

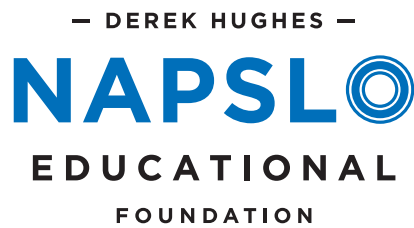
— DEREK HUGHES —



EDUCATIONAL

FOUNDATION

2014 Annual Report



President's message

February 2015

On behalf of the Board of Directors of the Derek Hughes/NAPSLO Educational Foundation, I am pleased to offer the Foundation's 2014 Annual Report for your review. The last year has been 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 2014.

One of the Foundation's long-standing cornerstones is the annual A.M. Best Special Report on the U.S. Surplus Lines. The Foundation has provided a grant for the report's development for 21 years, and it continues to be an important tool for all of us in this industry. The 2014 report included a 20-year retrospective which 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 2014 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 also cosponsored a webinar, produced by A.M. Best, which allowed more than 1,000 industry professionals to understand more about the current report.

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. The Foundation also promoted its work as well as NAPSLO's internship program, and NAPSLO's Next Generation at the annual Gamma Iota Sigma convention and continued our outreach to college students by sponsoring programs at Troy University, Illinois State University and the University of North Carolina. These initiatives are important ways to generate interest in sustaining our industry with the next generation of talented, young professionals.

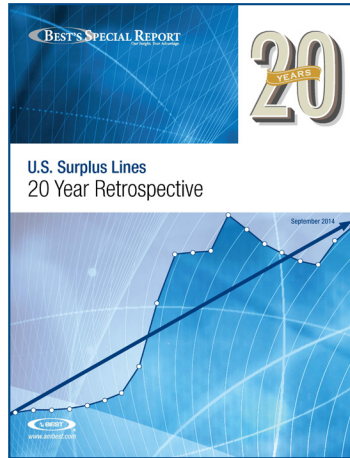
The Foundation also continued its support of the Associate in Surplus Lines Insurance (ASLI) designation. We were proud to honor 111 of our colleagues who have earned the ASLI at NAPSLO's Annual Convention in Atlanta. With support from the E.G. Lassiter Speaker Series, the Foundation was also able to sponsor keynote speaker, Earvin "Magic" Johnson, in Atlanta.

These efforts would not be 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, and on behalf of the Foundation Board, thank you for your continued support. I encourage you to review this report of our work over the past year.

Brian Van Cleave
President

A.M. Best: 8.4% growth in DPW during 2013

With the support of the Derek Hughes/NAPSLO Educational Foundation, A.M. Best has published the 2014 Special Report U.S. Surplus Lines – Segment Review. The 21st annual report on the U.S. surplus lines segment is produced by A.M. Best Company with a grant from the Foundation and is one of NAPSLO’s most important tools in promoting and illustrating the industry’s strength and stability.



8.4% in surplus lines direct premium written in 2013, continuing the reversal of a five-year decline from 2007 - 2011. Domestic professional surplus lines insurers generated a 5.2% increase in direct premium written. For the tenth year in a row, the surplus lines industry reported no financially impaired companies, in contrast to the admitted property/casualty industry’s 14 disclosed financial impairments in 2013.

from 3.3% of total property/casualty direct premiums written in 1993, to approximately 6.9% by the end of 2013. Meanwhile, surplus lines has grown as a percentage of commercial lines direct written premium from 6.1% to 13.7%.

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.

“The 20-year retrospective is a valuable component of this year’s report,” said Brian Van Cleave, Derek Hughes/NAPSLO Educational Foundation president. “The initial report confirmed that surplus lines insurers were as financially sound, if not more so, than the admitted market and this report illustrates that our industry remains that stable.”

Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2014, 100% of surplus lines companies maintained secure A.M. Best ratings.

The report also includes the results of A.M. Best’s survey of surplus lines insurers measuring the proportion of surplus lines premium derived from various distribution channels. A.M. Best’s survey results indicate that the largest distributors of surplus lines products continue to be wholesale agents and brokers with binding authority.

The 2014 report indicates growth of

Despite the challenges that A.M. Best noted over the 21 years of study, the surplus lines market more than doubled

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, please visit: www.napslo.org/Foundation.

Foundation awards 15 scholarships for 2014-15 year

The Derek Hughes/NAPSLO Educational Foundation selected 15 students to receive \$5,000 scholarships for the 2014-15 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. Since the program's inception in 1998, the Foundation is pleased to have facilitated career opportunities for talented students through 199 scholarships totaling \$727,000.

Jonathan Bisschop, University of Connecticut, was awarded the **Russell Bond Education Scholarship**, started in 2007 to recognize the founder of the Russell Bond & Co., Inc.

