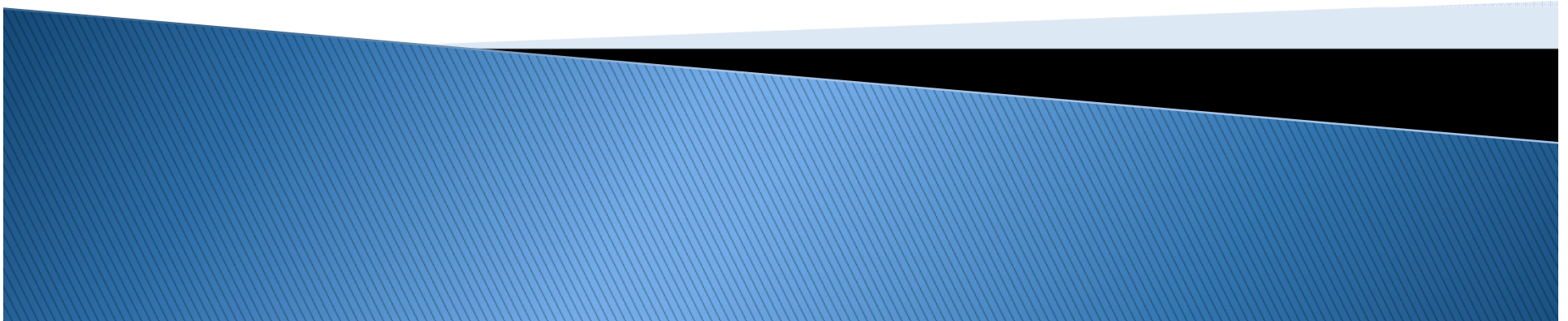


Welcome to the



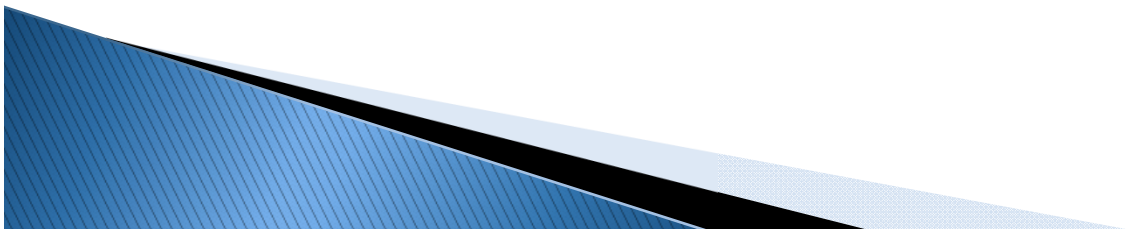
THE SURPLUS LINE
ASSOCIATION OF | CALIFORNIA

2016 Annual Meeting





BROKER

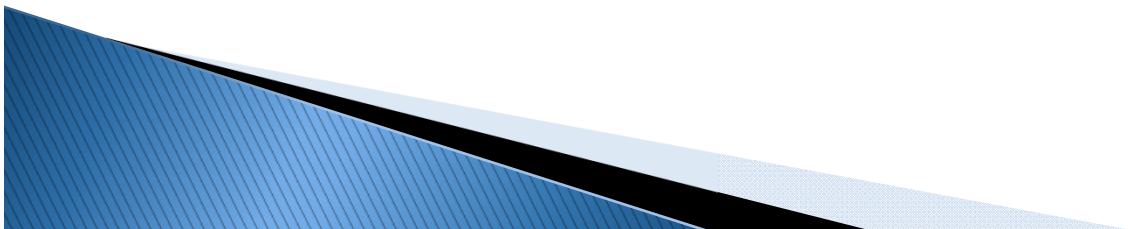


Welcome

Denis Brady

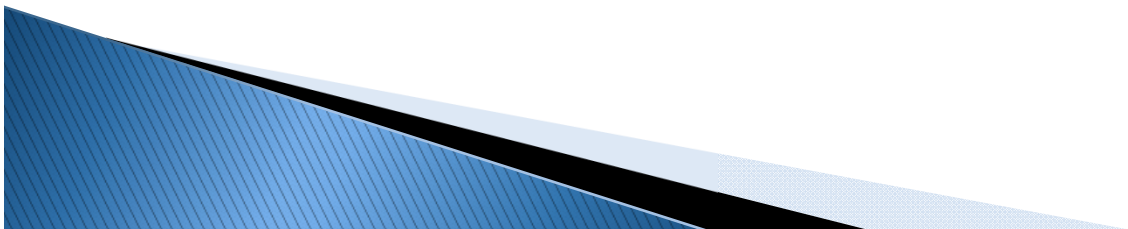
Chair

Board of Directors



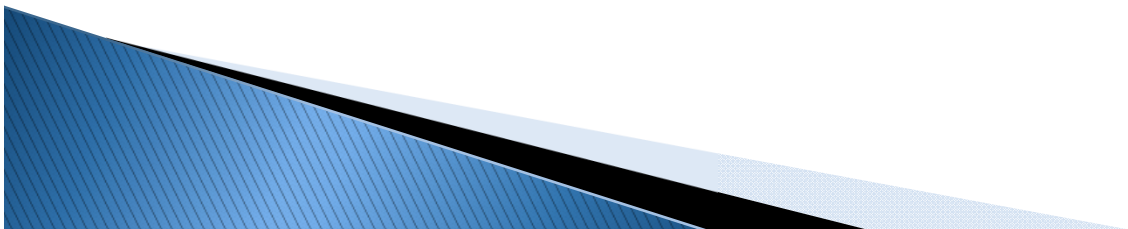
Head Table

- **Benjamin McKay**—SLA of California
Executive Director
- **Joy Erven**—SLA of California
COO and Director
- **Jim Woods**—Mayer Brown LLP
General Counsel

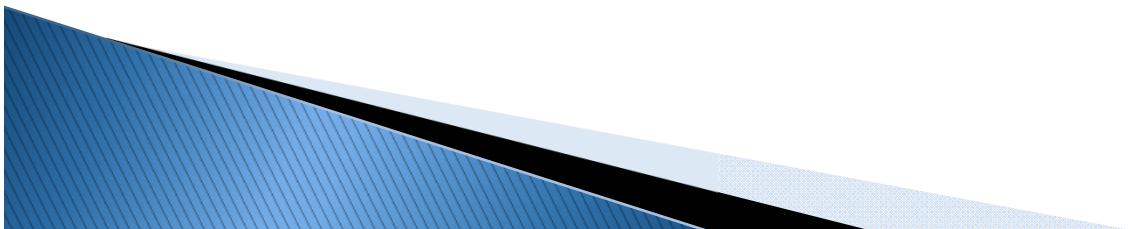


Antitrust Resolution

When involved in meetings or other activities of the Association, members of the Association should be mindful of the antitrust laws and not engage in discussions or conduct with the purpose or effect, directly or indirectly, of fixing or stabilizing premiums or producer compensation, engaging in “bid-rigging” or false quotes for insurance, engaging in potential anti-competitive conduct or activities that could adversely affect the cost, quality or availability of insurance products or services, or engaging in any other anti-competitive conduct or activities affecting their businesses or the business of insurance. Members are advised that violations of state or federal antitrust laws may result in civil and/or criminal penalties, and that any member acting contrary to the intent of this resolution shall be subject to disciplinary action under the Association’s Constitution.



Previous Annual Meeting Minutes

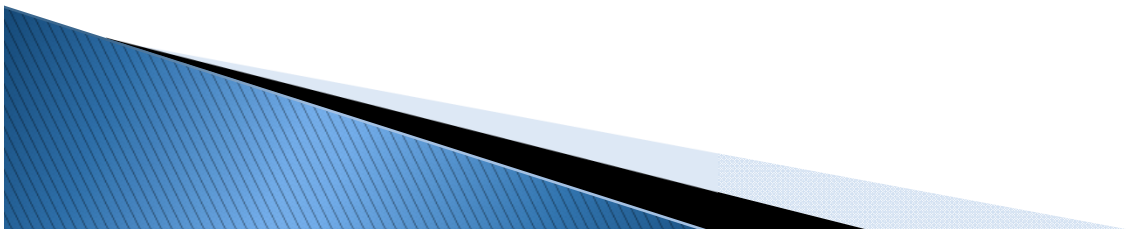


Report of the Chair

Denis Brady

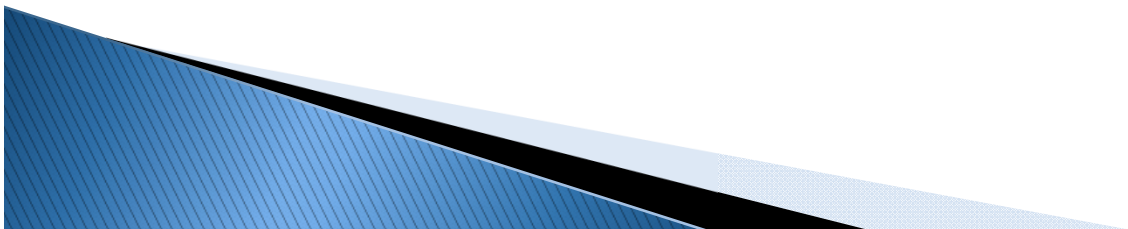
Chair

Board of Directors



Report of the Chair

- **SLA Website Improvements**
 - Page views skyrocketed from about 1,000 a month before new website to an average of 24,000 a month after new website launch.



Report of the Chair

The screenshot shows the homepage of the Surplus Lines Association of California (SLA). The header includes the SLA logo with the tagline "THE SURPLUS LINE ASSOCIATION OF CALIFORNIA" and "BRIDGE TO A VIBRANT SURPLUS LINES MARKET". A navigation menu contains links for ABOUT US, BROKERS, COMPANIES, EDUCATION, LAWS & REGULATIONS, PUBLICATIONS, FAQ, SLIP, and HELP. A search bar is located in the top right corner, along with contact information: 50 California Street, 18th Floor, San Francisco, CA 94111, (415) 434-4900, and (415) 434-3716. A banner for "New Version of SLIP Now Available" is visible. The main content area is divided into several sections: "BROKER LOG IN" and "NON RESIDENT BROKER" buttons; "FAST LINKS" with a list of links to various resources; "WELCOME" with a paragraph about the association's role; "UPDATES" with several news items and links; "HIGHLIGHTS" with links for upcoming events and current legislation; "SLA NEWS" with a link to quarterly newsletters; "HELPING COMMUNITIES ENRICHING LIVES TOGETHER" with a logo for the Insurance Industry Charitable Foundation; "TAX RETURNS IMPORTANT INFORMATION" with links for tax returns and calendar; and "RECENT SLA BULLETINS" with a list of recent bulletins.

SLA THE SURPLUS LINE ASSOCIATION OF CALIFORNIA BRIDGE TO A VIBRANT SURPLUS LINES MARKET

CONTACT US SEARCH

50 California Street, 18th Floor
San Francisco, CA 94111
(415) 434-4900 - Phone
(415) 434-3716 - Fax

ABOUT US BROKERS COMPANIES EDUCATION LAWS & REGULATIONS PUBLICATIONS FAQ SLIP HELP

New Version of SLIP Now Available Signature

BROKER LOG IN

NON RESIDENT BROKER

FAST LINKS

- [CDI - California Department of Insurance](#)
- [CDI - Insurance Companies and Other Entities](#)
- [Check license status](#)
- [California Department of Insurance Bulletin 99-4](#)
- [New Surplus Line Broker Licensing Requirements](#)
- [Training Manual](#)
- [Seminar Registration](#)
- [Directory of State Stamping Offices](#)
- [Surplus Line Associations Rates and Fees Schedule](#)
- [State Departments of Insurance](#)
- [Video Archives](#)

RELATED LINKS

- [NAPSLO](#)
- [Admitted Market Listing](#)

WELCOME

The Association operates as a self-governed private organization. Appointed in 1994, the Association serves as the statutory surplus line advisory organization to the California Department of Insurance (CDI) and facilitates the state's capacity to monitor and direct surplus line brokers' placements of insurance with eligible nonadmitted insurers.

Working with its members and the CDI, the Association helps maintain a healthy, fair, and competitive surplus line marketplace in California, as well as protect the interest of California consumers.

UPDATES

[SLA Annual Meeting 2015, Details and Registration now open, click here](#)

Save the Date! 2015 Western States Surplus Lines Conference Week of June 21, 2015.

[Governor Brown Signs Ridesharing Bill](#)

[SLA Elects Ian Fitt As Executive Committee Chairman](#)

SLA Requires Digital Signatures To Conform To State's Approved List, [Click here](#) for more information.

[SLA's Benjamin McKay Named to ICF Western Division Board of Directors](#)

[Ben McKay's Primer on the Non-Admitted Market](#)

[2013 Published Stamping Fees, Tax Rates, and Statistics for all Stamping Offices Now Available!](#)

[California Surplus Lines Market Trend Dashboard Available](#)

[Two-Hour Training for Employees of Surplus Line Business Entities](#)

LASLI Last updated January 12, 2015

[view previous updates >>](#)

HIGHLIGHTS

[Upcoming Events](#)

[Current Legislation](#)

SLA NEWS

[Quarterly Newsletters](#)

The SLA is proud to partner with the ICF in its work in our communities.

HELPING COMMUNITIES ENRICHING LIVES TOGETHER.
Insurance Industry Charitable Foundation

TAX RETURNS IMPORTANT INFORMATION

Tax Return	Calendar
Instructions	SLB Voucher

RECENT SLA BULLETINS

- Re: Tokio Marine Europe Insurance changes name to Tokio Marine Kin Insurance Limited
[Bulletin #1318](#)
- Re: No Changes to the Export List in 2015
[Bulletin #1317](#)
- Re: Reminder, Invitation to SLA Annual Meeting 2015!
[Bulletin #1316](#)
- Re: SPARTA Specialty Insurance Company (Connecticut) requests

Old SLA Website

Report of the Chair

The screenshot displays the SLA California website dashboard. At the top left is the SLA logo with the text 'THE SURPLUS LINE ASSOCIATION OF CALIFORNIA'. A search bar is located to the right of the logo. Further right are navigation links for 'MENU', 'CONTACT', and 'FILER'. Below the navigation is a notification bar with the text '1 Register for the 2016 SLA Annual Meeting: February 16th and 18th!'. The main content area features a grid of tiles: 'Tax & Stamping Fee Estimator', 'Batch Status', 'Taxes & Fees', 'New Filer Information', 'FAQs', 'Filing Procedures', 'Filing Forms', 'Broker Member Lookup', and a 'Surplus Line Insurer Lookup' form with input fields for 'Enter Company Name', 'Enter NAIC Number', and 'Enter Domicile', and a 'SEARCH' button. A 'LOGIN' link is also visible. At the bottom of the dashboard is a statistics bar with the following data:

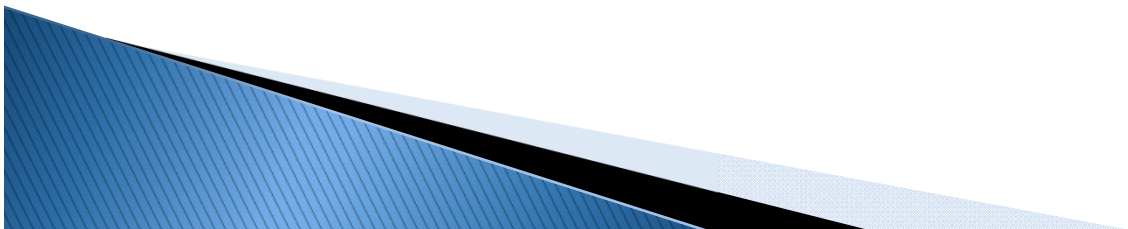
DECEMBER TOTAL SUBMISSIONS	46,177	MoM -24.74%	MoM Yearly +8.74%	ITEM TYPE NEW BUSINESS	TOTAL SUBMITTED	16,426	MoM -25.37%	MoM Yearly +7.84%	ITEM RENE	11
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The footer contains the text 'The Surplus Line Association of California', 'Copyright © 2016 | Terms of Use & Privacy Policy', and a list of links: 'Website Video Tour | Employee Portal | Board Effect | FAQs | Site Map'.

