



2013 Annual Report



February 2014

Over the past near quarter of a century, the Derek Hughes/NAPSLO Educational Foundation has made a number of important impacts on the surplus lines industry with our scholarship program and establishment of the Associate in Surplus Lines (ASLI) designation program, but it was a project begun 20 years ago that has made the biggest impact on our industry and how it is viewed.

In the late 1980s and early 1990s, a number of questions were being raised about the surplus lines industry because of a misunderstanding of how the market works and who exactly were surplus lines risk takers. There was limited information available to counter the misconceptions, so the Foundation undertook a project to carefully examine the solvency of the industry. The Foundation commissioned the A.M. Best Co. to perform the financial solvency study and the first report was released at NAPSLO's 1994 Annual Convention in New Orleans.

Since then the Foundation has provided an annual grant to A.M. Best to update the study and examine new topics of interest to the surplus lines industry. The 20th annual report was released last fall at the 2013 NAPSLO Annual Convention in San Diego and I am pleased to report that it continues to showcase a strong record of financial stability and performance for the surplus lines industry.

In 2013, the Foundation expanded its efforts to publicize the report by joining with Lexington Insurance Co. to cosponsor a webinar produced by A.M. Best. More than 1,000 people tuned into the webinar to learn about the current report.

The surplus lines industry has greatly expanded over the past 20 years. I believe it is in part due to the annual reports continuing to demonstrate the strength and stability of our industry to people in the insurance industry, to regulators and legislators, and to insureds. The study has proved to be worth its value and the industry has stepped forward over the years to help us continue to fund this effort.

While the A.M. Best report is an important focus for the Foundation, we continue to work on a number of other important projects. Last year the Foundation again awarded 14 scholarships of \$5,000 to students who have expressed an interest in working in the insurance industry; promoted the Foundation, NAPSLO's internship program, and NAPSLO's Next Generation group at the annual Gamma Iota Sigma convention; continued our outreach to college students by sponsoring college symposiums at Troy University and Illinois State University; promoted the ASLI designation and sponsored keynote speakers to NAPSLO's Annual Convention with the E.G. Lassiter Speaker Series.

All of these efforts would not be possible without your support, whether through contributions, or participating in our annual golf event at NAPSLO's Mid-Year Leadership Forum. On behalf of the Foundation Board, thank you for your continued support of our important work. I encourage you to review this report of our work over the past year.

A handwritten signature in blue ink, appearing to read "Joseph D. Timmons".

Joseph D. Timmons, CPCU, ASLI
President

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, 1,946 insurance professionals have earned the ASLI designation.

The 2012-2013 class of 111 ASLI completers represented 29 U.S. states as well as South Korea and the United Kingdom. The ASLI designees were recognized during the ASLI Conferment Ceremony and Recognition Luncheon at the 2013 NAPSLO Annual Convention in San Diego.

The distinguished graduate in the 2012-2013 class was

Ed C. Mitchell, Nautilus International Holding Group. Recognized for academic excellence were Joseph Dahlvig, Admiral Insurane Company; Chad C. Nice, American Family Mutual Insurance Company, and Yachiyo Takase.

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.

2013 ASLI Designees

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Joseph Dahlvig, CPCU, ASLI, AU, AIS
Samuel Dirk Dallas, AINS, API, ARM, ASLI
Carey Davis, AIS, ASLI
Lorraine N. Day, ARC, ARe, ASLI
Andrew T. Dean, AINS, AIS, ASLI, AIC
Roger A. Dekraker, CPCU, AIC, ARM, AINS, ASLI
Joseph M. Dempsey, AIM, AINS, ASLI
Yang Deng, ASLI
Julia Dennebaum, AINS, ASLI, AU
Amanda Dietrich, AU, AINS, ASLI
Thomas Elder, AU, ASLI
D. Theresa Fabela, CPCU, AIS, AINS, ARM, AU, ASLI
Patrick Flores, ASLI
Andrew E. Flowers, ASLI
Robert Forness, CPCU, ASLI
Jacqueline Foust, CPCU, AU, AINS, ASLI
Angela Fylak, ASLI, AIS
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Jonathan Graham, AU, ASLI
Charles C. Green, ASLI
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Brian Christopher Hayne, ARM, ASLI

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General Star Indemnity Company
Kemper Educational and Charitable Fund
Lloyd's
Markel Corporation
NAPSLO
RSUI Group, Inc.
Scottsdale Insurance Company
Surplus Line Association of Arizona
Swiss Reinsurance Company
United National Group
Western World Insurance Group
Westrope

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Colony Insurance Company
Crump Insurance Services, Inc.
Excess Line Association of New York
Investors Insurance Group (Markel)
Partners Specialty Group, LLC
Russell Bond & Co., Inc.
Surplus Line Association of Washington
Surplus Lines Stamping Office of Texas
Swett & Crawford Group

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Euclid Managers/PMI
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18th Annual Foundation Golf Outing Set for March 7th in Scottsdale

The 18th annual Foundation golf outing is scheduled for March 7th at the Wildfire Golf Club in Scottsdale, as part of the 2014 NAPSLO Mid-Year Leadership Forum.