Christopher Mohler, Butler University, was awarded the **Gary E. Frohn Memorial Scholarship**, established in 2008 to recognize Mr. Frohn.

William Eudailey, University of South Carolina, was awarded the **Richard Hull**

Educational Scholarship, established in the name of Hull & Company founder. **Alexis Ramiro**, Illinois State University, was awarded the **Herbert W. Kaufman Memorial Scholarship**, founded in 2001 from proceeds donated in memory of Herbert W. Kaufman.

Christopher Skinner, Robert Morris 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. The three students selected to receive a Scott W. Polley Memorial Scholarship were: **Lindsay Bunch**, Virginia Commonwealth University; **Frank Busch**, Illinois State University; **Wesley McDaniel**, Appalachian State University.

Travis Lankerdt, Olivet College, was

awarded the **Michael J. Snead Memorial Scholarship**. It was established in 2009 to recognize Mr. Snead, a former NAPSLO Board member and an industry leader.

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: **Yancey Hicks**, University of North Carolina; **Ingrid Lecot**, Baylor University; **Ceirra Thompson**, Eastern Kentucky University.

The **Foundation Insurance Scholarship** recipients were **Andrew Izzo** and **Kevin Murphy**, both of Appalachian State University.

Sean Johnson, Temple University was awarded the **Insurance Scholarship** sponsored by NAPSLO.

Foundation sponsors symposiums and GIS Annual Conference

The Foundation sponsored symposiums presented by Illinois State University and Troy University, and the Gamma Iota Sigma International Conference during 2014.

Near 800 students attended the events, including approximately 148 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, representing 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.

Approximately 90 students, representing 17 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 Dallas, TX in October 2014. More than 450 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

2014 attended by nearly 100 students.

Outreach by the numbers

Symposiums and conferences sponsored

4

Students reached at symposiums and conferences

788

Universities represented at sponsored symposiums and conferences

36

Foundation exceeds \$6.6 million in assets

Thanks to generous contributions from NAPSLO member firms and a successful Golf Invitational event at the 2014 NAPSLO Mid-Year Leadership Forum in Scottsdale, the Foundation reported \$6.6 million in assets by the July 31, 2014 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 Brian Van Cleave. "The E.G. Lassiter Speakers Fund also allowed the Foundation to assist NAPSLO in bringing Earvin 'Magic' Johnson to speak to attendees at NAPSLO's 2014 Annual Convention."

Several entities made significant contributions during the past fiscal year, including \$72,500 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 18th Annual Foundation Golf Invitational raised more than \$105,000.

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.

Balance Sheet		
	<u>July 31, 2014</u>	<u>July 31, 2013</u>
Assets		
Cash & Cash Equivalents	\$ 430,325	\$ 523,306
Certificates of Deposit	3,321,000	2,973,000
Receivables	140,013	189,150
Investments	2,728,688	2,786,570
Other Current Assets	1,110	2,484
Total Assets	<u>\$ 6,621,136</u>	<u>\$ 6,474,510</u>
Liabilities and Net Assets		
Liabilities	\$ -	\$ 1,360
Net Assets		
Unrestricted	4,623,418	4,484,146
Temporarily Restricted	1,449,715	1,441,001
Permanently Restricted	548,003	548,003
Total Net Assets	<u>6,621,136</u>	<u>6,473,150</u>
Total Liabilities & Net Assets	<u>\$ 6,621,136</u>	<u>\$ 6,474,510</u>
Income Statement		
	For the Years Ended	
	<u>July 31, 2014</u>	<u>July 31, 2013</u>
Revenues		
Contributions and Special Events	\$ 301,754	\$ 308,401
Investment Income	151,381	130,680
Total Revenue	<u>453,135</u>	<u>439,081</u>
Expenses		
Program Services	232,417	177,517
General & Administrative	20,759	16,896
Special Events	51,973	54,075
Total Expenses	<u>305,149</u>	<u>248,488</u>
Change in Net Assets	147,986	190,593
Net Assets, Beginning of Year	6,473,150	6,282,557
Net Assets, End of Year	<u>\$ 6,621,136</u>	<u>\$ 6,473,150</u>

Thank you to our 2014 Foundation contributors

Director's Level (\$50,000 - \$99,999)

Surplus Lines Association of Arizona

President's Level (\$25,000 - \$49,999)

RSUI

Executive's Level (\$10,000 - \$24,999)

Crum & Forster

R-T Specialty

Surplus Lines Stamping Office of Texas

Sponsor's Level (\$1,000 - \$9,999)

Sarah L. Corvin

Crouse & Associates

Engle Martin & Associates

M.J. Hall & Associates

NAPSLO

Partners Specialty Employees

Pennsylvania Surplus Lines Association

Shelly, Middlebrooks & O'Leary

Surplus Lines Association of Washington

Contributors' Level (Under \$1,000)

DeCotis Insurance

A complete list of contributors since the Foundation's inception can be found on the NAPSLO website at 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, 2,057 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 2013-2014 class of 111 ASLI completers were recognized during the ASLI Conferment Ceremony and Recognition Luncheon at the 2014 NAPSLO Annual Convention in Atlanta. The distinguished graduate in the class was **Brittney Kraus, ASLI**.