Current SLA Website

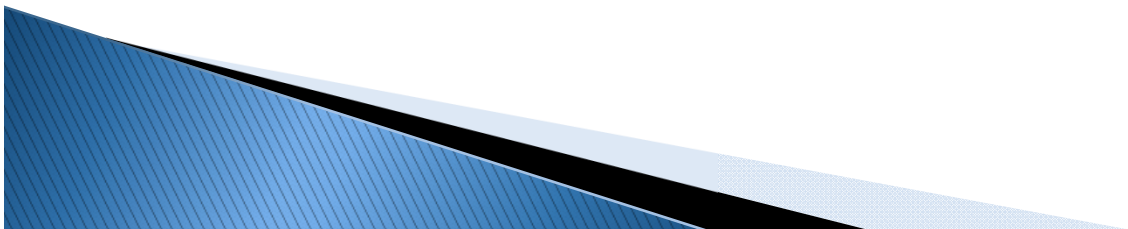
Report of the Chair

- **SLA Website Improvements**
 - Ongoing improvements to help provide best and most useful tools to members and other stakeholders



IN 2015

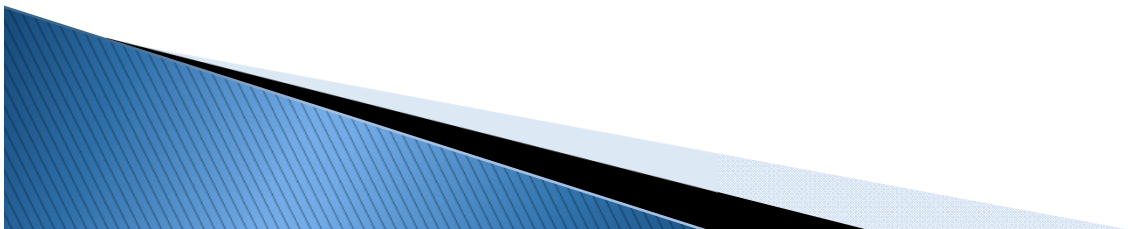
THE SURPLUS LINE ASSOCIATION OF CALIFORNIA
LAUNCHED ITS NEW WEBSITE



Report of the Chair

➤ Paperless Initiative

- From paper filings to SLIP online filing
- From paper checks to ACH/e-check
- From paper records to cloud-based system
- Transformed filing room to state-of-the-art training room



Report of the Chair

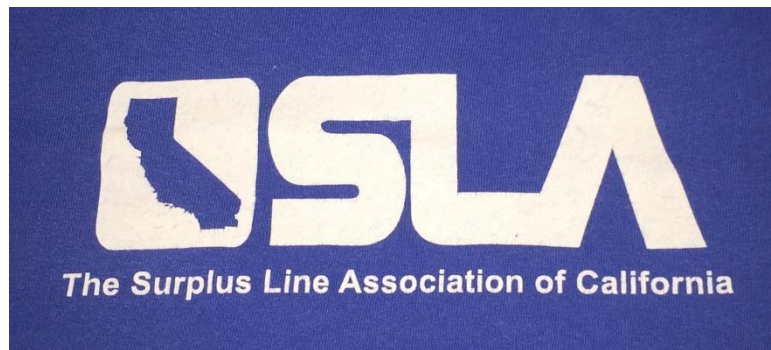
➤ From Filing Room to Training Room



Report of the Chair

- **Rebranding and Outreach**
 - **Changing our image from old, bureaucratic, reactive to forward-thinking leader focused on serving members, consumers**

SLA Logo, 2013

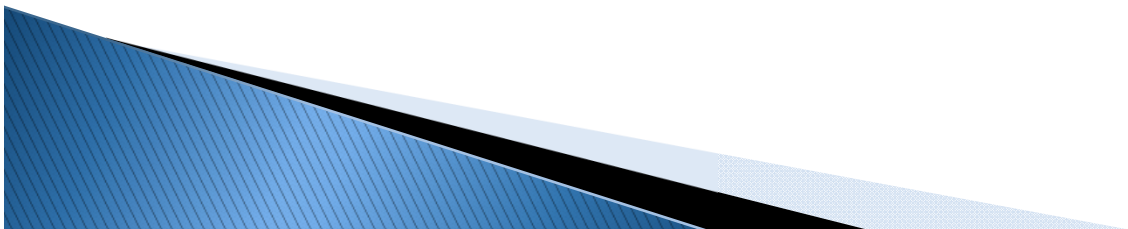


SLA Logo Today



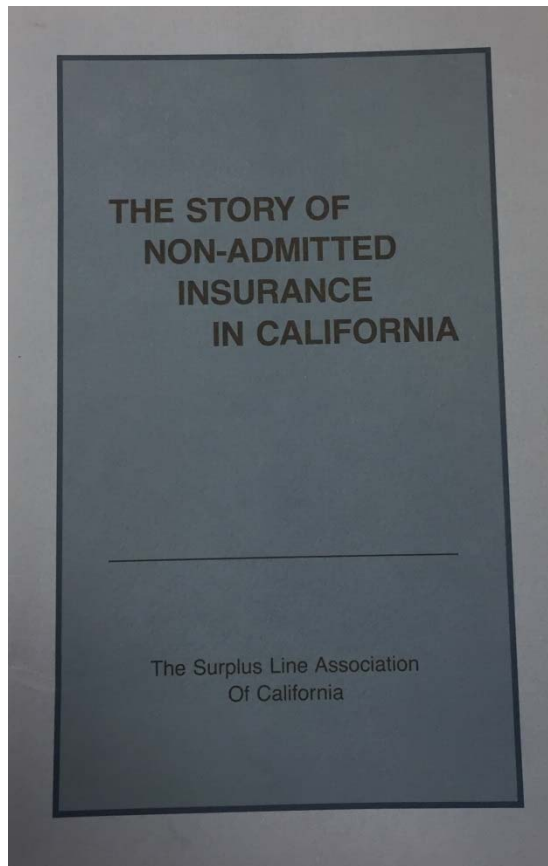
Report of the Chair

- **Rebranding and Outreach**
 - Increasing our outreach to legislators and regulators so that they understand our crucial role

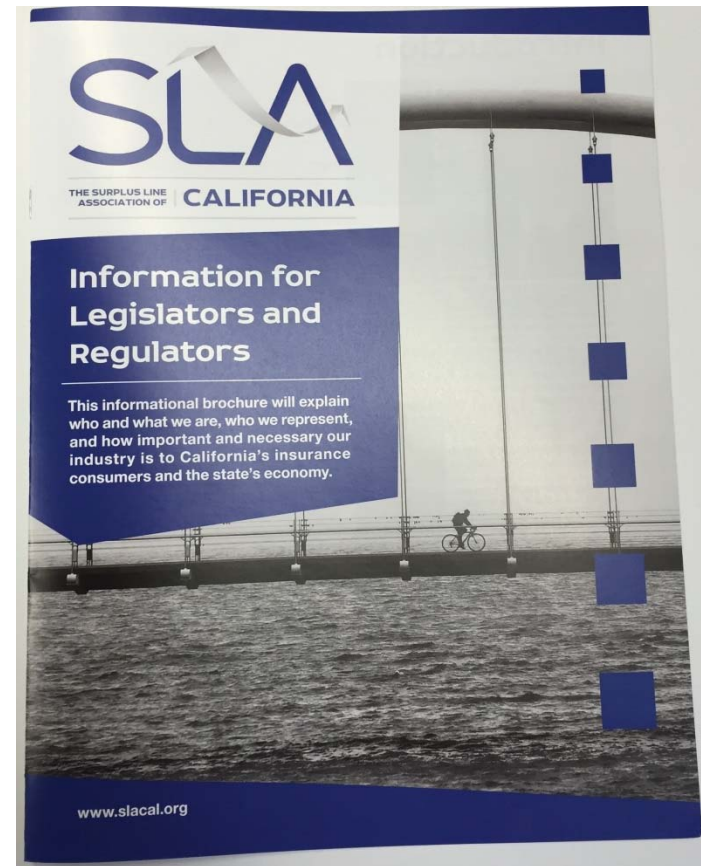


Report of the Chair

Old Brochure



Current Brochure



Report of the Chair

➤ **Rebranding and Outreach**

- Providing better-quality communications to our members to help them stay on top of market trends and what is happening in Sacramento and Washington, D.C.



Report of the Chair

SLA Newsletter, 2013



SLA Newsletter, Today



Report of the Chair

➤ **Moving Toward Full Service For Members**

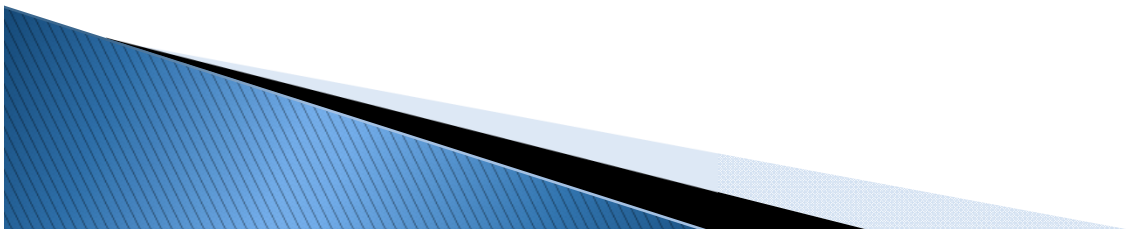
- SLIP Training
- New filer training program
- Tag reduction program
- In-person training visits to member offices
 - 65 in 2015
 - 0 in 2012
- Millennial outreach
- Calendar of educational offerings
- Relevant, timely classes



Report of the Chair

➤ **Financial Analysis Restructuring**

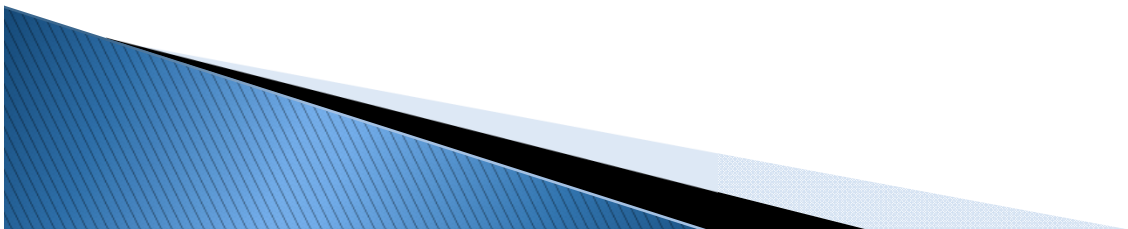
- Led by our new Vice President, Financial Analysis, Susan Bryant, M.B.A.
- Better practices for analyzing companies
- Development of specialists, subject-matter experts
- Better departmental training to meet the new challenges in financial analysis laws and regulations
- Creation of internal review teams to analyze each other's work



Report of the Chair

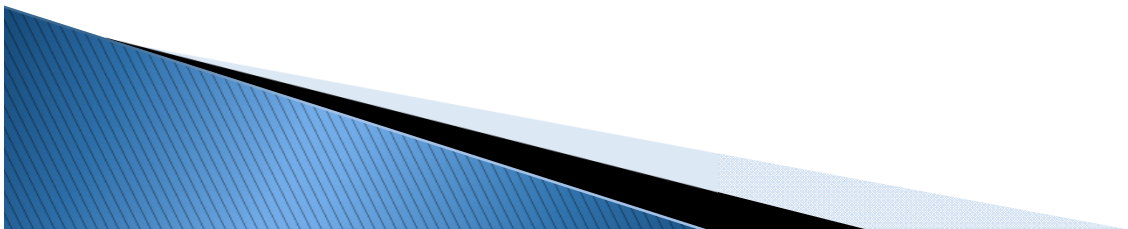
➤ **Human Resources**

- Led by our new Vice President, Human Resources, Pamela Boyes, SPHR, SHRM-SCP
- Crucially important because the SLA, at its core, is its people
- Moving forward understanding that employee focus leads to world-class service for members and other stakeholders



Report of the Chair

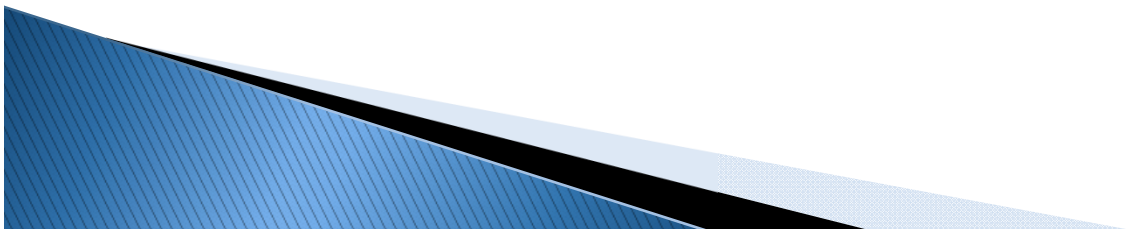
- **SLA processes record \$6.1 billion in premiums in 2015**
- Bested previous record of \$6 billion processed in 2006
- **Due to technological advances, better hirings and training, and without raising the stamping fee, the SLA processed this record level of premiums with 21 fewer employees in 2015 than it had in 2006.**



Report of the Chair

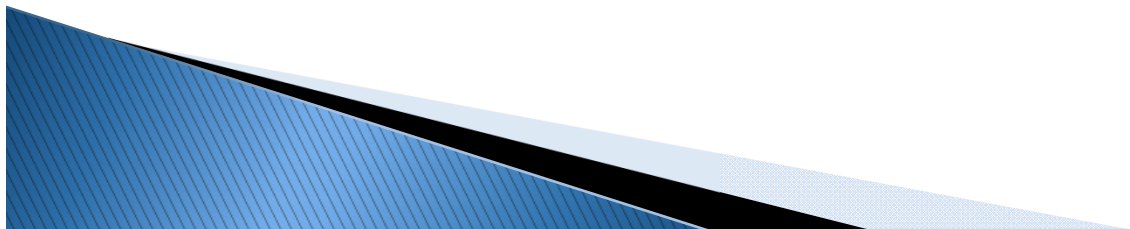
- **Summing up 2015:**
 - More premiums processed than ever before
 - More training to members than ever before
 - Greater technological advances than ever before
 - All with **27 percent less staff** than in 2006

- **The SLA did more in 2015 than during any other year in its 78-year history, with significantly fewer employees than it had 10 years ago**



Report of the COO/Director

Joy Erven, M.B.A.
*Chief Operating Officer
and Director*



Report of the COO/Director

- The SLA continues to be in good financial condition.
 - Our revenue from stamping fees for the fiscal year ending November 30, 2015 was **\$12,081,286**.
 - Interest income was **\$96,725** for the year.
 - The total revenue was **\$12,178,011** for the year.
 - Expenses totaled **\$11,833,098** for the year.
 - As of November 30, 2015 the net asset balance was **\$14,976,317**.
 - The stamping fee was **0.2%** for the 2015 fiscal year and remains unchanged.