The Foundation raised almost \$113,000 in 2013 at the 17th Annual Foundation Golf Invitational.

“The golf invitational is a great way for members to support the Foundation and is an important fundraiser for us,” said President Joseph Timmons.

Nearly 100 golfers and 41 sponsoring firms took part in the 2013 event.

2013 Golf Invitational Sponsors:

GOLD SPONSORS

AmWINS Brokerage
Arch Insurance Group
AXIS Insurance
CRC Brokerage
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Guy Carpenter
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Markel
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Western World Insurance Group
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SILVER SPONSORS

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St. James Insurance Group
The Sullivan Group
U.S. Risk Insurance Group
USLI
Western Heritage Insurance Co.

BRONZE SPONSORS

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Great American E&S Insurance Co.
Guilford Specialty Group
Hartford Steamboiler Inspection
James River Insurance
Meadowbrook, Inc.
Specialty Risk Associates, Inc.

Foundation Takes Part in Surplus Lines Symposiums, GIS Annual Conference

The Foundation sponsored a number of programs in 2013, including symposiums presented by Illinois State University and Troy University, and the Gamma Iota Sigma International Conference.

More than 600 students attended the events, including approximately 90 at the Annual Extreme Risk Takers Symposium, hosted by the Alpha Kappa Chapter of Gamma Iota Sigma at the Katie School of Insurance at Illinois State hosted the 10th Annual Symposium 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. The 2014 symposium will take place March 28-29 in Chicago.

Approximately 65 students, representing 12 universities, attended the

Excess & Surplus Lines Symposium, presented by Troy University's Risk Management & Insurance Program, led by Dr. Edwin Duett. The symposium took place in November and featured presentations on topics such as 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 Charlotte, NC in October. More than 315 students from 36 colleges attended the conference and experienced a two-day Career Fair, interviews, educational sessions, and networking opportunities.

In addition the Foundation, along with NAPSLO, sponsored the Surplus Lines Association of North Carolina's "Insurance Jeopardy" program in November attended by nearly 150 students.

E.G. Lassiter Lecture Series Featured Ben Stein

Economist, speech writer and financial commentator Ben Stein was the featured speaker sponsored by the E.G. Lassiter Lecture Series, presented by the Derek Hughes/NAPSLO Educational Foundation. Mr. Stein spoke to a standing room only audience at the 2013 NAPSLO Annual Convention.



Mr. Stein graduated from Yale Law School in 1970 and also studied in the graduate school of economics at Yale.

In 1973 and 1974, he was a speech writer and lawyer for Richard Nixon at The White House and then for Gerald Ford.

Mr. Stein writes a column for The New York Times Sunday Business Section, and has been a columnist for a number of publications. He is also an extremely well-known actor, with his role in Ferris Bueller's Day Off ranked as one of the 50 most famous scenes in American film.

Foundation Awards 14 Scholarships for 2013-14 Year

The Foundation selected 14 students to receive \$5,000 scholarships for the 2013-14 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.

The **Russell Bond Education Scholarship** was added in 2007 to recognize the founder of the Russell Bond & Co., Inc. The Russell Bond Education Scholarship recipient was Joseph E. Neely, Florida State University.

The **Gary E. Frohn Memorial Scholarship** was established in 2008 to recognize Mr. Frohn. The Gary E. Frohn Memorial Scholarship recipient was Collin R. Wilson, Georgia State University.

The **Richard Hull Educational Scholarship** was established in the name of Hull & Company founder. The Richard Hull Educational Scholarship recipient was John Churey III, Florida State University.

The **Herbert W. Kaufman Memorial Scholarship** was added in 2001 from proceeds donated in memory of Herbert W. Kaufman. The Herbert W. Kaufman Memorial Scholarship recipient was Andrew R. Izzo, Appalachian State University.

The **Kevin A. McLaughlin Memorial Scholarship** was added in 2000 in memory of Mr. McLaughlin. The Kevin A. McLaughlin Memorial Scholarship recipient was Lindsay G. Bunch, Virginia Commonwealth University.

In 2003, the **Scott W. Polley Memorial Scholarship** was established in memory of Mr. Polley. The three students selected to receive a Scott W. Polley Memorial Scholarship were:

- Alyssa N. Bouchard, Appalachian St. University
- Steven J. Costa, Temple University
- Taylor M. Zitkus, Illinois State University

The **Michael J. Snead Memorial Scholarship** was established in 2009 to

recognize Mr. Snead, a former NAPSLO Board member and an industry leader. The Michael J. Snead Memorial Scholarship recipient was Kevin P. Frisch, University of Wisconsin - Madison.