Recognized for academic excellence were: **Keith Hammersmith, CPCU, AIC, ARM, ASLI; April Marksberry, CPCU, AINS, AU, AIC, ASLI; Vivek Shekhar, AIT, AINS, AIS, API, AIC, ASLI, AAI.**

2014 Designees

Nancy L. Alonso, CPCU, AU, AINS, ASLI
Thomas Curtis Anderson IV, AIS, ASLI
Marvin Andre, ASLI
Mitchell Annan, CPCU, AINS, AAI, ASLI
Timothy Antonov ARM, ASLI, ARe, ANFI
Lara Arnold, AIC, ASLI
Catherine Arnone, ASLI
Randy Ballreich, AINS, AU, ASLI
Daniel Baughn, ASLI
Thomas A. Berry, ASLI
Chris Bolts, AINS, ASLI, AU
Dawn Marie Brost, CPCU, ARM, ASLI
Mary E. Bruggeman, CPCU, AIC, ARM, AU, ARe, AIM, ARM-P, AMIM, ASLI, AIC-M
Willem Jacob Buisman, CPCU, AU, ARM, AMIM, ASLI
Matthew Campen, CPCU, AIC, AINS, ASLI
Joseph Cardoso, AIS, ASLI
Donald Carson Jr., AINS, ASLI
Jayne Carver, ASLI
Carly Cashen, AINS, AU, ASLI
Bailey Clark, ASLI
John Coston III, ASLI
Aireen De Leon, ASLI
Ben Delinski, ASLI, AU
Kyle Enderle, ASLI
Jeffrey English, ASLI
Jacquelyn Enniss, AINS, ASLI, AU
James Epting, ASLI
Ethan Evans, AAI, AU, ASLI
Cody Faust, ASLI
Anne M. Foersch, CPCU, AIC, ASLI
Daniel K. Fuld, CPCU, ASLI
Timothy H. Gaffigan, CPCU, AIS, ASLI
Malinda S. Gardner, ASLI
Robert R. Gassen, CPCU, AINS, ASLI
Jonathan Grimsley, AU, AINS, ASLI
Nathan Habben, AINS, API, AU, AIT, AIC, AAI, ASLI
Keith Hammersmith, CPCU, AIC, ARM, ASLI
Vicki V. Haneckow, CPCU, ASLI
Joshua Hansen, CPCU, AU, AAI, ASLI
Karen B. Harmon, AIS, ASLI
Daniel A. Hayes, CPCU, AINS, AIM, API ARe, AIT, AMIM, ASLI
Kathryn Holland, CPCU, AIS, ARM, AINS, ASLI, AUrec
Melanie Johanson, AINS, AU, ASLI
Ethan L. Johnson, ASLI
Diandra Jones, CPCU, API, ARM, AINS, AIS, AIAF, ARC, ARe, ASLI
James Jorgensen, CPCU, ARe, ASLI/
Amanda K. Guimond, AIS, API, AU, AINS, ASLI
Sara Keeler, ASLI, AU
Peggy S. King, ARC, AIC, AINS, ASLI
Jeffrey L. Kirpach, AU, AINS, ASLI
Pawel Kowalewski, ARM, ARe, ASLI
Brittney Kraus, ASLI
Jeffery W. Lamb, CPCU, AINS, ASLI
Melody Langley, AU, ASLI
Robert Latoza, CPCU, AAI, ARM, AU, ARe, ASLI, AU-M
Wilma L. LaVoie, CPCU, ASLI
Ryan Loepker, CPCU, AINS, API, AU, AU-M, ARe, ASLI
Marie Louise D. Lundqvist, CPCU, ASLI
Justin Maack, CPCU, AAI, AIS, AU, ARM, ASLI
Elizabeth Marinaro, ASLI
April Marksberry, CPCU, AINS, AU, AIC, ASLI
Michael A. Matheus, AIC, ASLI
Robert Mayer, AAI, ARM, ASLI
Thomas J. Metzger, ASLI, AINS
Jonathan Morgan, AU, ASLI
Jeff Moyer, ASLI, AU
Patrick Mulhern, ASLI
Donna Munsch, CPCU, AINS, ASLI
Eric Mutch, ASLI
Andrew Nowlan, CPCU, AIS, AINS, ASLI
Lauren O'Day, ASLI
Jamie Olson, ASLI
Julie Ormston, CPCU, ARM, ASLI
James Daniel Parisher Jr., CPCU, ASLI
Bruce Stuart Parks, CPCU, AINS, AU ARe, AIS, ARM, AU-M, AAI, ARC, AIAF, ASLI
Katrine Pertsovski, CPCU, AIS, API, AIAF, ARC, ARe, ARM, ANFI, ARM-E, ASLI, APA, AIM, AINS
Connie S. Petertonjes, CPCU, AFSB, AINS, AIM, ASLI
Jennifer L. Porter, AU, ASLI
Leo Quigley, AINS, ASLI
Elizabeth Ragland, ASLI
John Raine, AINS, AIS, ASLI
Steven L. Richman, AIS, ASLI
Andrea D. Robinson, CPCU, AIC, ASLI
Adriana Roca, ARM, ASLI
Owen Roddy, ASLI
Ryan Rolfs, ASLI
Mike Sardinia, AINS, ASLI
Andrea N. Savedge, AIS, ASLI
Elizabeth W. Scott, AIS, ASLI
Yuichiro Seta, CPCU, AU, ARM, ARe, ASLI
Vivek Shekhar, AIT, AINS, AIS, API, AIC, ASLI, AAI
Tami L. Singer, CPCU, ASLI
Marisa Skolky, AINS, ASLI, AU
Suzanne Slavin, ARM, ASLI
Erin Stedman, CPCU, AAI, AIS, AU, ASLI
Matthew Stephens, ASLI
Courtney Stuekerjuergen, CPCU, AINS, ASLI
Aimee Stumler, AU, AIS, AINS, ASLI
Siew Kett Tan, AINS, ASLI
Dustin Tarlow, AINS, AU, ASLI
Matthew Thomas, ASLI
Carl W. Thompson, ASLI
Emily Torrijos, CPCU, AIC, AINS, ARM, ARe, AU, ASLI
Garett Utterback, CPCU, AU, ARM, ARe, ASLI
Michael Valse, ASLI
Steven Wasylkiw, AIS, ASLI
Kent Watson, AIS, AU, AINS, ASLI
Kyle Webster, AIS, ASLI
Kerri Welsh, ASLI
James L. Wojnarowicz, ASLI, ARM
Charles Yerkov, ASLI, AINS, AU