State Taxes

- **Due March 1, 2016**
- **Forms Available on
CDI or SLA websites**

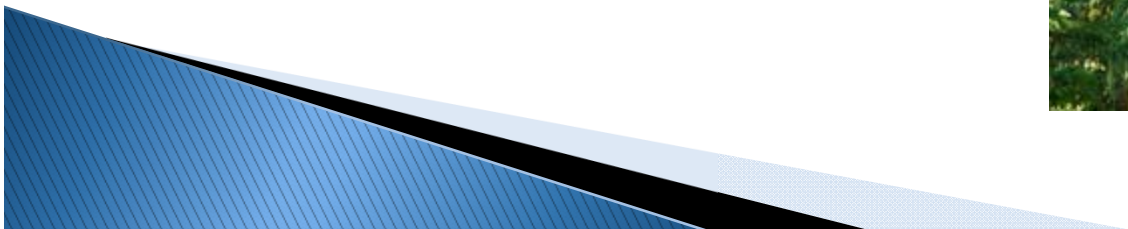


Western States 2016

Western States Surplus Lines Conference

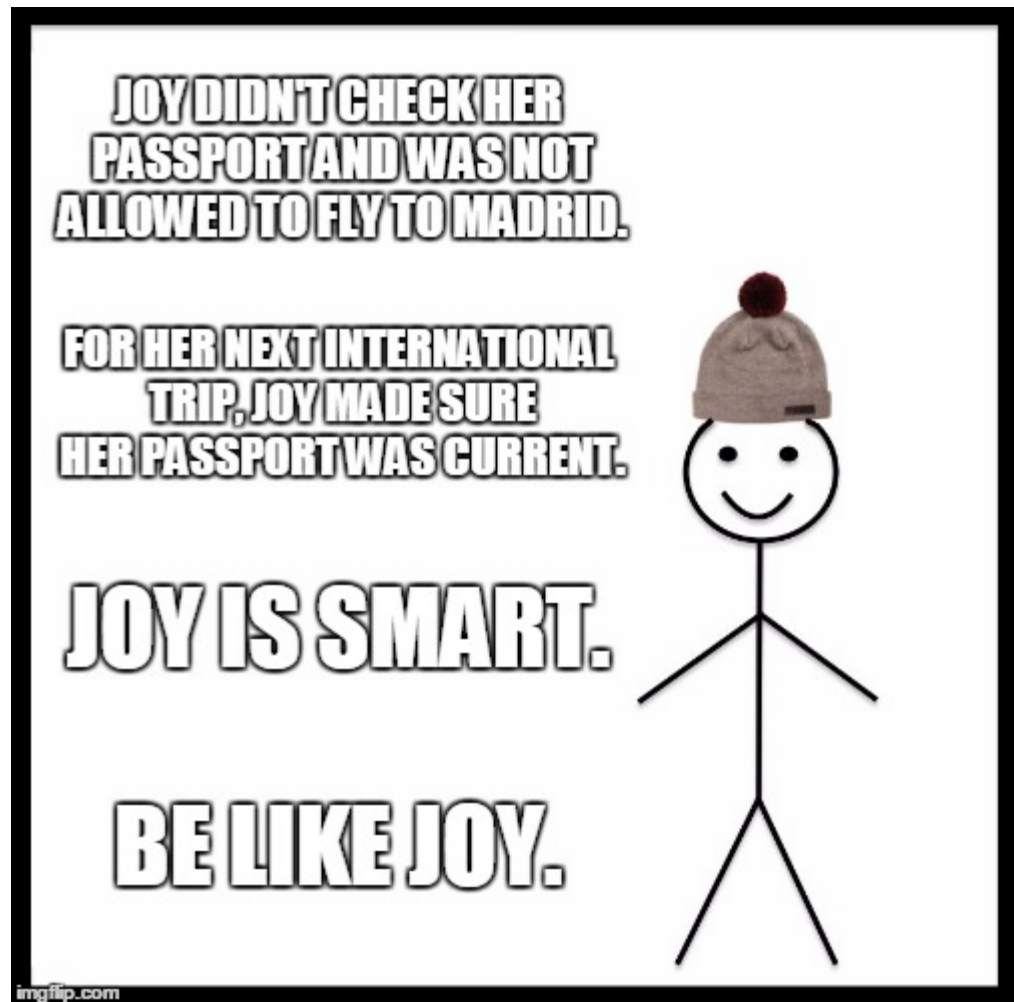
July 13-16

Whistler, British Columbia



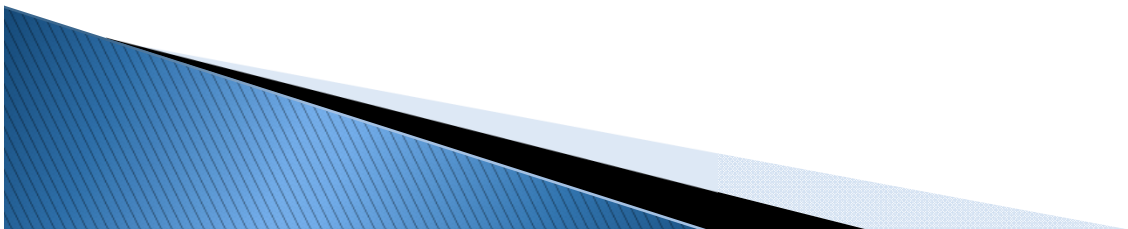
Western States 2016

If you plan to go to Western States in Canada this summer, make sure you have a current, valid passport as soon as possible.



Executive Director's Report

Benjamin McKay,
J.D., M.P.A.
Executive Director



Executive Director's Report

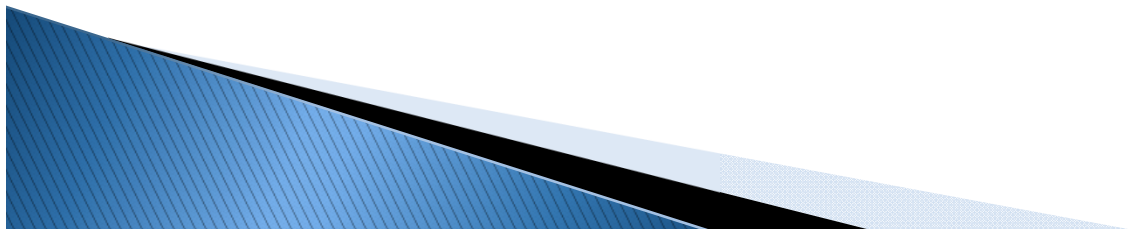
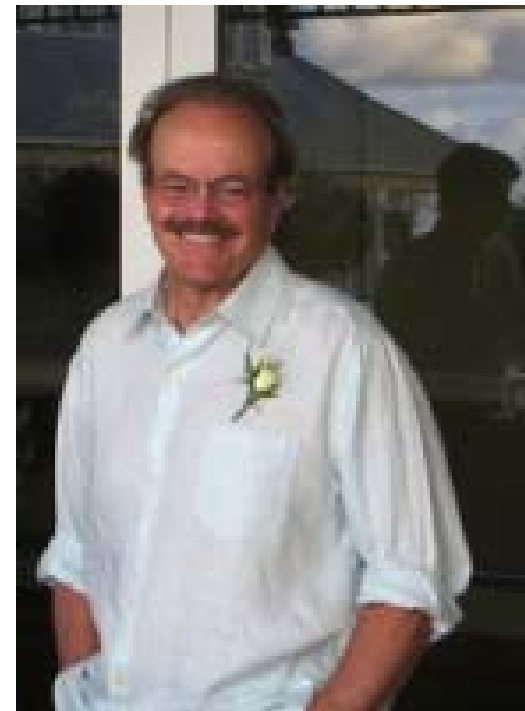
In Memoriam

James Stephen Carey

1950-2015

President

Admiral Insurance Company



Executive Director's Report

➤ **Thanks For Attending Today**

- Crucial for members to be involved
 - Meet fellow brokers
 - Know what's happening in the marketplace
- Thanks also to legislators, regulators and their staff for being here
 - Important for decision-makers to be exposed to our industry and gain deeper understanding of it
 - We believe in transparency and working collaboratively to ensure consumers are protected and members can give them the quality service they need and expect



Executive Director's Report

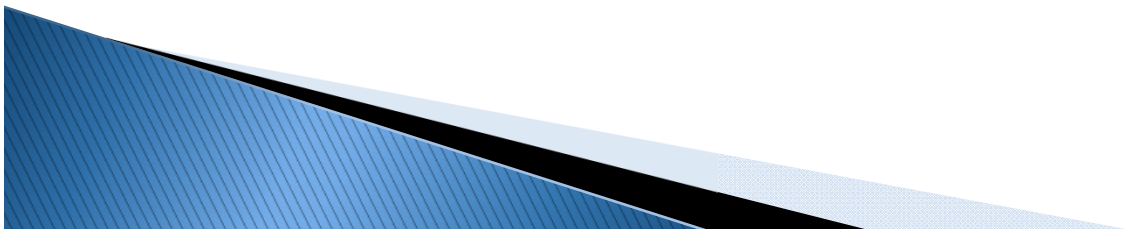
➤ **This Is the SLA**

- 55-employee association with \$13 million annual budget
 - These numbers put us in the “large” category of nonprofit associations
 - Vast majority of associations are small or mid-sized
- Record-setting 2015 with \$6.1 billion in processed premiums
 - Represents nearly 1/7 of total U.S. market (\$45 billion)
 - California SLA is the largest of 14 stamping offices in United States; next largest are New York and Texas
 - Currently 5,170 licensed California brokers





BENJAMIN MCKAY, J.D, M.P.A
EXECUTIVE DIRECTOR

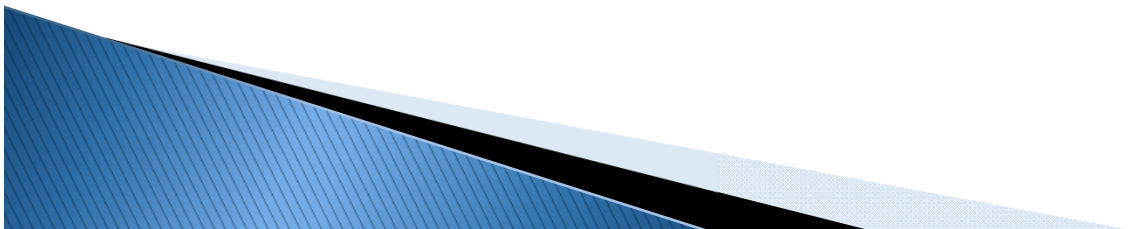


Nominating Committee Slate

Denis Brady

Chair

Board of Directors



Slate: 2016 Board of Directors

Mr. Chris Houska—R-T Specialty
SLA Chair

Mr. Tom Ciardello—Worldwide
Facilities, Inc.
SLA Vice Chair

Mr. Bob Gilbert—Markel West
Insurance Services
SLA Secretary/Treasurer

Mr. Denis Brady—Burns & Wilcox
Brokerage
SLA Past Chair

Ms. Janet Beaver—Scottish
American

Mr. Ian Fitt—Catalytic Holdings, LLC

Mr. Rupert Hall—M.J. Hall and
Company

Mr. Chris Kiley—AMWINS

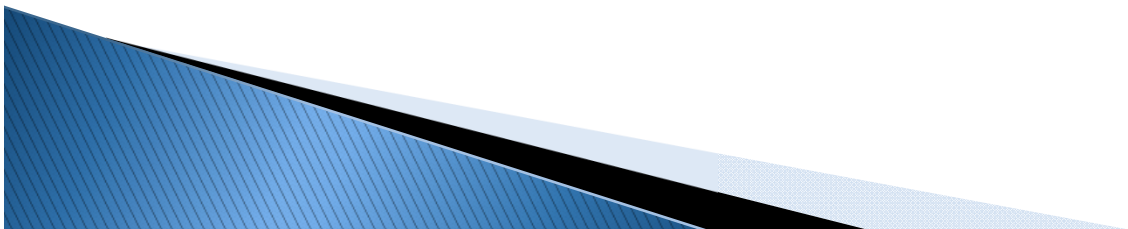
Mr. Davis Moore—Worldwide
Facilities, Inc.

Ms. Terri Moran—Vela Insurance
Services

Ms. Pam Quilici—Crouse and
Associates Insurance Services of
Northern California, Inc.

Mr. Les Ross—Wholesale Trading
Co-Op Insurance Services, LLC

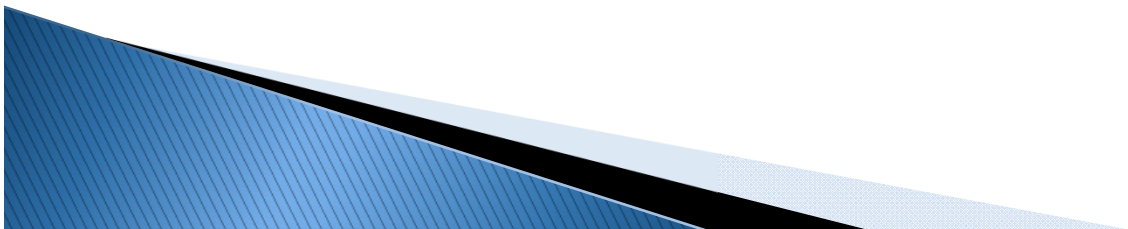
Mr. Gerald Sullivan—The Sullivan
Group



Appointment of Mediator

The SLA
Nominating Committee
Recommends
Reappointing

Judge Harry Low
as SLA Mediator for 2016



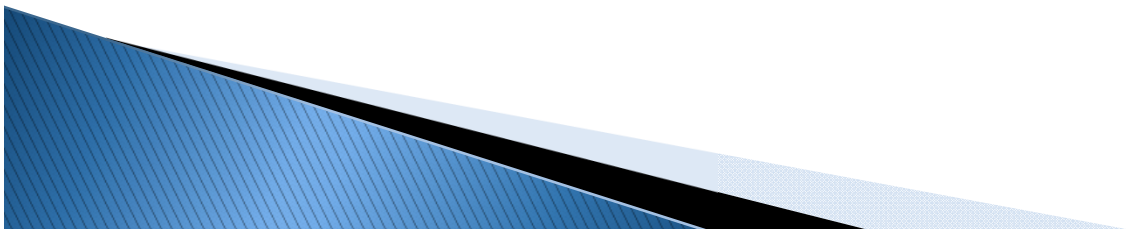
Legal Update

Jim Woods

SLA General

Counsel

Mayer Brown LLP





**What Every Broker (and Insurer)
Should Know About Cybersecurity:
*Challenges and Opportunities***

2016 Annual Meeting of The Surplus Line Association of California

February 16 & 18, 2016

James R. Woods

MAYER • BROWN

Contents

Why Be Concerned About Cybersecurity? <i>The challenge</i>	3
The Cost of a Data Breach <i>It is more expensive than you think</i>	4
Insurance Industry Under Cyber Attack <i>Bombs away!</i>	5
Rating Agency Criteria and Cybersecurity <i>The hidden regulator</i>	6
Sources of Regulation of Cybersecurity <i>Here, there and everywhere</i>	7
Data Security and the Law <i>When the victim becomes the defendant</i>	10
What's a Broker (or Insurer) To Do? <i>Seven key steps</i>	12
Process for Preparing a WISP and DBRP <i>The path forward</i>	13
Cybersecurity Insurance <i>The opportunity</i>	14
Top Ten Questions Every Broker (and Insurer) Should Answer	15



Why Be Concerned About Cybersecurity?