The **Rolland L. Wieggers Education Scholarship** was made possible by a donation from the Scottsdale Insurance Co. in honor of the company's founder. The three students selected to receive a Rolland L. Wieggers Scholarship were:

- Nicole M. Lacy, Illinois State University
- Jennifer M. Richey, Missouri State University
- Ruth M. Torres, St. Mary's University

The **Foundation Insurance Scholarship** recipient was Courtney B. Bass, Florida State University.

The recipient of the **Insurance Scholarship** sponsored by NAPSLO was Arlind Aliaj, University of Texas - Austin.

Surplus Lines Writers See 11.8% Increase in Direct Premiums Written

Surplus lines direct premium written grew 11.8% in 2012 according to the *2013 Special Report U.S. Surplus Lines – Segment Review*, produced by the A.M. Best Company with a grant from the Foundation.

"We are pleased to continue our support to A.M. Best in producing the 20th annual special report," said Joseph Timmons, Foundation President. "The report is an authoritative study of the E&S industry and demonstrates the stability of the excess and surplus lines sector. Supporting the research and publication of the report continues to be one of the Foundation's primary annual objectives."

The 11.8% growth in direct premium reversed a five-year decline since 2006, with domestic professional surplus lines insurers generating a 12.9% increase in direct premiums written.



For the ninth year in a row, the surplus lines industry reported no financially impaired companies, in contrast to the admitted property/casualty industry's 21 disclosed finan-

cial impairments in 2012, and domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry.

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 also examines the surplus lines sector's financial condition and ratings distribution, market trends, regulatory and legislative developments, distribution issues, and impairment trends.

The report was reviewed during a webinar in September hosted by A.M. Best, and cosponsored by the Foundation and Lexington Insurance Co.

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

Foundation Nears \$6.5 Million in Assets

Thanks to a number of contributions from NAPSLO member firms and a successful Golf Invitational event at the 2013 NAPSLO Mid-Year Leadership Forum in Miami Beach, the Foundation reported nearly \$6.5 million in assets by the July 31, 2013 end of the Foundation's fiscal year.

"Continued support of the Foundation by firms, individuals, and organizations allows us to expand our programs to help educate people in our industry and students who may join the industry in the future," said President Joseph D. Timmons, CPCU, ASLI. "The additional contributions to the E.G. Lassiter Speakers Fund allowed the Foundation to assist NAPSLO in bringing Ben Stein to speak to attendees at NAPSLO's 2013 Annual Convention."

Several entities made significant contributions during the past fiscal year, including \$25,000 from Swett & Crawford; \$20,000 from Westrope \$10,000 from Partners Specialty Group, and \$15,000 from the Kemper Educational and Charitable Fund.

In addition, the Foundation received \$70,000 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 17th Annual Foundation Golf Invitational raised almost \$113,000.

Key spending during the past year included the Foundation's sponsorship of the A.M. Best *U.S. Surplus Lines Market Review*; 14 \$5,000 scholarships for students; and sponsorship of college symposiums with Illinois State University and Troy University.

"Through our scholarships, symposiums at colleges, and the ASLI designation program, we continue to increase awareness and knowledge of the surplus lines industry," said Mr. Timmons.

Balance Sheet

	<u>July 31, 2013</u>	<u>July 31, 2012</u>
Assets		
Cash & Cash Equivalents	\$ 523,306	\$ 641,097
Certificates of Deposit	2,973,000	2,730,000
Receivables	189,150	197,292
Investments	2,786,570	2,715,010
Total Assets	<u>\$ 6,474,510</u>	<u>\$ 6,283,399</u>
Liabilities and Net Assets		
Liabilities	\$ 1,360	\$ 842
Net Assets		
Unrestricted	4,484,146	4,314,433
Temporarily Restricted	1,441,001	472,228
Permanently Restricted	548,003	1,495,896
Total Net Assets	<u>6,473,150</u>	<u>6,282,557</u>
Total Liabilities & Net Assets	<u>\$ 6,474,510</u>	<u>\$ 6,283,399</u>

Income Statement

	For the Years Ended	
	<u>July 31, 2013</u>	<u>July 31, 2012</u>
Revenues		
Contributions and Special Events	\$ 308,401	\$ 568,067
Investment Income	130,680	200,706
Total Revenue	<u>439,081</u>	<u>768,773</u>
Expenses		
Program Services	177,517	189,999
General & Administrative	16,896	18,649
Special Events	54,075	50,672
Total Expenses	<u>248,488</u>	<u>259,320</u>
Change in Net Assets	190,593	509,453
Net Assets, Beginning of Year	6,282,557	5,773,104
Net Assets, End of Year	<u>\$ 6,473,150</u>	<u>\$ 6,282,557</u>



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