



2010 Annual Report



February 2011

Twenty years ago the founding Directors of the NAPSLO Educational Foundation were putting the finishing touches on organizing and chartering an educational foundation devoted to the surplus lines industry. In December, 1991 the organizational work was completed and announced at the retirement of Derek Hughes as President of Western World Insurance Group. To commemorate the occasion Western World had committed the initial funds for the creation of the foundation. Derek graciously agreed to allow his name to be used; thus the Derek Hughes/NAPSLO Educational Foundation, Ltd. was officially established. As we close in our twentieth anniversary we have accomplished a great deal for the surplus lines industry.

Education has always been a focus of the Foundation. Anyone following the news about the cost of education at colleges and universities knows that it has been increasingly difficult for students, and their parents, to graduate without going deeply in debt.

As a smaller part of the insurance industry, the Foundation and NAPSLO, work to find ways to bring talented students into the surplus lines industry. Our scholarship program has played an important part in our efforts.

In 2010 the Foundation gave out 14 scholarships of \$5,000 to students who have expressed an interest in the insurance industry. The Board would like to expand both the amount of the scholarships and also the number of scholarships but with the state of the economy and limited investment returns it is difficult to do either at this time without additional support.

If you would like to help us with our existing scholarship programs or would like to find out how to create a named scholarship fund, please contact Board member Tom Stamm or the NAPSLO office.

In addition to our scholarship efforts, the Foundation has reached out to college students by sponsoring college symposiums at Troy University and Olivet College for many years. This year will be a year of transition of the management of the annual symposium in Chicago from Olivet to Illinois State University.

Olivet and Prof. Mike Hubbel have been great supporters of the Foundation in the past and we thank them for their past efforts. The Foundation symposiums provide an opportunity to promote the surplus lines industry. Given our past success we are looking at ways to offer a third annual symposium, possibly in the western United States.

While our college educational efforts have been a focus of our efforts in 2010 we continued our arrangements with the A.M. Best Co. to produce the annual report on the surplus lines industry and with the Institutes to continue the Associate in Surplus Lines Insurance (ASLI) designation. There are nearly 2000 ASLI designations that have been conferred over the past 15 years.

All of these efforts would not be possible without your support. On behalf of the Foundation Board of Directors I would like to thank you and encourage you to read the enclosed pages to follow our efforts of the past year.

Joseph D. Timmons, CPCU, ASLI
President
Derek Hughes/NAPSLO Educational Foundation, Ltd.

Foundation Recognizes Recent ASLI Graduates

The top five graduates of the Associate in Surplus Lines Insurance (ASLI) program were recognized at the NAPSLO Annual Convention in October. The Derek Hughes/NAPSLO Educational Foundation sponsors the awards, which were presented by Board member Arthur L. Flitner, CPCU, ARM, AIC and Joseph D. Timmons, CPCU, ASLI, President of the Foundation.

The top five graduates in ASLI's 2010 class are Linda Y. Shin, Alliant Insurance Services, Tricia J. McKee, Scottsdale Insurance Company, Joan B. Moore, United States Liability

Insurance Group, William D. Thompson, National Specialty Underwriters, Inc. and Janet L. Zeaiter, Markel Insurance Company

Shin, the Distinguished Graduate, won \$500 and a commemorative plaque. McKee, Moore, Thompson and Zeaiter each won an Award for Academic Excellence, which includes an award of \$250 and a commemorative plaque.

NAPSLO also presented ASLI diplomas to members of this year's class of new ASLI designees who attended the convention.