- “**Cybersecurity will be the biggest focus of the insurance industry in the immediate future**” - NAIC CEO, Ben Nelson
- Consider what a broker (or insurer) is likely to encounter in connection with a significant cyber breach:
 - **Expense** to respond
 - Damage to brand/**reputation** and resulting loss of sales
 - **Disruption** to management, public relations, marketing and operations
 - Regulatory sanctions and government **investigations**
 - Shareholder **derivative suits** against directors and officers
 - Consumer **class actions** against the company
 - **Collateral damage** to other companies, who then sue
 - Decline in **ratings**
 - Possible drop in **stock price**
 - **Job loss**

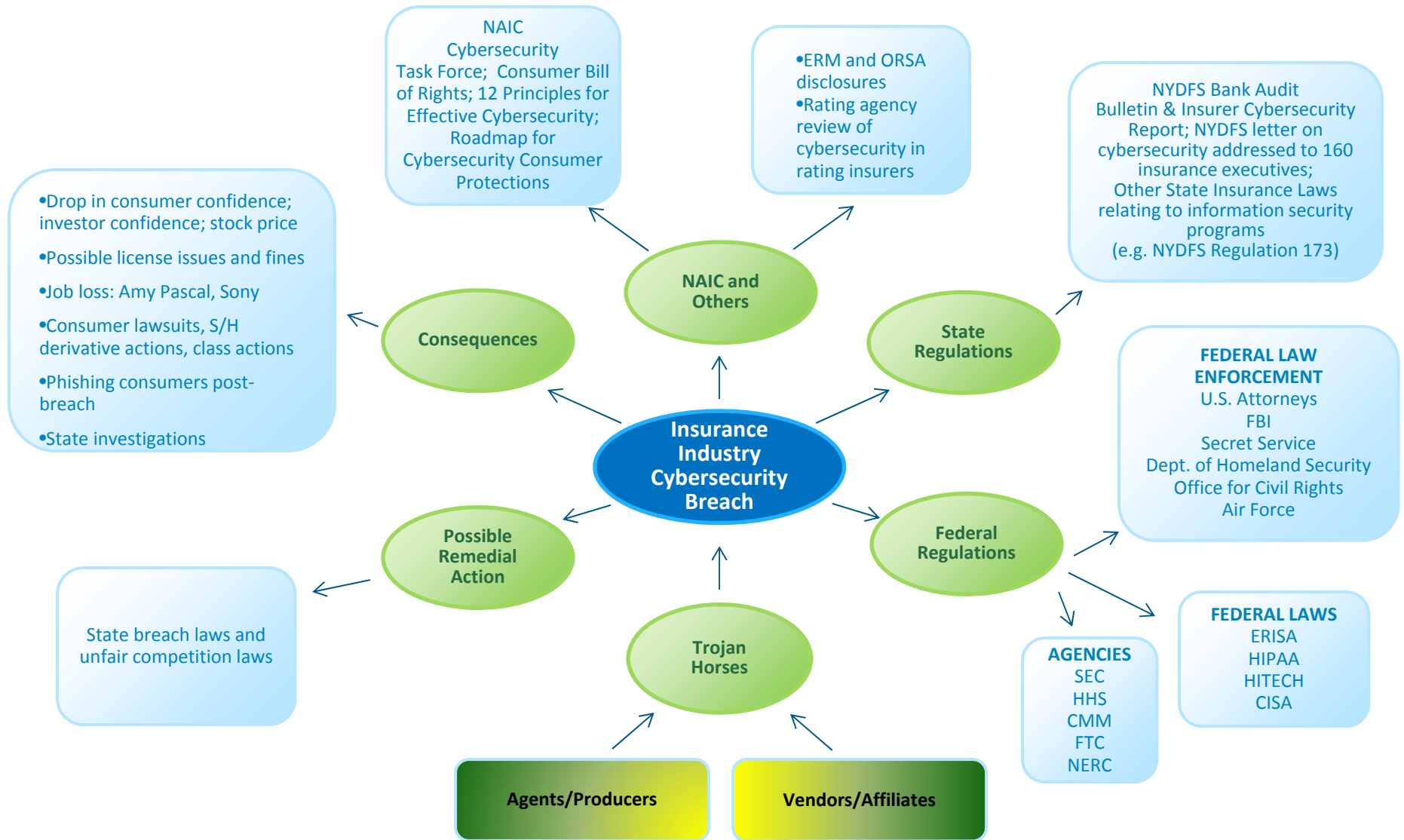


The Cost of a Data Breach

- Although the average cost of a data breach is about \$6.5 million, several notable breaches have significantly exceeded the average.
- Anthem as an example:
 - **80 million** people affected
 - Over **90 lawsuits** filed including several class actions
 - Multiple regulatory and law enforcement **investigations**
 - **\$230 million** for expenses associated with the breach
 - Legal, forensic, consumer monitoring, PR
 - **\$130 million** in expenses for future defensive measures
 - Total estimated cost of breach to date: **\$360 million**
 - \$100 million in insurance coverage
 - Evidence of harm to consumers to date: **\$0**



Insurance Industry Under Cyber Attack



Goal: To prevent the disclosure of NPI (non public information) and TSI (trade secret information) through external audits and law enforcement/regulatory partnerships and to best position the company as a defendant should a breach occur.

Rating Agency Criteria and Cybersecurity

- **A.M. Best** views cybersecurity as an **“essential element of enterprise risk management”**
 - Companies are asked to complete a new section of the self-rating questionnaire reflecting the cybersecurity protections offered and the amount of protection purchased.
- Lloyd’s has requested syndicates to report their **aggregate exposure to cyber attacks**.



Sources of Regulation of Cybersecurity: NAIC's 12 Principles for Effective Cybersecurity

- **Principle 1:** State insurance regulators have a responsibility to ensure that **personally identifiable consumer information held by** insurers, **producers** and other regulated entities is protected from cybersecurity risks. Additionally, state insurance regulators should mandate that these entities have systems in place to alert consumers in a timely manner in the event of a cybersecurity breach. State insurance regulators should collaborate with insurers, insurance **producers** and the federal government to achieve a consistent, coordinated approach.
- **Principle 2:** Confidential and/or personally identifiable consumer information **data that is collected, stored and transferred** inside or outside of an insurer's, insurance **producer's** or other regulated entity's network should be appropriately safeguarded.
- **Principle 3:** State insurance regulators have a responsibility to **protect** information that is collected, stored and transferred inside or outside of an insurance department or at the NAIC. This information includes insurers' or insurance **producers' confidential information**, as well as personally identifiable consumer information. In the event of a breach, those affected should be alerted in a timely manner.

NAIC's 12 Principles for Effective Cybersecurity

- **Principle 4:** Cybersecurity **regulatory guidance** for insurers and insurance **producers must be flexible**, scalable, practical and consistent with nationally recognized efforts such as those embodied in the National Institute of Standards and Technology (NIST) framework.
- **Principle 5: Regulatory guidance must be risk-based** and must consider the resources of the insurer or insurance **producer**, with the caveat that a minimum set of cybersecurity standards must be in place for all insurers and insurance **producers** that are physically connected to the Internet and/or other public data networks, regardless of size and scope of operations.
- **Principle 7: Planning for incident response** by insurers, insurance **producers**, other regulated entities and state insurance regulators is an essential component to an effective cybersecurity program.
- **Principle 8:** Insurers, insurance **producers**, other regulated entities and state insurance regulators should take appropriate steps to ensure that third parties and service providers **have controls in place** to protect personally identifiable information.

NAIC's 12 Principles for Effective Cybersecurity

- **Principle 9:** Cybersecurity risks should be incorporated and addressed as part of an insurer's or an insurance **producer's enterprise risk management (ERM) process**. Cybersecurity transcends the information technology department and must include all facets of an organization.
- **Principle 11:** It is essential for insurers and insurance **producers** to use an **information-sharing and analysis organization (ISAO)** to share information and stay informed regarding emerging threats or vulnerabilities, as well as physical threat intelligence analysis and sharing.
- **Principle 12: Periodic and timely training**, paired with an assessment, for employees of insurers and insurance **producers**, as well as other regulated entities and other third parties, regarding cybersecurity issues is essential.

Other Sources of Regulation of Cybersecurity

- FIO Annual Report on the Insurance Industry (September 2015)
- NAIC's Roadmap for Cybersecurity Consumer Protections (December 2015)
- The New York Department of Financial Services (NYDFS) letter to CEOs, G.C.s and CIOs of approximately 160 insurance companies (March 2015)
- EU regulation of personal data
- U.S. Cybersecurity Information Sharing Act of 2015



Reasonableness is the Emerging Regulatory and Legal Standard

- **Those in the insurance industry who are not proactively managing the threat of cyber incursion are likely to be exposed to significant legal challenges**
 - *Federal Trade Commission v. Wyndham Worldwide Corp.*, 799 F.3d 236 (3rd Cir. 2015)
- FCC enforcement bureau chief Travis LeBlanc provided guidance on what the Commission considers “unreasonable” privacy and cybersecurity practices at a discussion held by the Media Institute in November 2015:
 - Not securing data obtained from unauthorized third-parties
 - Not providing consumers with notice about what the company is doing with their personal data
 - Not notifying everyone when their data is breached and notifying only some people

What's a Broker (or Insurer) To Do?

Seven Key Principles for Board Consideration

1. Understand the risks
2. Stay informed
3. Assess your defenses
4. Create a WISP and a DBRP
5. Take responsibility
6. Know your partners
7. Get insured



Process for Preparing a WISP and DBRP

- Proving reasonableness
 - **Importance of having a written information security plan (“WISP”) and a data breach response plan (“DBRP”)**
- Select data security legal counsel and IT security consultant
- Perform risk assessment (identify sensitive data, where stored, potential threats, potential harms)
- Select appropriate control framework to identify potential additional controls for discussion
 - *i.e.*, National Institute of Standards and Technology’s framework, *PCI Data Security Standard*
- Identify controls in place and potential additional controls from framework that would enhance protection
- Identify laws that affect cybersecurity
- Conduct periodic assessments



Cybersecurity Insurance: The Opportunity

- Typically, insurance is offered in the \$100-200 million range (and even then only after extensive review of the insured's cybersecurity policies)
- Cybersecurity coverage represents a huge area of opportunity for underwriters
 - Cyber insurance market likely to triple to about \$7.5 billion over the next five years, according to PwC
- Effective cybersecurity coverage is not typically contained in a CGL policy: instead a stand alone cybersecurity policy provides the most comprehensive coverage
 - Provides coverage for first party damage and third party liability



Top Ten Questions Every Broker (and Insurer) Should Answer

1. Have you designated a party responsible to manage cybersecurity (*i.e.*, with the board or CTO)?
2. What training in data security is provided to employees?
3. Does your company purchase cybersecurity insurance? If so,
 - What are the policy limits, and
 - What is covered and excluded under such policy?
4. Do you have a Written Information Security Plan and Data Breach Response Plan?
5. How is data safeguarded and what are the best practices regarding data security (*i.e.*, has the company engaged a forensic expert)?

Top Ten Questions Every Broker (and Insurer) Should Answer

6. What practices are in place to ensure compliance to data protection by third-party service providers?
7. What internal and external controls, policies and procedures are in place to manage a data breach or cyber attack (*i.e.*, has the company engaged in tabletop exercises)?
8. Are cybersecurity risks addressed as part of the company's enterprise risk management process?
9. Has the company considered the ratings implications of cybersecurity?
10. If the company offers Cyber Insurance Products, has their risk been aggregated?

MAYER • BROWN

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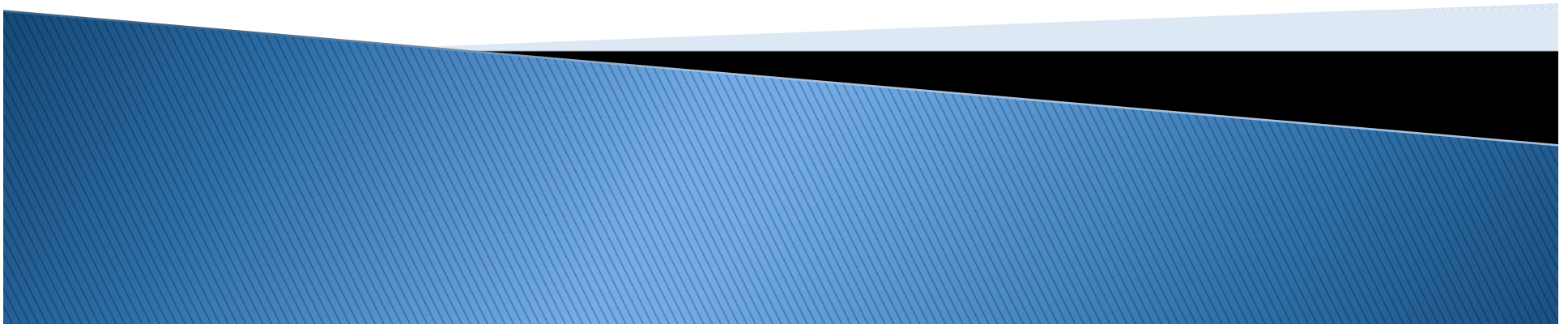
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Keynote Speaker

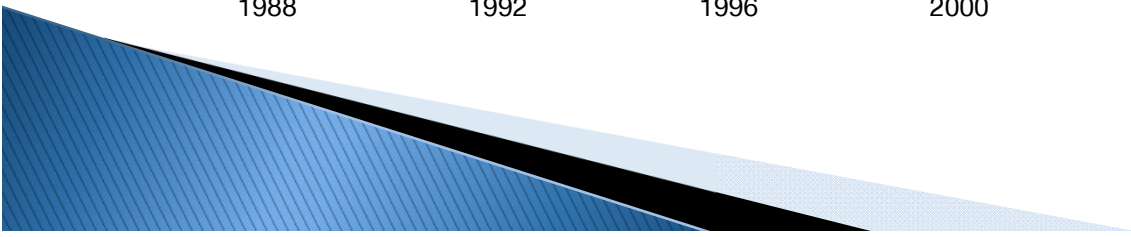
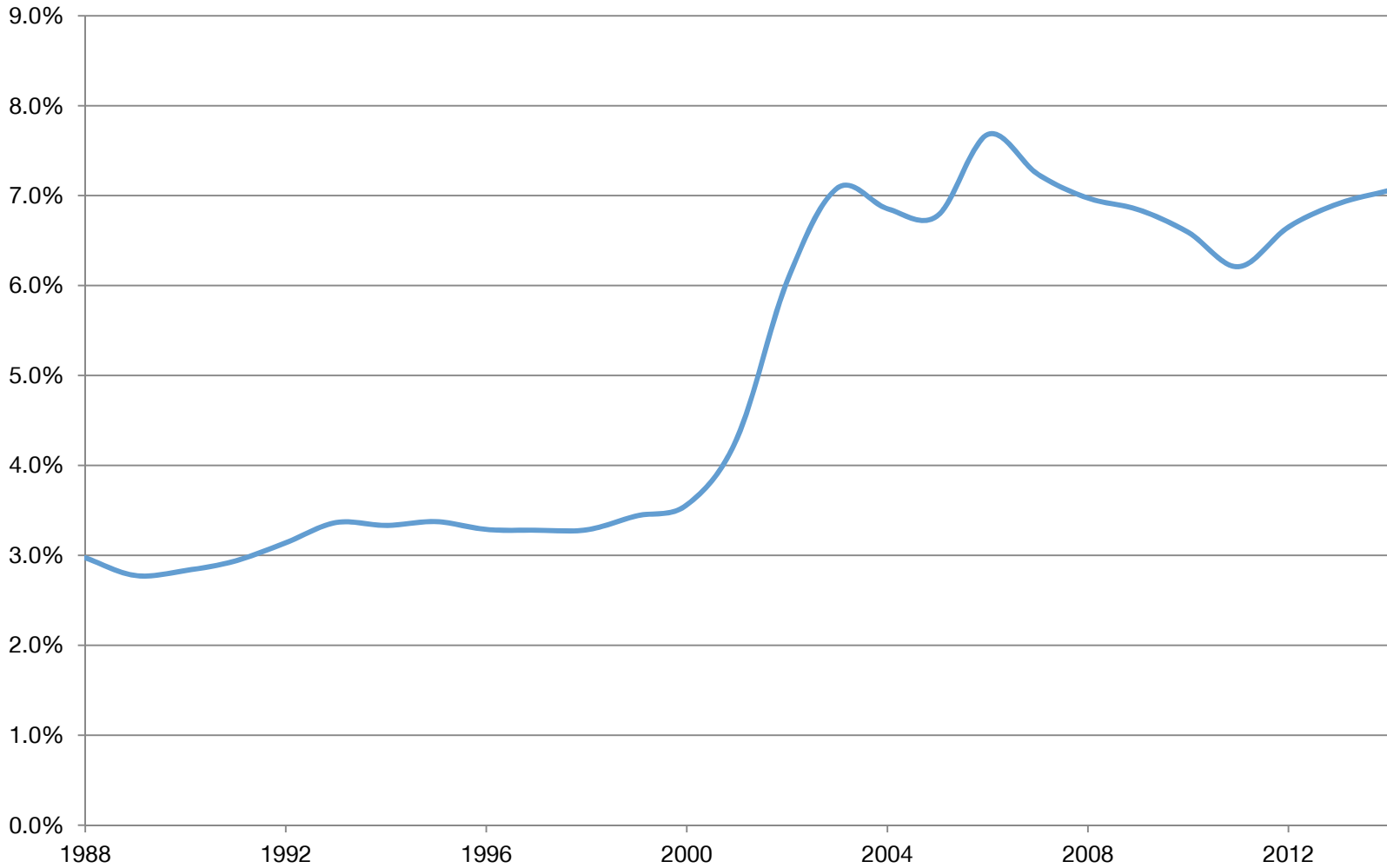
**Dr. George
Zanjani**
*Georgia State
University*



The “New Normal” and Beyond: E&S in the New Millennium

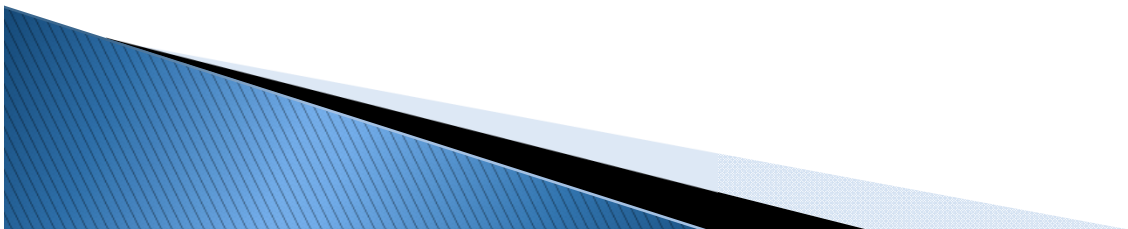


The New Normal: Nonadmitted Share of Total US Property-Casualty Market, 1988-2014



Onward and Upward?

