” said President Brian Van Cleave. “During 2016, the E.G. Lassiter Lecture Series fund also allowed the Foundation to assist NAPSLO in bringing David McCullough to speak to attendees at the Annual Convention.”

Several entities made significant contributions during the past fiscal year, including $177,000 from state surplus lines groups, including contributions from the Surplus Lines Association of Arizona Foundation; the Surplus Lines Stamping Office of Texas; the Surplus Lines Association of Washington; and the Pennsylvania Surplus Lines Association.

In addition to contributions, the 20th Annual Foundation Golf Invitational raised $115,000.

Key spending during the past year included the Foundation’s sponsorship of the A.M. Best U.S. Surplus Lines Market Review; 15 $5,000 scholarships for students; and sponsorship of college symposiums with Illinois State University and Troy University and an e-Day at California State University - Fullerton.

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>July 31, 2016</th>
<th>July 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
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<tr>
<td>Cash &amp; Cash Equivalents</td>
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<td>Receivables</td>
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<td>61,760</td>
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<td>Investments</td>
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<td>Other Current Assets</td>
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<td>Total Assets</td>
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<td>$6,683,004</td>
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<td>Liabilities and Net Assets</td>
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<tr>
<td>Liabilities</td>
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<td>Net Assets</td>
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<td>Unrestricted</td>
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<td>Temporarily Restricted</td>
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<td>Permanently Restricted</td>
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<tr>
<td>Total Net Assets</td>
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<td>6,682,547</td>
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<tr>
<td>Total Liabilities &amp; Net Assets</td>
<td>$6,770,362</td>
<td>$6,683,004</td>
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<table>
<thead>
<tr>
<th>Income Statement</th>
<th>For the Years Ended</th>
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<tr>
<td>Revenues</td>
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<tr>
<td>Contributions and Special Events</td>
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<td>Investment Income</td>
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<td>Total Revenue</td>
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<td>Expenses</td>
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<td>Program Services</td>
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<tr>
<td>General &amp; Administrative</td>
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<td>Special Events</td>
<td>62,371</td>
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<td>Total Expenses</td>
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<td>Change in Net Assets</td>
<td>42,932</td>
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<tr>
<td>Net Assets, Beginning of Year</td>
<td>6,682,547</td>
</tr>
<tr>
<td>Net Assets, End of Year</td>
<td>$6,725,479</td>
</tr>
</tbody>
</table>

Thank you to our 2016 Foundation Contributors

**Chairman’s Level ($100,000 or more)**
Surplus Lines Association of Arizona Foundation

**Director’s Level ($50,000 - $99,999)**
NAPSLO

**Executive’s Level ($10,000 - $24,999)**
Pennsylvania Surplus Lines Association

**Sponsor’s Level ($1,000 - $9,999)**
Sarah Corvin
Surplus Lines Stamping Office of Texas
Shelly, Middlebrooks & O’Leary
Partners Specialty Group Employees
Surplus Lines Association of Washington

**Contributors’ Level (Under $1,000)**
Richard Bouhan

A complete list of contributors since the Foundation’s inception can be found on the NAPSLO website at [www.napslo.org](http://www.napslo.org).
Foundation recognizes recent ASLI graduates

The Associate in Surplus Lines Insurance (ASLI) designation program was developed jointly by the Foundation and The Institutes in 1996. Since the program’s inception, 2,167 insurance professionals have earned the ASLI designation. To complete the ASLI designation, students must pass exams for five courses. Two courses cover surplus lines coverage and operations; a third course is about professional ethics; and two additional courses are electives that allow students to choose courses covering claims, underwriting, risk management, and other insurance-related subjects.

The 2015-2016 class of 94 ASLI completers was recognized during the ASLI Conferment Ceremony and Recognition Luncheon at the 2016 NAPSLO Annual Convention in Atlanta. The distinguished graduate in the class was Nicholas Precourt, CPCU, AIAF, AIS, AR, ASLI, Great American Insurance Company.

Recognized for academic excellence are Jeff Gumaer, CPCU, ASLI, Royal Oaks Underwriters; Steve Moughamian, ASLI, Risk Placement Services; Joseph M. Walters, CPCU, AU, AU-M, ASLI, Hull & Company. Tirzah Bartley, Great American Insurance Company, served as class spokesperson.