2014 golf invitational raises more than \$105,000

The 18th annual Derek Hughes/NAPSLO Educational Foundation golf invitational was held at the Wildfire Golf Club in Scottsdale, AZ in conjunction with the 2014 Mid-Year Leadership Forum. More than 100 golfers participated, raising more than \$105,000.

The event was sponsored by 41 NAPSLO member firms, helping make it a success.

2014 Golf Invitational Sponsors:

Gold Sponsors

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 Guy Carpenter & Co, LLC
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Magic Johnson featured as E.G.Lassiter Lecture Series speaker

The E.G. Lassiter Lecture Series, presented by the Derek Hughes/NAPSLO Educational Foundation featured NBA legend, two-time Hall of Famer, entrepreneur and philanthropist, Earvin "Magic" Johnson as speaker at the 2014 NAPSLO Annual Convention.

Johnson is Chairman and CEO of Magic Johnson Enterprises, which is comprised of multiple business entities and partnerships that include real estate, private equity, a television network, food service and facilities management, education, healthcare and many other business ventures.

His unprecedented partnership with Starbucks served as a catalyst for redevelopment in urban communities. Johnson is a partner in an effort to build a new stadium and to bring an NFL

team, and thousands of new jobs, back to the City of Los Angeles. Mr. Johnson's philanthropic activities are also well known.

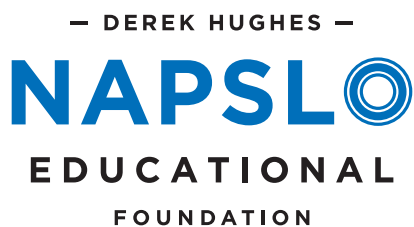
He serves as the Chairman and Founder of the Magic Johnson Foundation where his unwavering commitment to transform urban America continues through HIV/AIDS Awareness & Prevention Programs, Community Empowerment Centers, and the Taylor Michaels Scholarship Program. Celebrating over 20 years of success, the Magic Johnson Foundation has become one of the most recognizable philanthropic

organizations in the world.



Johnson spoke to a full General Session of NAPSLO attendees about his NBA career, as well as his business successes, and answered a variety of questions from audience members on topics including HIV awareness,

sports and business.



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