- The New Normal – astronomical growth in E&S over the past 15 years
 - \$40 billion in DPW in 2014 vs \$10 billion in 2000
 - 7% of total market today versus historical norm of 3%
 - Only modest retraction after hard market peak in 2004
- What happened? How did we get here?
- Where could we go? Over 10%. Three potential tailwinds for the E&S Market
 - Low interest rates
 - Big Data / Analytics
 - Catastrophes and other emerging risks



What Happened?

- Market share gains across the board, but biggest gains were in property.

“Disappearing risk” in casualty

+

Growth of exposure in catastrophe areas

+

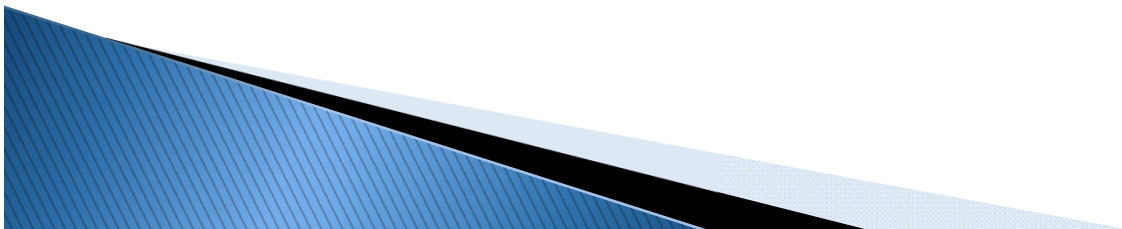
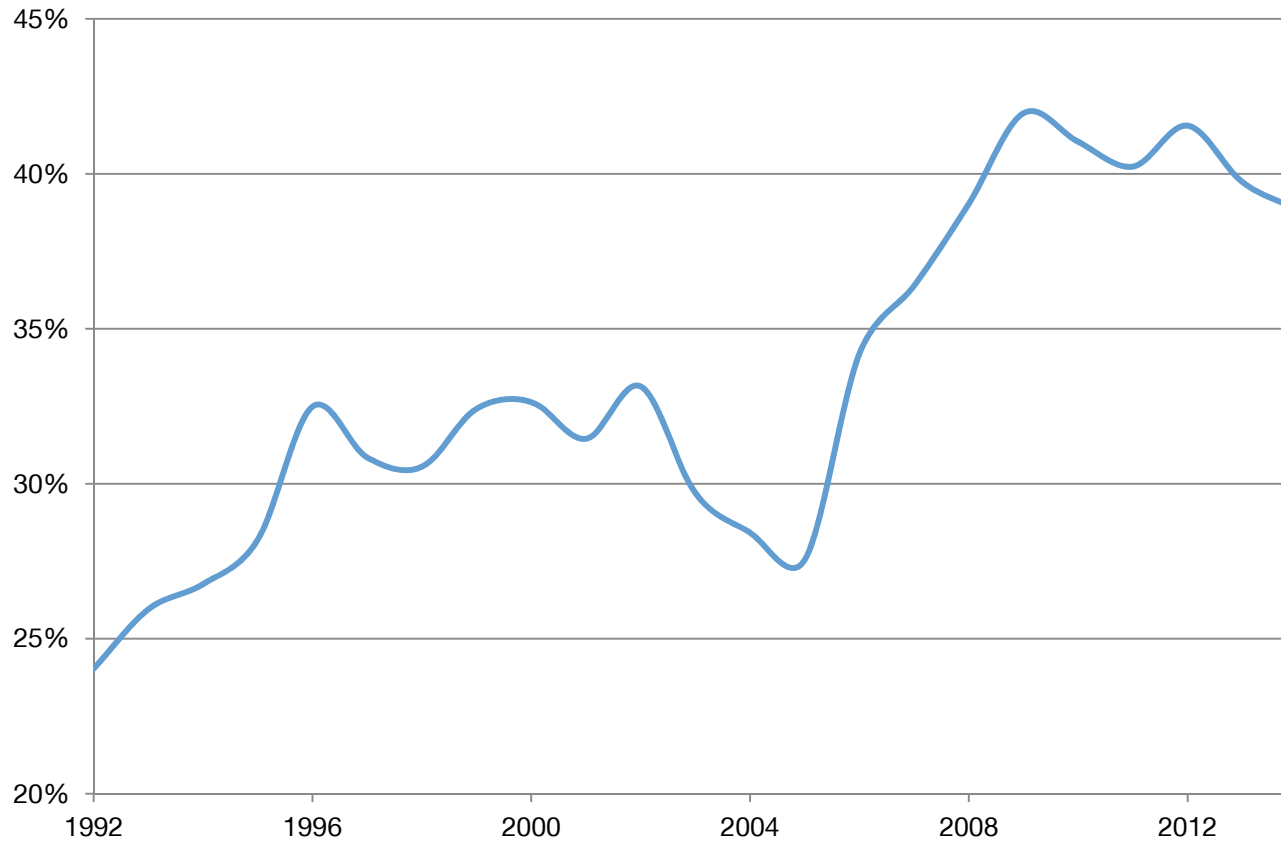
Retreat of standard underwriters from property catastrophe



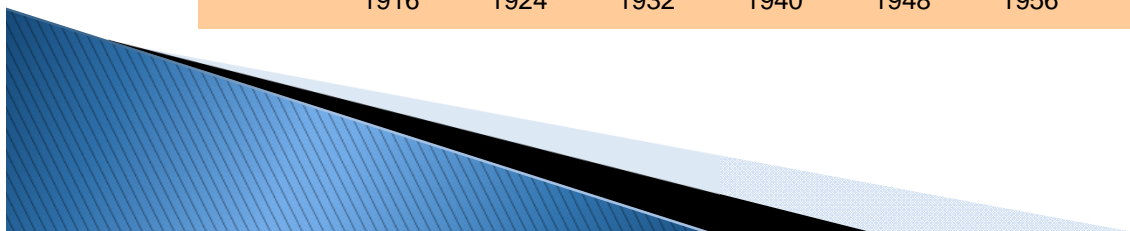
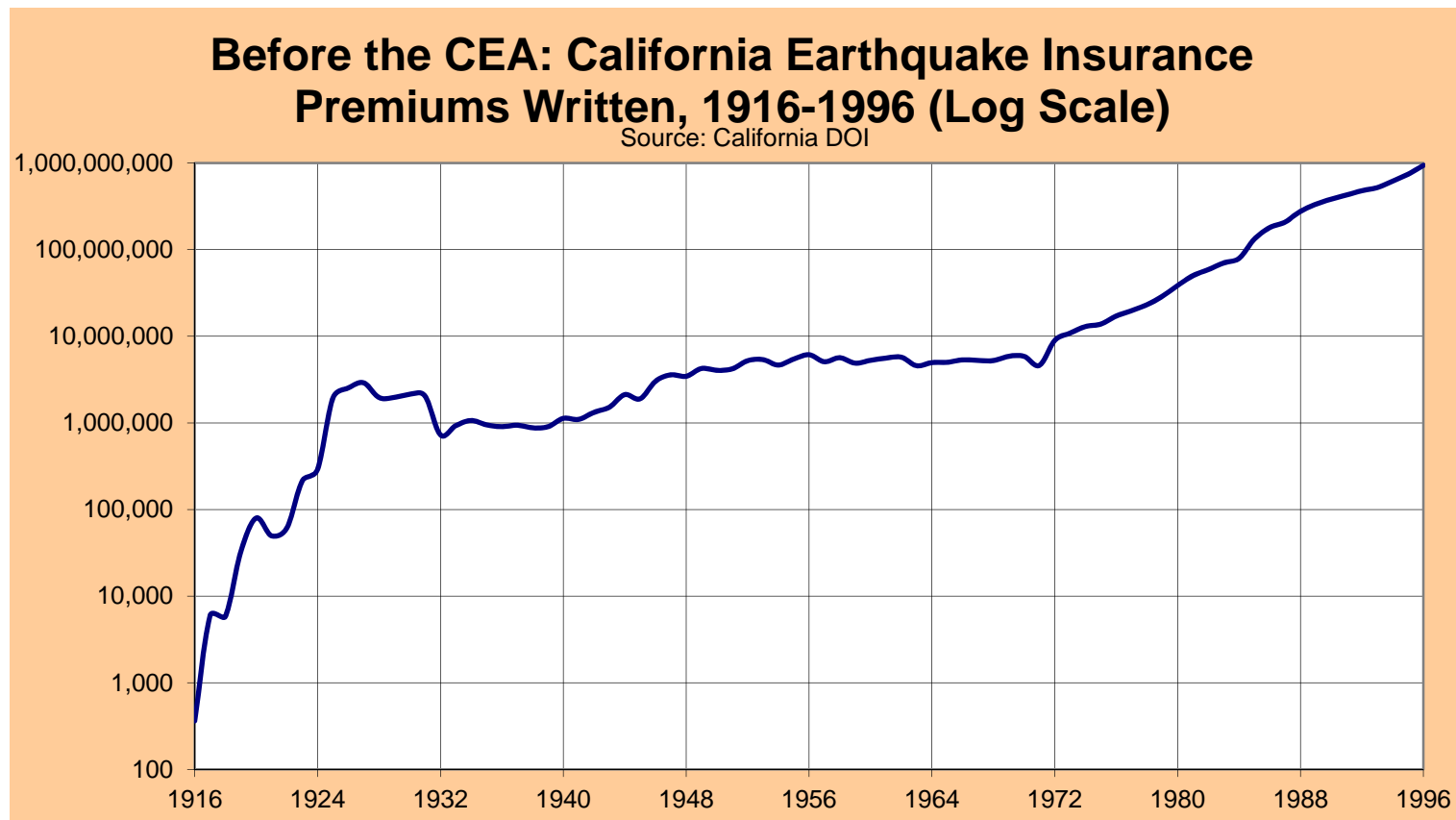
Ongoing shift toward catastrophe-exposed property