ASLI 2010 Designees

Linda G. Adams, CPCU, AIS, AU, ARM, AIM, APA, AFSB, ARe
Brittany Alkire, ARM, ASLI, AIS
Carrie M. Allen, ARM, ASLI, AINS
Kimberly M. Aquilante, AIS, AU, ASLI
Jesse D. Barber, AIS, ASLI
Kevin S. Benedix, CPCU, ASLI
Lisa Benneig, ASLI
Patrick O. Boland, ASLI
Lori Bollinger, AIS, ASLI
Shane Bouma, ASLI
Bradley R. Boyett, ASLI
David Breen, CPCU, AAI, ARM, AIM, AU, AFSB, API, AIS, ASLI
Michele E. Broadhurst, CPCU, AIS, AIC, AIM, ASLI
Crystal Burkley, ASLI
Mark D. Calio, CPCU, ASLI
Lisa D. Carr, ASLI
Dionne K. Chisolm, CPCU, ARe, ASLI
Halee Cork, AU, ASLI
Jennifer J. Crawford, AU, ASLI
Richard Creel, ASLI
John Day, ASLI
David W. Deal, CPCU, ARe, ARC, ASLI
Janet L. DiAngelo, CPCU, ARM, ALCM, ARM-P, ARe, ASLI
John Dietz, ASLI
Brian J. Donahue, AIS, ARM, AU, ASLI
Stephanie Doss, CPCU, AIS, ASLI
Leslie M. Dreisbach, AIS, AU, ASLI
Colleen E. Duffy, ASLI
Brian Dziengelski, AIS, ASLI, AU
Justin C. Evans, ASLI
Clay R. Farris, CPCU, AU, ASLI
Danielle Fegan, CPCU, ASLI
Kevin Ferguson, CPCU, AIAF, ARC, AMIM, API, ASLI
Kathleen Fitzgerald, ASLI
Brian V. Francis, ARM, AAI, AIS, ASLI
Gregory J. Gagliardi, CPCU, AIS, ARM, ASLI
Rafael H. Gaitan, CPCU, AIS, ASLI
Chance Gilliland, ASLI
Robert S. Girard, ASLI
Sam Glusman, ASLI
David B. Goddard, AIS, ASLI, AINS
Sara Christine Graves, AIS, ASLI
Rhonda S. Green, ASLI, AIS, AU
Pawel Grubecki, ASLI
Andrew T. Guido, CPCU, AMIM, ASLI, AIS
Lely Gullede, ASLI, AU
Armin Gutmann, CPCU, ARe, ASLI

Angela M. Halpin, CPCU, API, AIM, AU, ASLI
Melissa Harris, ASLI
Mary K. Hassler, CPCU, AU, AIS, AIM, ASLI
Erin Heitman, AIS, AU, ASLI, AINS
Sara Helms, ASLI
Joanne G. Herishko, CPCU, AIC, API, AIS, AU, ASLI
Albert Hilber, AIC, ASLI
Jeffrey Louis Hill, ASLI
James Arthur Hobday, CPCU, ASLI
Mark D. Holmstrom, CPCU, ARe, AIC, ASLI
Scott Holtje, CPCU, ASLI
Jo M. Hughes, API, AIS, ASLI
Yasser Hussein, AU, ASLI
Brian T. Huwel, AIS, ASLI
Kwangshin Hwang, ASLI
Christopher Iannelli, CPCU, AIC, ARe, ASLI
Kyle B. Jackson, AIS, AU, ASLI, AINS
Lynnie T. Jenkins, CPCU, ARM, AIS, AU, ASLI
Denise Johnson, AIC, ASLI
Kristin Jones, ASLI
Mary Pat Joyce, ASLI
Vasudha Juwadi, AIM, AAI, AIS, API, ASLI, AU
Caitlin Kelly, ASLI
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Natalie Mauro, AU, ASLI, AINS
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Marc J. Schambow, CPCU, AIM, ASLI
Lisa Scheffler, CPCU, AU, ASLI
Susan M. Schmitter, AIS, AIC, AU, ASLI, AINS
Kathleen E. Schnitzer, ASLI
Christopher J. Schramm, AIS, AU, ASLI, AINS
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Emily Shelley, CPCU, ARe, ASLI
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NAPSLO
RSUI Group, Inc.
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The Surplus Line Report
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15th Annual Foundation golf outing set for February 25 in Naples



The Derek Hughes/NAPSLO Educational Foundation raised over \$110,000 in 2010 at the 14th Annual Foundation Golf Invitational which exceeded proceeds from the 2009 golf tournament.

The 15th annual golf outing is scheduled for February 25 at the 2011 Mid-Year Leadership Forum in Naples, Florida and will take place at Naples Grande Golf Club.

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

Approximately 100 golfers took part in the 2010 golf invitational and 38 firms sponsored the event.