2016 Designees

Anna Adkins, CPCU, AIC, ARM, AIAF, ARC, ARE, AIC-M, ARM-E, ASLI
Geoffrey Allen, ASLI
Zachary A. Ashworth, CPCU, ARE, ARM, AIS, ASLI, AINS, AU, AU-M
James D. Bailey, ASLI
Miriam Balavender, AINS, AIS, ASLI, AINS, AU, AU-M
Chad Barnwell, CS, ASLI
Tirzah Bartley, AINS, ASLI
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Amanda Berger, ASLI
Sagar Bhardwaj, CPCU, AINS, AIS, ASLI, AIC, AIAF, ARM
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Ian Brewer, CPCU, AIC, AIC-M, AINS, ASLI
David M. Brucker, CPCU, ASLI
Owen Buhler, ASLI
Nicholas Burrue, AU, AINS, ASLI
Jesse Cesaro, ASLI
Kimberly Curtis, AU, ASLI
Yvonne D. Danford, CPCU, AIS, AIT, ARE, AIAF, ARC, AINS, ARM, ARM-E, ANFI, ASLI
John Ellwood Daniel, CPCU, AINS, ASLI
Christina Dean, CPCU, AINS, ARC, ARE, ASLI
Robert Derzypolski, AU, ASLI
Andrew DiVenanzo, AAI, ARM, AU, ASLI
Brice Doyle, CPCU, ASLI, ARM
Joshua Eidson, ASLI
Greg Feldkamp, CPCU, AINS, AU, ASLI, ARE, AIC
Krystal D. Ferebee, CPCU ASLI
Matthew Ferrall, CPCU, AINS, ASLI
Keith Fisher, AIS, ASLI
Karen Fox, AIS, ASLI
Andrew Fraley, CPCU, AIC, API, ASLI
Rosemarie M. Friend, CPCU, AU, AIS, AIM, AIC, ARE, ASLI
Brandon M. Goodin, ASLI
Robert James Groff, CPCU, ARM, ARE, ASLI
Jeff Gumaer, CPCU, ASLI
Ryan Gustafson, CPCU, AIC, ASLI
Laura Guthinger, CPCU, ASLI
Lindsey Haney, ASLI
Feifei He, CPCU, AINS, API, ARM, ARE, AIAF, AIM, ARM-E, ASLI
Rebecca Heim, ASLI
Jennifer Hopkins, ASLI
Andrea Jarvi, AU, AINS, ASLI
James Jean, CPCU, AU, ARM, AIC, API, AMIM, AINS, ARE, AIM, AIS ARM-E, ASLI
Erinn E. Johnson, AINS, ASLI
William J. Keast, CPCU, AINS, AIS, ASLI
Grayson King, CPCU, AINS, ASLI
Zachary Kramer, CPCU, ASLI
Jonathan Lacey, AU, ASLI
Iqbal S. Lall, CPCU, AIC, ARM, ASLI
Anita Lewis, CPCU, AINS, ASLI
Michael Lomas, CPCU, AINS, AIC, ASLI
Kristy Mabe, AINS, ASLI
Corey MacDonald, AINS, AIS, ASLI
Matthew Madar, ASLI
Rahul Mehta, AINS, AIS, ASLI
Lynnette Henri Mends-Cole, ASLI
Stephen Moughamian, ASLI
Leann Nguyen, AU, AINS, ASLI
Jack O’Donnell, AIS, AINS, ASLI
Jean E. O’Reilly, CPCU, ARM, ARM-P, APA, ARe, AIC, AIS, AAI, API, ARC, AIAF, AINS, ARM-E, AMIM, AU-M, AIT, AIC, AIC-M, AAI-M, AFSB, ASLI
Cathleen C. Pagano, AIS, AINS, ASLI
Tabitha Palmer, ASLI
Prashant Patil, AIS, ASLI
Craig Perkins, ARM, ASLI
Aaron Pfister, ARM, ASLI
Nicholas Precourt, CPCU, AIAF, AIS, ARE, ASLI
Anupreet Randhawa, CPCU, ARM, AINS, ASLI
Eric Reuther, ASLI
Hillary Rice, ASLI
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Caroline Rossi, CPCU, ASLI
Michael Sacco, ARM, ASLI
Michelle Schlachter, AU, ASLI
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Nicholas Schroeder, ASLI
James Scott, CPCU, ARe, ASLI
Lauren Sechrist, ASLI
Christopher E. Siegert, CPCU, ARM, AIC, AINS, AIS, AIC-M, ARM-E, AIT, ARM-P, ARE, ASLI, API, ARC, AIAF
Dana Joleen Skerkowski, AAI, AU, ARM, ASLI
The 20th annual Derek Hughes/NAPSLO Educational Foundation golf invitational was held at the Grayhawk Golf Club - Raptor Course, in Scottsdale, AZ in conjunction with the 2016 Mid-Year Leadership Forum. With 130 participating golfers, the event raised $115,000 for the Foundation.

The event was sponsored by 47 NAPSLO member firms, helping make it a success.

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McCullough featured as E.G.Lassiter Lecture Series speaker

The E.G. Lassiter Lecture Series, presented by the Derek Hughes/NAPSLO Educational Foundation presented David McCullough as featured speaker at the 2016 NAPSLO Annual Convention, during General Session.

McCullough has been widely acclaimed as a master of the art of narrative history. He is twice winner of the Pulitzer Prize, twice winner of the National Book Award, and has received the Presidential Medal of Freedom, the nation’s highest civilian award.

His most recent book, the widely praised “The Wright Brothers,” has recently been #1 on the New York Times Bestseller list. McCullough’s other books include “The Johnstown Flood,” “The Great Bridge,” “The Path between the Seas,” “Mornings on Horseback,” “Brave Companions,” and “Truman.” His books have been published in 19 languages and as may be said of few writers, none of his books has ever been out of print.

In a crowded, productive career, he has been an editor, teacher, lecturer, and familiar presence on public television -- as host of Smithsonian World, The American Experience, and narrator of numerous documentaries including Ken Burns’s The Civil War. His is also the narrator’s voice in the movie “Seabiscuit.”

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