Property Share of Nonadmitted Market, 1992-2014



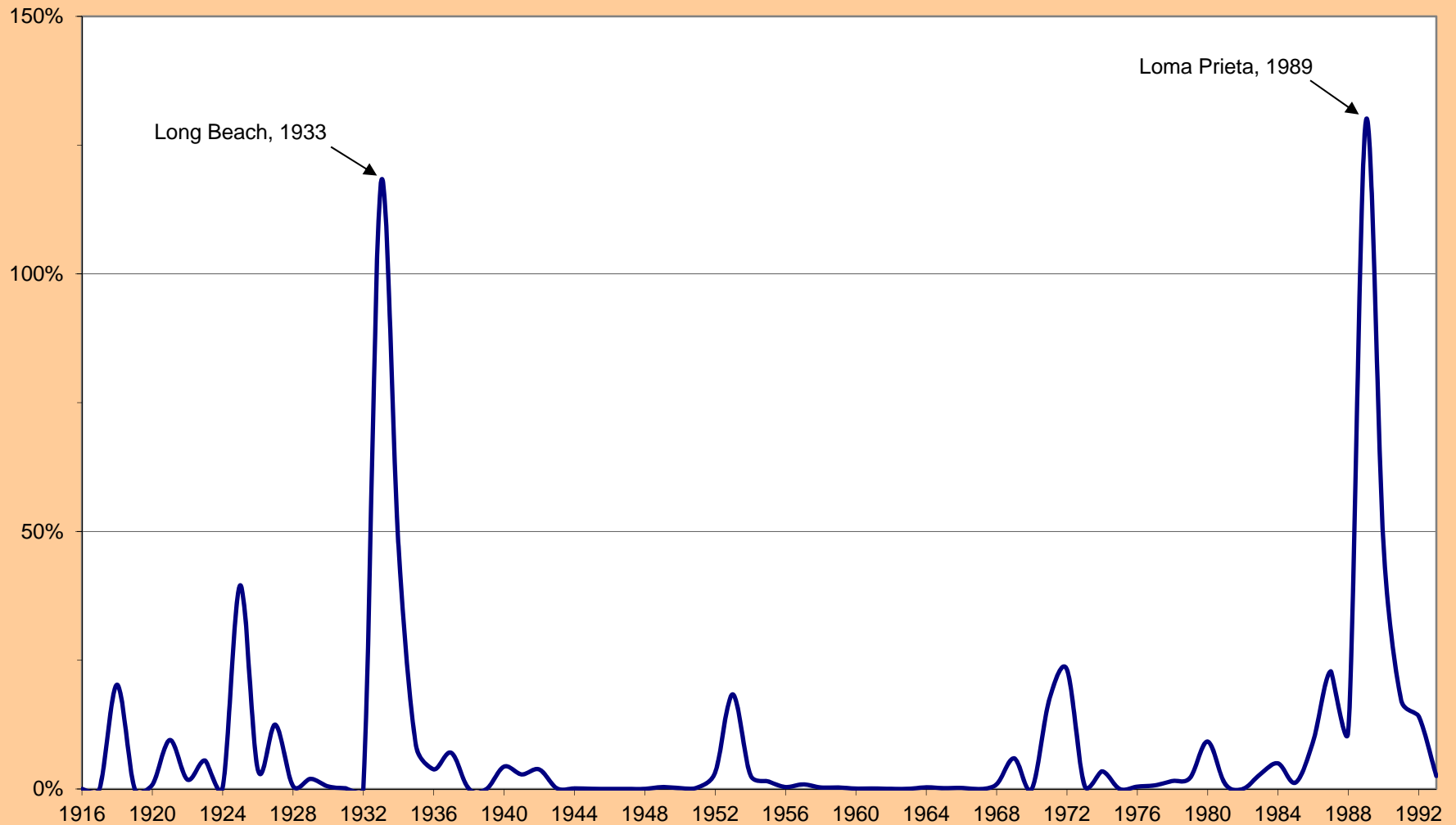
Earthquake: Case Study



Earthquake: Case Study

Before Northridge: California Earthquake Paid Loss Ratio, 1916-1993

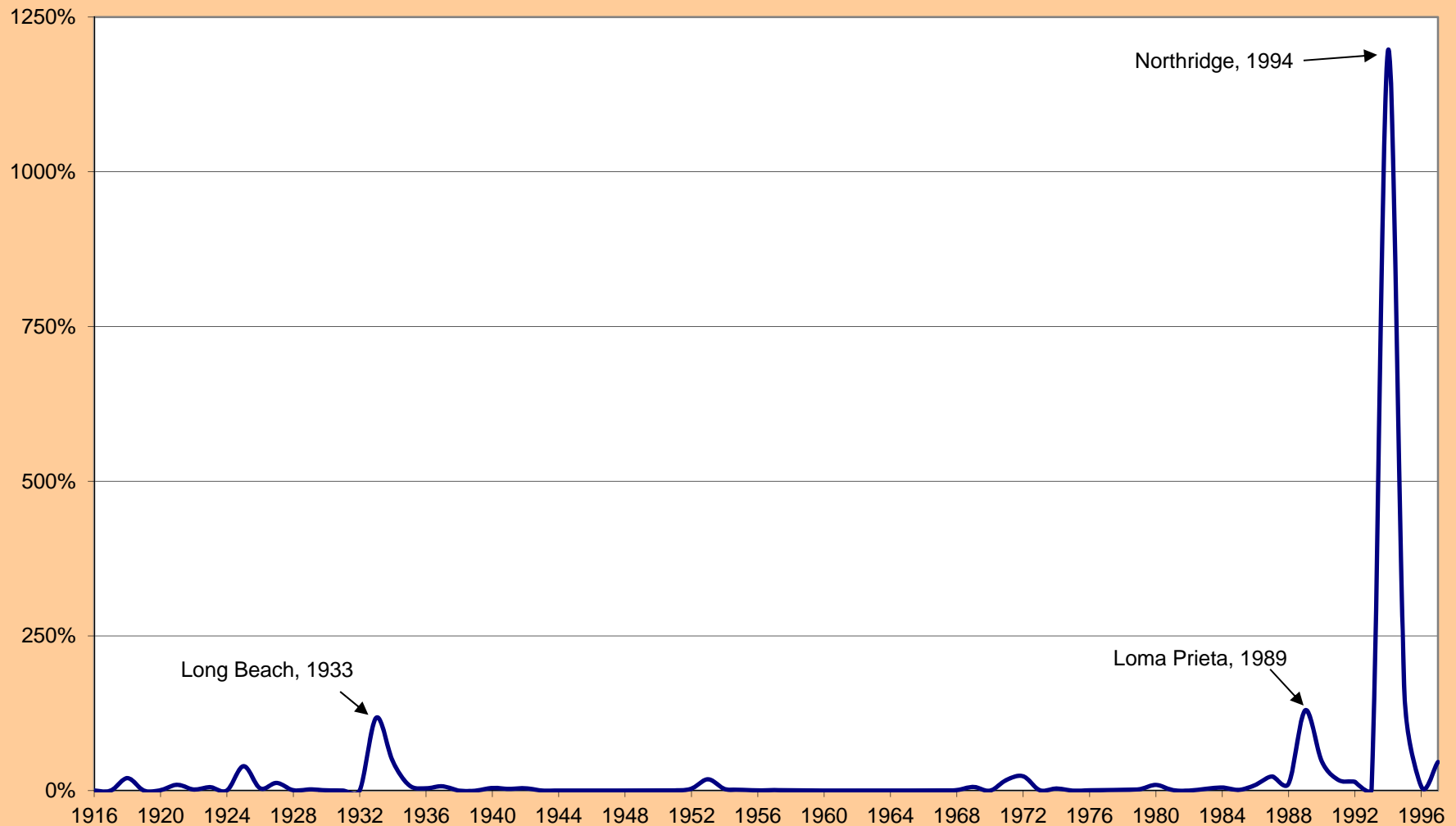
Source: California DOI (Paid loss / Premiums Written)



Earthquake: Case Study

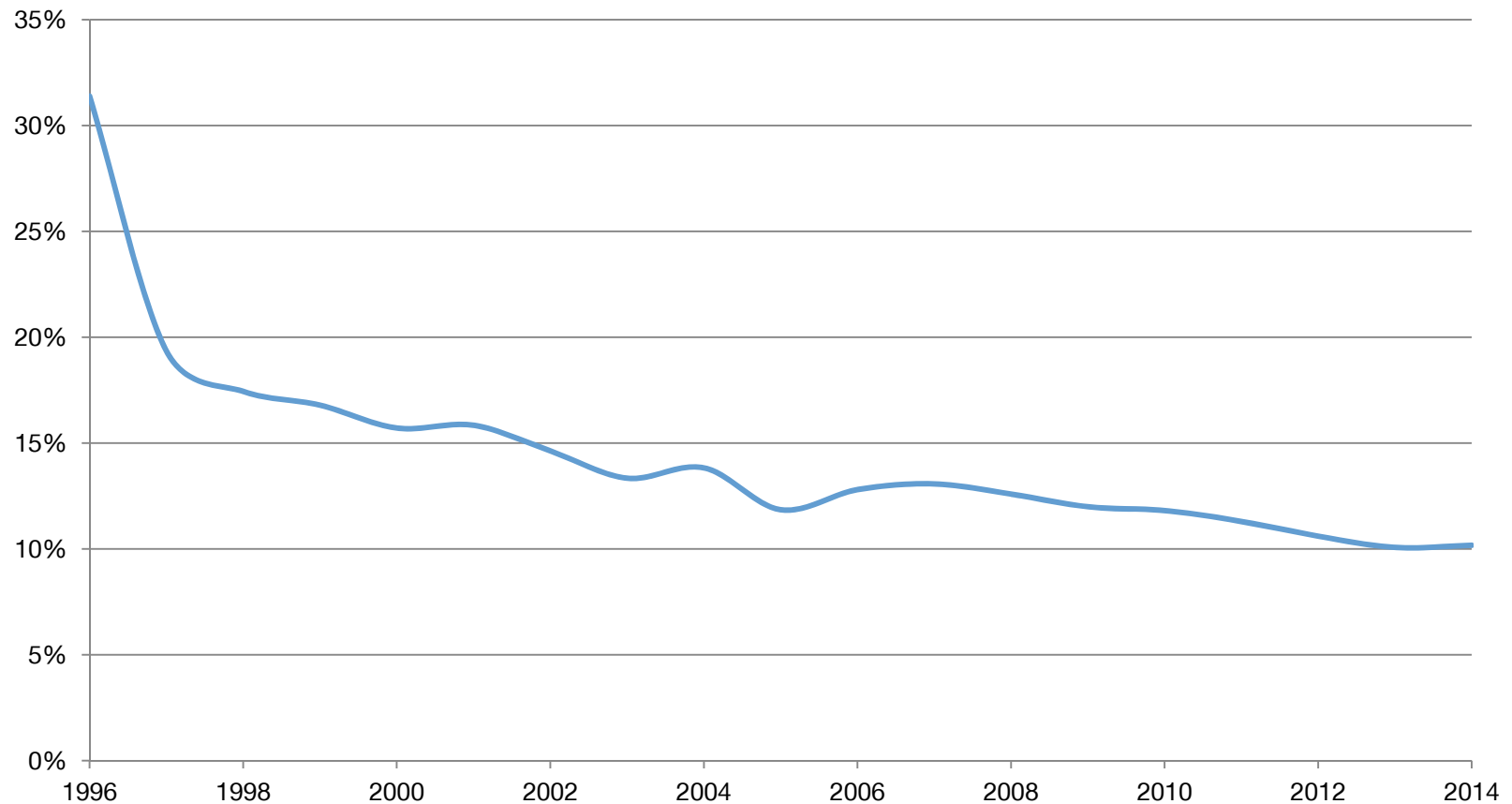
After Northridge: California Earthquake Paid Loss Ratio, 1916-1997

Source: California DOI (Paid loss / Premiums Written)



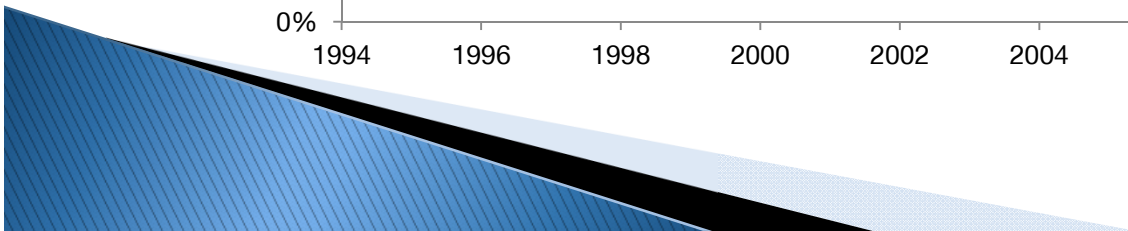
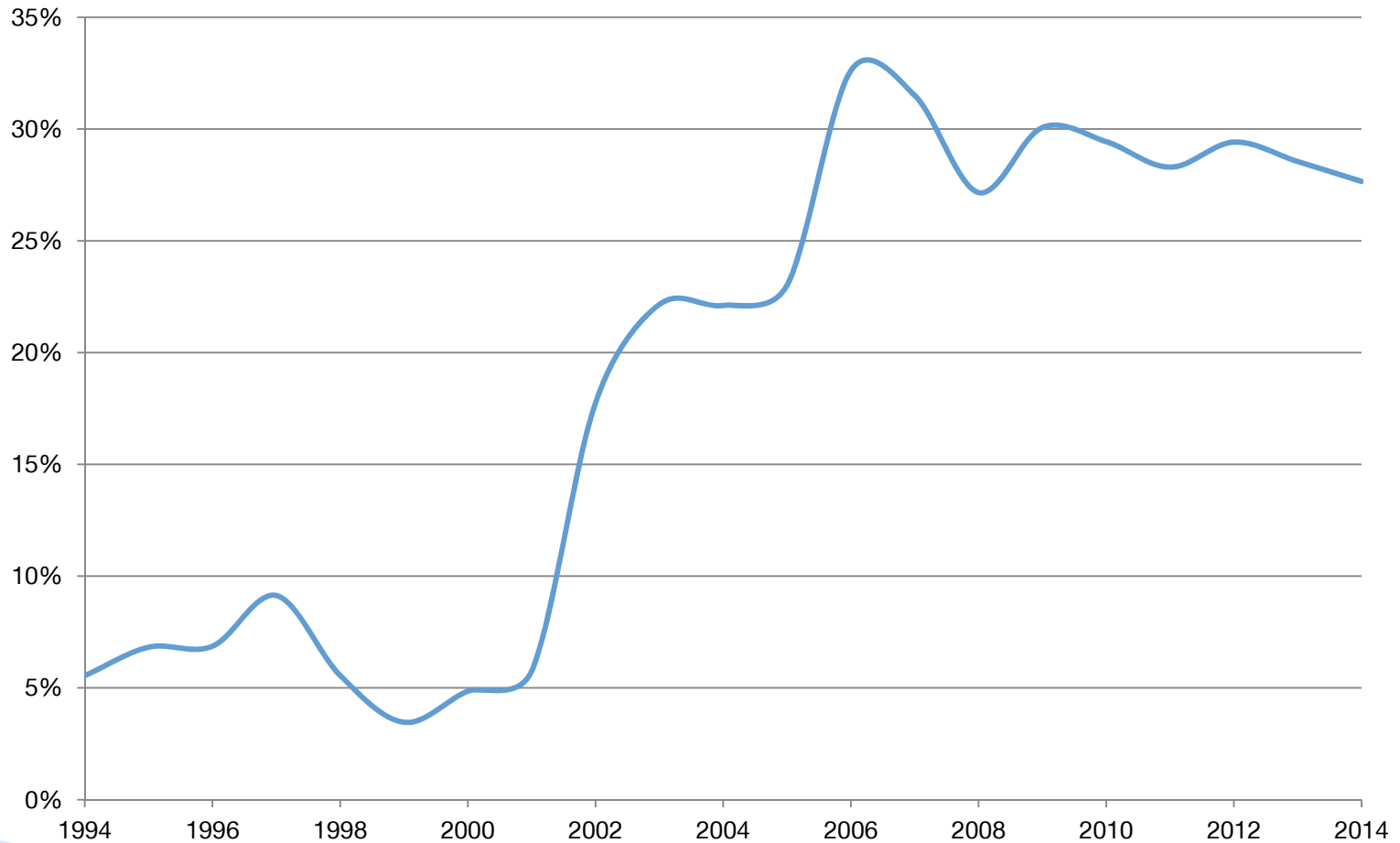
Earthquake: Case Study

Retreat of the Standard Carriers
Earthquake Takeup - California Residential Market, 1996-2014

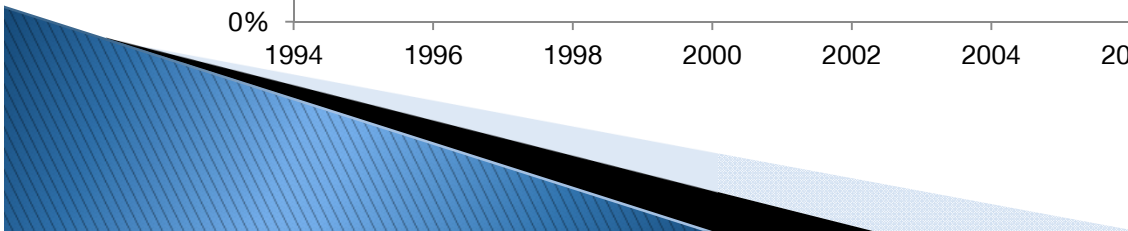
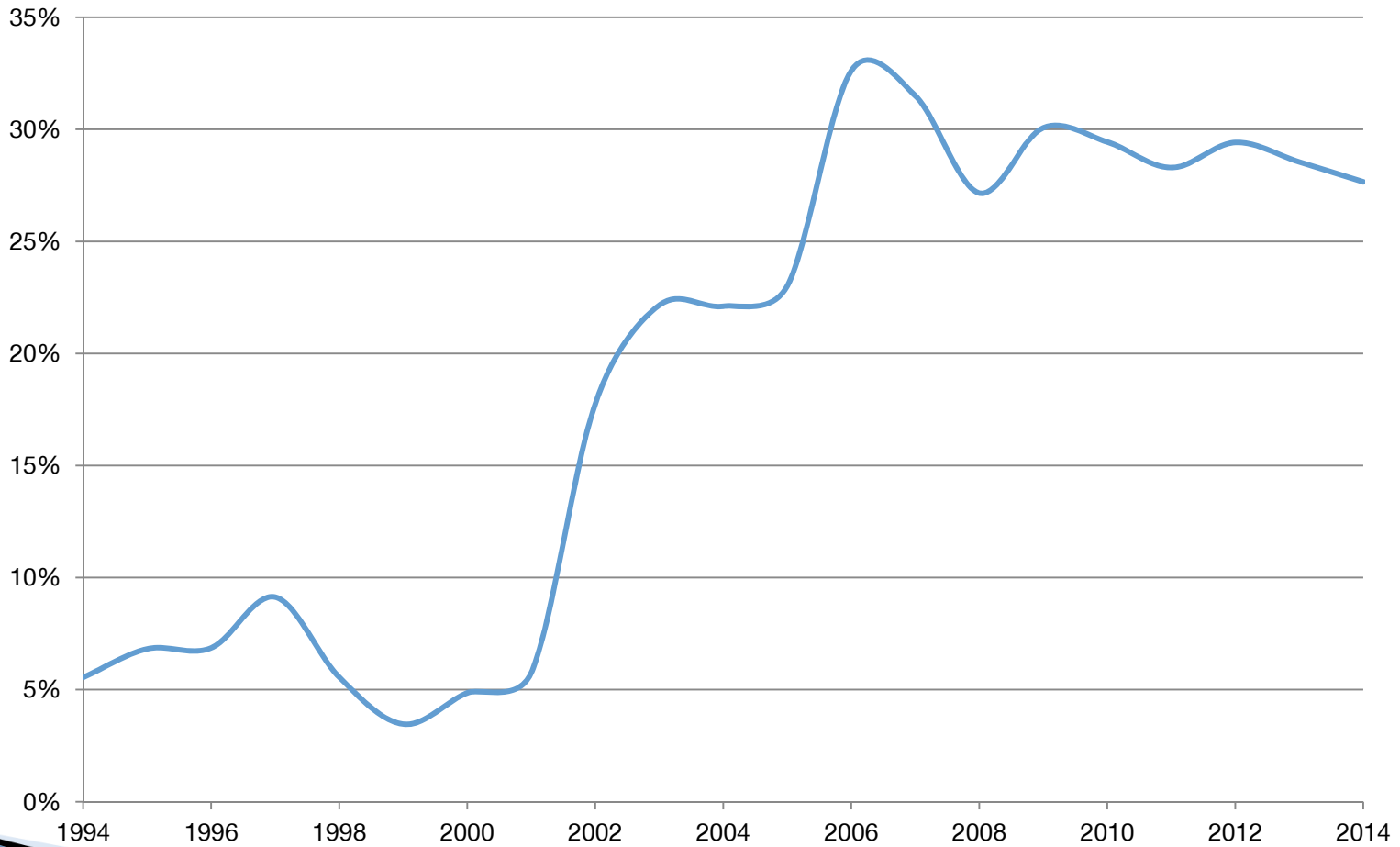


Earthquake: Case Study

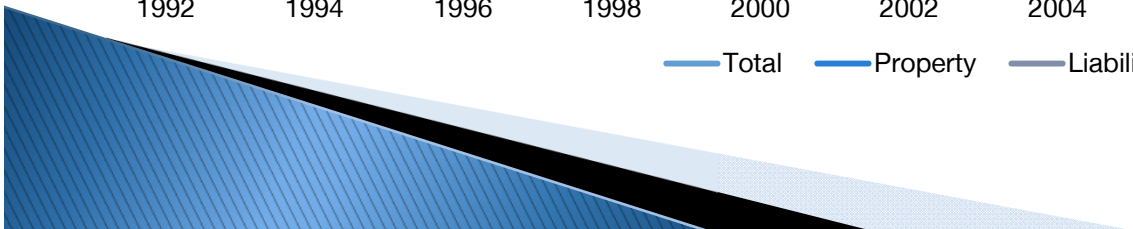
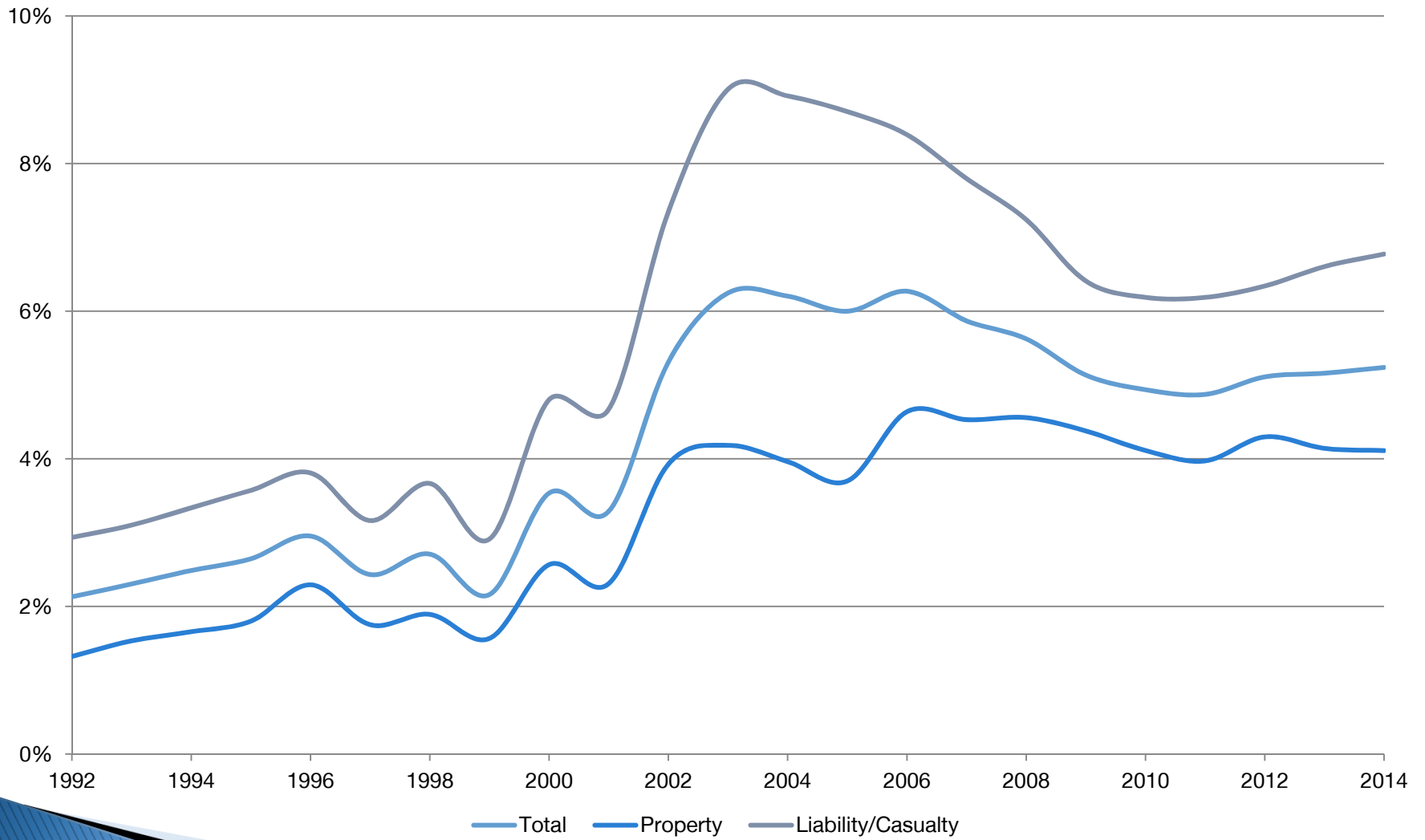
Nonadmitted Share of US Earthquake Insurance, 1994-2014



Nonadmitted Share of US Earthquake Insurance, 1994-2014

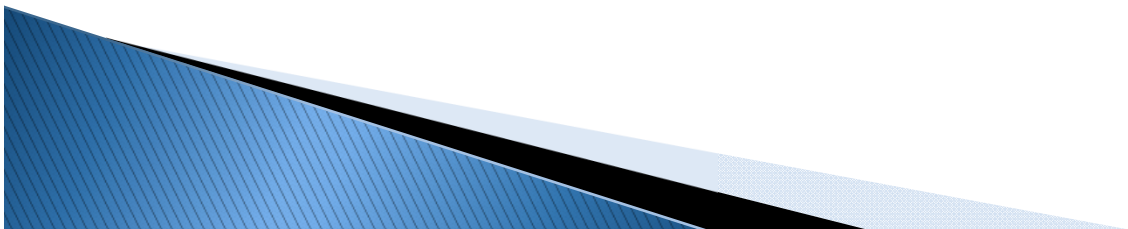


Domestic Nonadmitted Share of Property-Casualty Market, 1992-2014

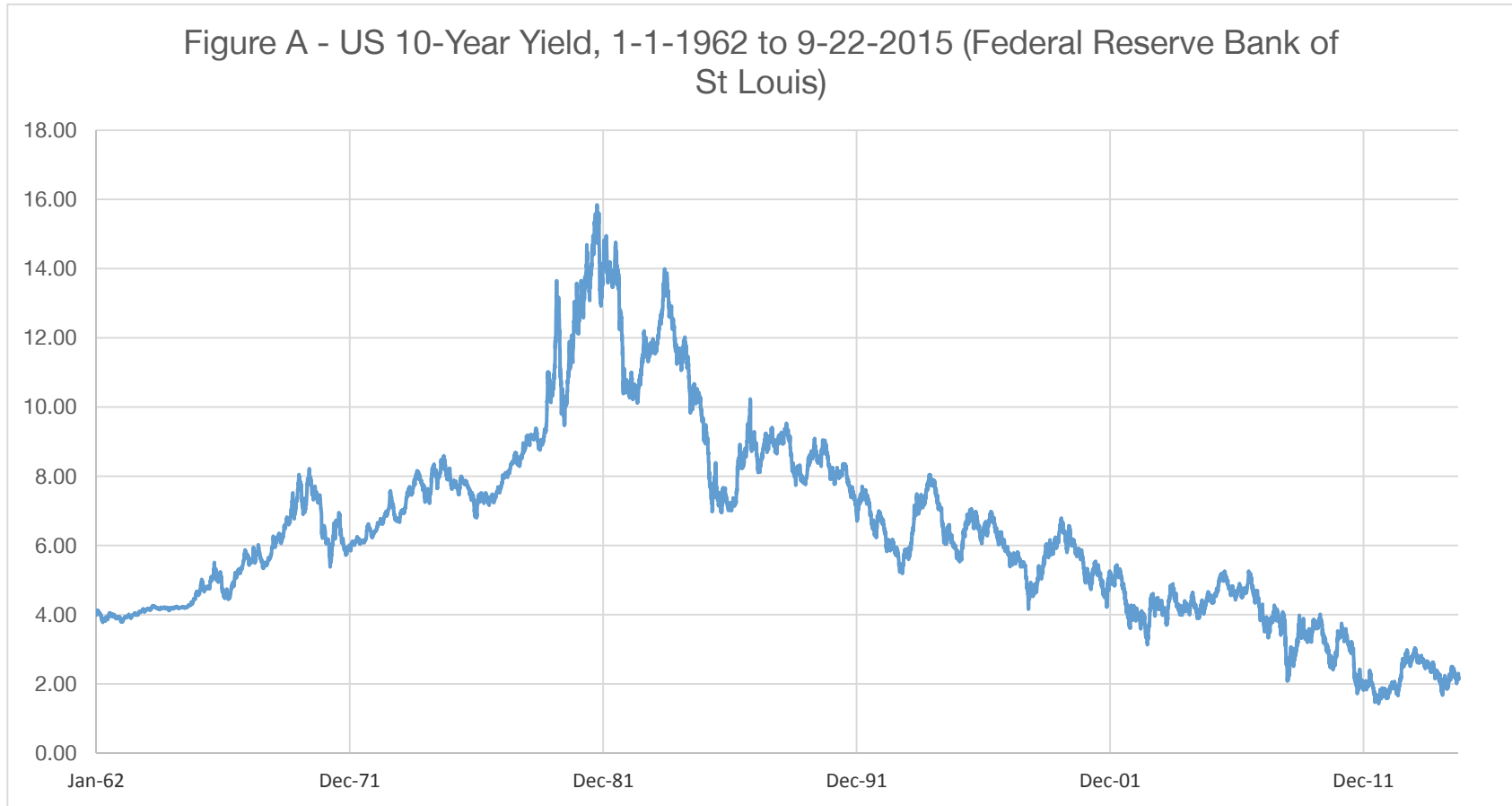


Where could we go from here? Three things to watch:

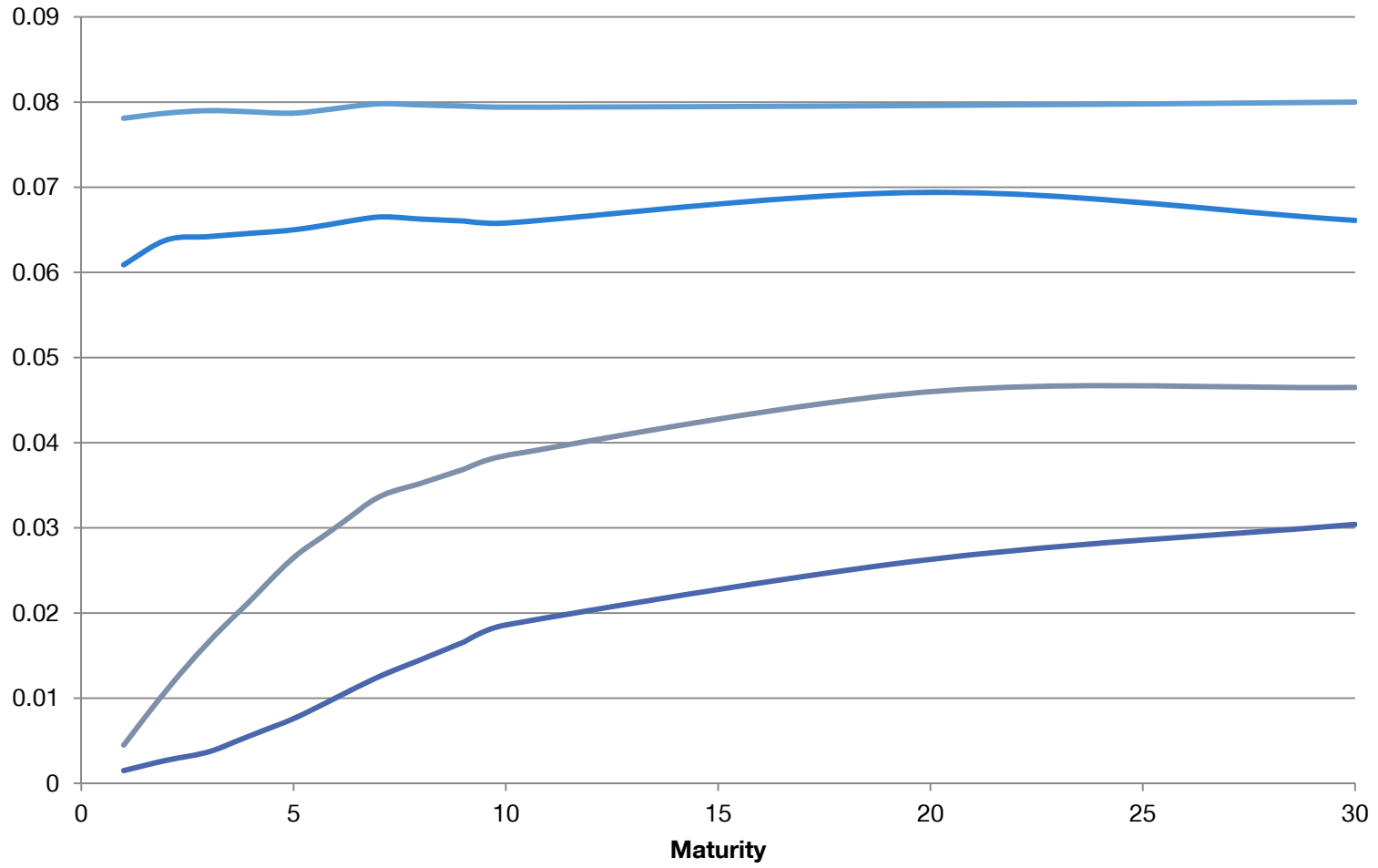
- Interest rates
- Big Data
- Catastrophes and other emerging risks



Long and intermediate yields have been declining for 35 years.



US Treasury Yield Curves, 1990-2013

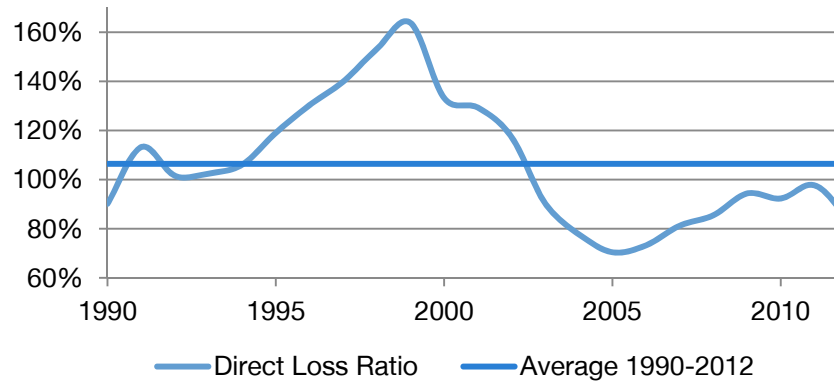


— 1990 — 2000 — 2010 — 2013

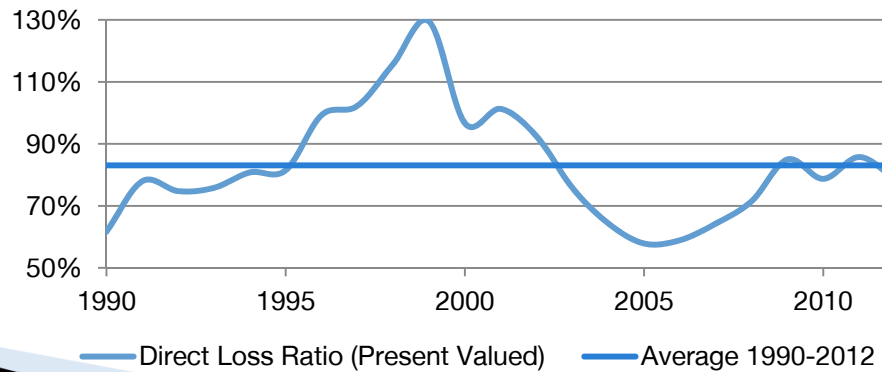


Lower Interest Rates Wreak Havoc with Traditional Performance Measures in Long-Tailed Lines

**Med Mal (Occurrence) Industry Accident Year
Loss and LAE Ratio, 1990-2012**

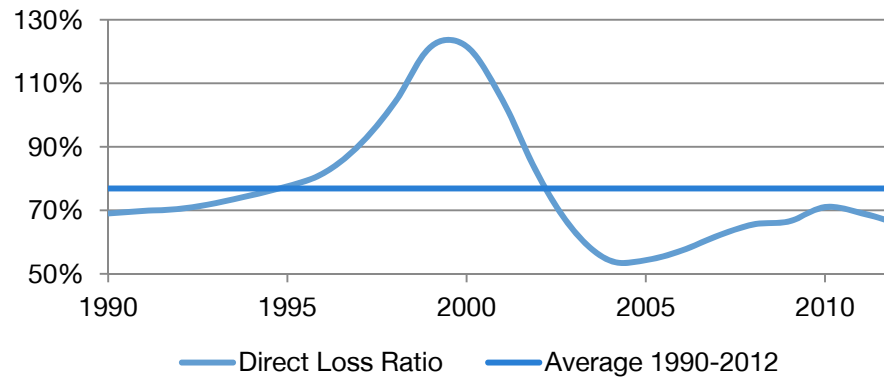


**Med Mal (Occurrence) Industry Accident Year
Loss and LAE Ratio in Present Value Terms,
1990-2012**

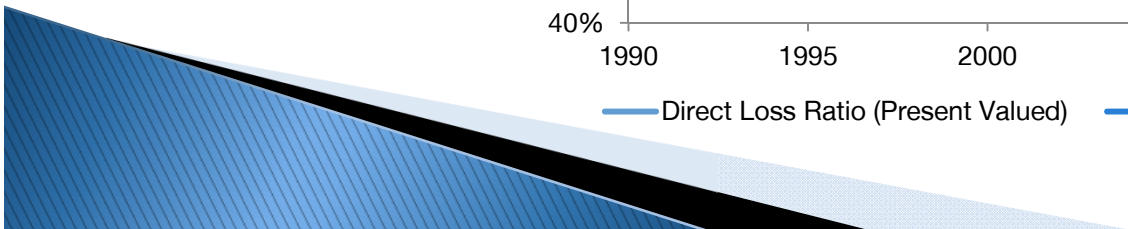
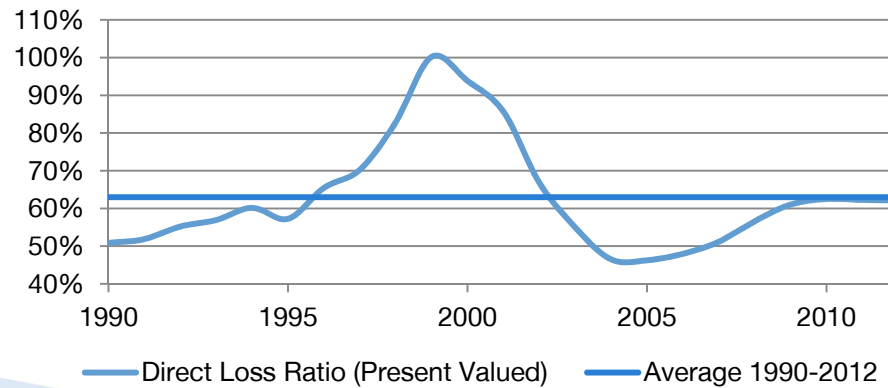


Lower Interest Rates Wreak Havoc with Traditional Performance Measures in Long-Tailed Lines

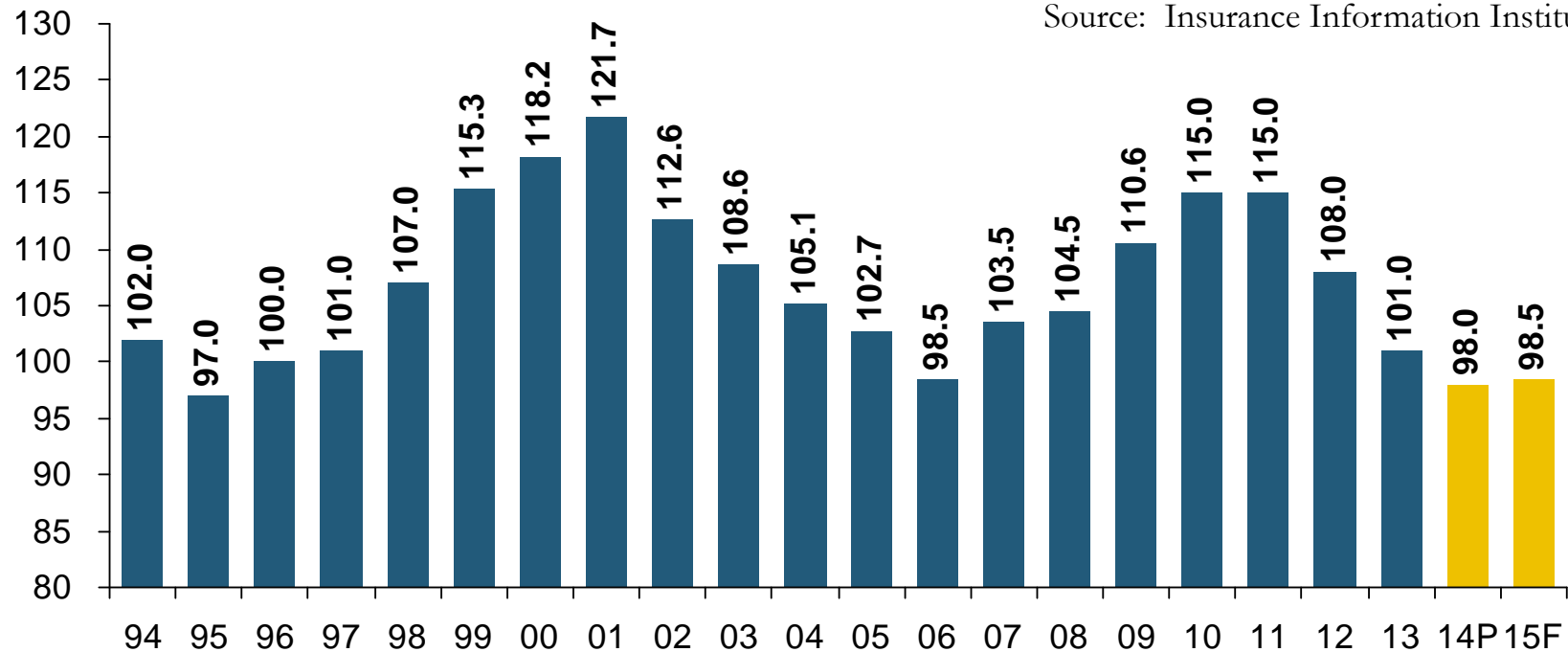
**Other Liability (Occurrence) Industry Accident
Year Loss and LAE Ratio, 1990-2012**



**Other Liability (Occurrence) Industry Accident
Year Loss and LAE Ratio in Present Value Terms,
1990-2012**



Workers Compensation Combined Ratio, 1994-2014



➔ Underwriting “profit” doesn’t mean what it used to mean... but try telling that to an insurance commissioner in a rate filing. Rate suppression, even if unintended, pushes more business into the E&S market.



Big Data

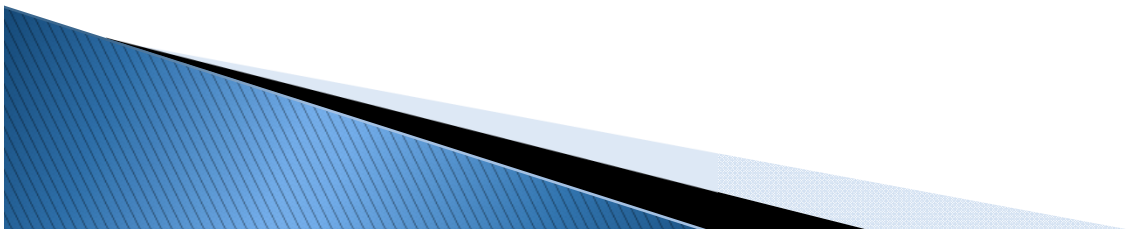
A personal auto rating formula...

$$\text{Premium} = f(\text{age}, \text{zip code}, \# \text{ of violations}, \text{FICO score})$$

...updated for the cyber age...

$$\text{Premium} = f(\text{age}, \text{zip code}, \# \text{ of violations}, \text{FICO score}, \\ \# \text{ of Facebook "defriends"}, \# \text{ of vulgar words "retweeted"}, \dots)$$

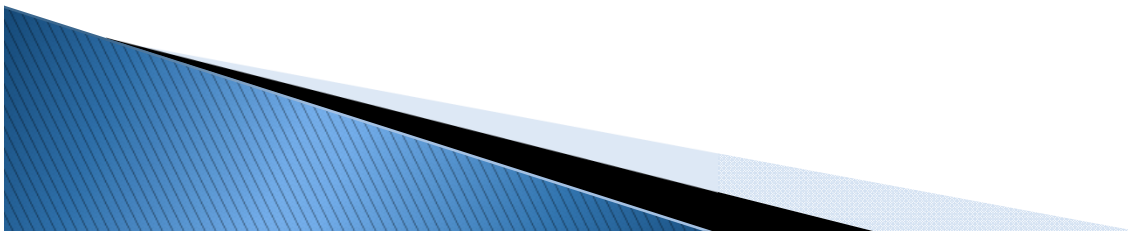
...but would you see that in a filed rate classification scheme? Probably not.



Big Data

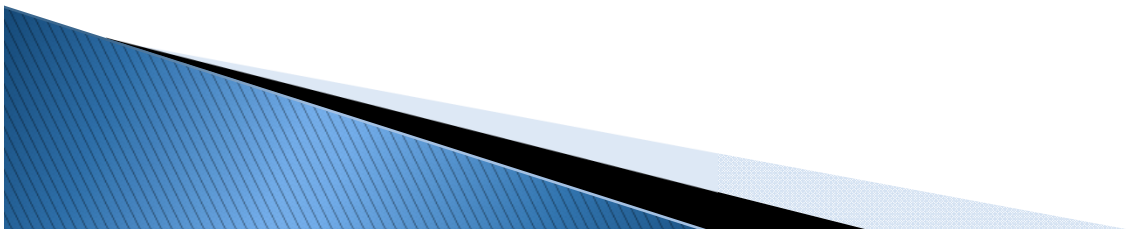
Advantages of surplus lines

- Freedom of rate and form
- Freedom to hide insights from competitors
- Insights at standard companies may manifest in underwriting rather than pricing, especially in markets with limited rating flexibility.



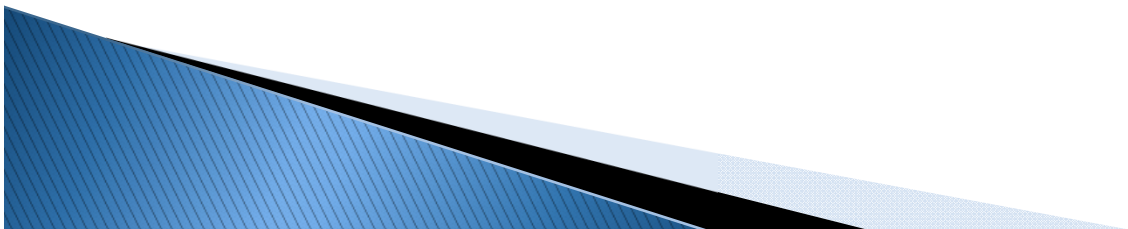
Catastrophes and other Emerging Risks

- **Traditional business is under threat**
 - Declining frequency in every casualty line
 - Driverless cars?
- **Room to grow...**
 - Earthquake insurance takeup in CA – about 10%
 - Residential flood takeup - 1-2% outside SFHAs; 50% in SFHAs
 - Cyber risk

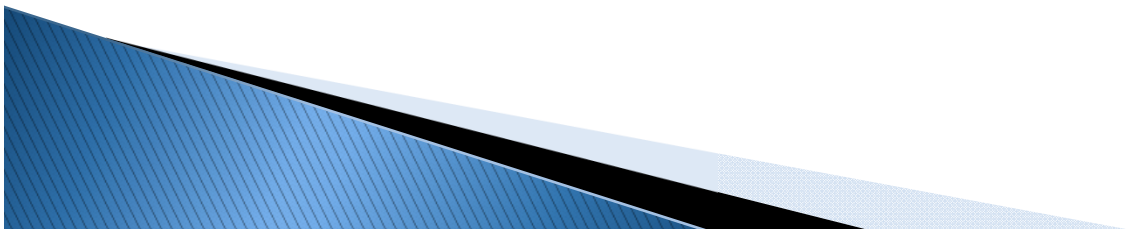


Catastrophes and other Emerging Risks

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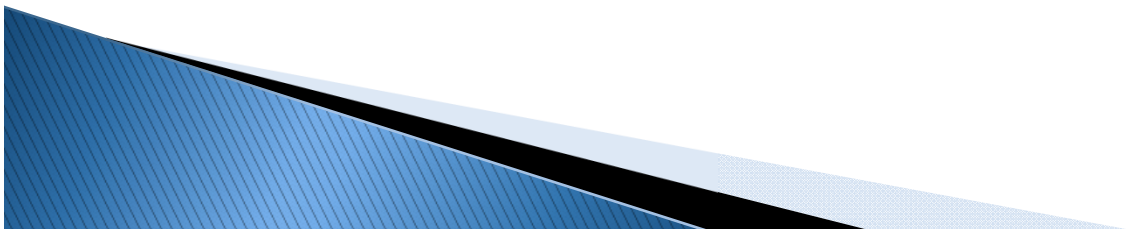
New Business



Lutine Bell Presentation

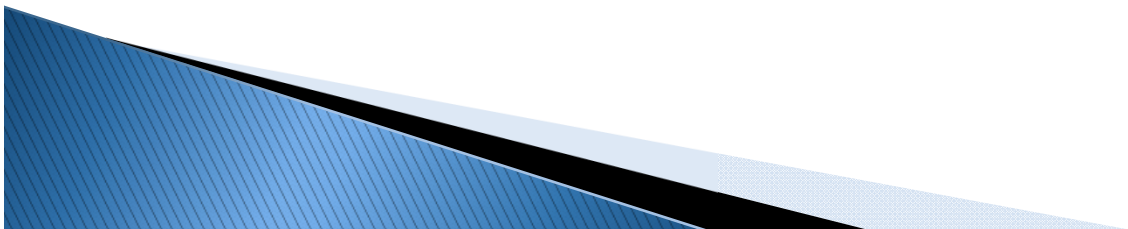
Denis Brady

receives the Lutine Bell in recognition of his tenure as chair of the SLA Board of Directors and his years of service to the California broker community.



Denis Brady's Service to the SLA

- **Board of Directors Member, 2010-present**
 - Chair, 2015
 - Vice Chair, 2014
 - Secretary-Treasurer, 2013
- **Audit Committee Member, 2013-15**
 - Chair, 2015

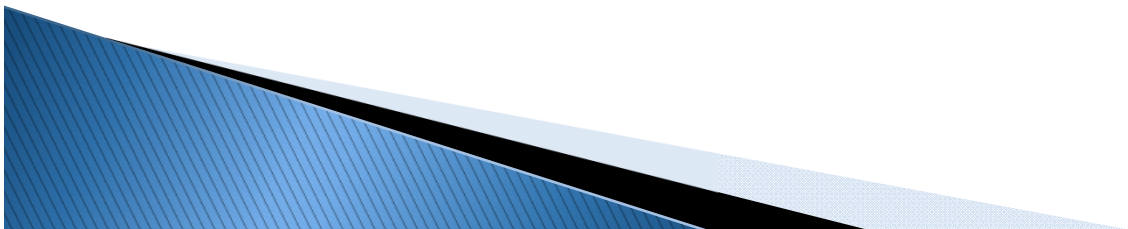


The HMS Lutine and Its Bell



Lutine Bell Presentation

**Thank You,
Denis Brady!**



Adjournment

Thank you for attending.

Please proceed to the foyer for refreshments.