2010 sponsors:

Admiral Insurance Co.
All Risks, Ltd.
American Reliable Ins. Co.
AmWINS Brokerage
Arch Insurance Group
Arlington/Roe & Co.
AXIS Insurance
Burns & Wilcox Ltd.
Colemont Brokerage Group Inc.
Colony Insurance Company
CRC/Southern Cross Underwriters
Crump Insurance Services
Endurance American Specialty

Euclid Managers
General Star Indemnity Co.
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Great American Custom
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Hull & Company
Markel Corporation
Maxum Indemnity Company
Mercator Risk Services, Inc.
Metro Insurance Services
RLI
RPS Itasca
RSUI
Scottsdale Insurance Company
Specialty Risk Associates, Inc.
St. James Insurance Group
Swett & Crawford
TAPCO Underwriters, Inc.
The Sullivan Group
U.S. Risk Insurance Group
USLI
Western Heritage Insurance Company
Western World Insurance Group
Westrope

Foundation sponsors annual symposiums at Olivet College & Troy Univ. in 2010

The Derek Hughes/NAPSLO Educational Foundation sponsored symposiums at Troy University and Olivet College in 2010 and more than 160 students attended the two symposiums.

The Olivet College Symposium, under the direction of Professor Mike Hubbel, took place in Chicago on March 26-27 and approximately 100 students from 11 universities attended. In 2011 Illinois State University will take over the event, which will take place March 25-26 in Chicago.

Industry speakers at the 2010 Olivet Symposium were: Chris Behymer, Markel West Region; Richard Bouhan, NAPSLO; Jason Conkin, Arch Insurance Group; Sarah Lin, CRC Insurance Services; Henry Lopez, Markel Corporation; Mark Maurer, Arlington/Roe & Co.; John O’Hara, Lloyd’s US; Marcus Payne, NAPSLO; Mark Rector, Lloyd’s; and Melissa Sturtecky, Arch Insurance Group.

In addition, students attended a Career Fair. Colleges represented at the symposium included: Appalachian State University; Baylor University; Ball State University; Illinois State University; Indiana State University; University of Iowa; University of Central Oklahoma;

Olivet College; Temple University; University of Wisconsin-Madison; Virginia Commonwealth University; and Fanshawe College of Canada.

The Troy University Symposium was October 8-9 in Birmingham, Ala. and 80 students from 11 universities attended the event, set up through Dr. Carol Jordan, Director of the insurance program at Troy’s Sorrell College of Business.

Speakers at the symposium were: Marcus Payne, NAPSLO; Richard Bouhan, NAPSLO; Patrick Talley, Lloyd’s North America; Patti Berry, Peachtree Special Risk Brokers; Fran O’Connell, Markel Mid South Region, John Latham, Markel; and Nick Abraham, representing the NAPSLO Internship Program.

Overall 16 colleges and universities were represented at the symposium in Troy University and more than 60 students attended the program and Career Fair.

The Foundation also participated in the 2010 Gamma Iota Sigma Annual Conference at Central Michigan University. Tom Stamm, Ed Levy, and Brian Van Cleve represented the Foundation.

William R. Berkley - 2010 Foundation Lecture Speaker

William R. Berkley, presented the Derek Hughes/NAPSLO Educational Foundation Lecture Series at the 2010 NAPSLO Annual Convention in Atlanta.



Berkley, founder of the Fortune 500 property-casualty insurance holding company, W. R. Berkley Corporation, shared his perspective on the current business and political environment.

Berkley, who founded the company in 1967, has served continuously as Chairman and CEO over the past 43 years.

In his speech, Mr. Berkley said, “The U.S. economy is beginning to show signs of improvement and that should continue, however, confidence is needed to foster additional growth.”

Despite the improvement, Mr. Berkley said that politicians in Washington, D.C. need to rethink what they are doing and act more in a bipartisan way to give business confidence and predictability. He also said that the business sector needed to become less cautious about expansion.

Foundation awards 14 scholarships for 2010-11 year

The Derek Hughes/NAPSLO Educational Foundation selected 14 students to receive \$5,000 scholarships for the 2010-11 school year.

The program's goal is to further the study of insurance and encourage, support and reward students who have an interest in insurance.

The three students selected to receive a **Rolland L. Wieggers Education Scholarship** are:

- Vincent J. Baldino, Temple University
- Timothy K. McDermott, Temple University
- Brian A. Wingfield, Temple University

The **Kevin A. McLaughlin Memorial Scholarship** recipient is:

- Mason J. Novess, Olivet College

The three students selected to receive a **Scott W. Polley Memorial Scholarship** are:

- Emily J. Byrnes, Illinois State University
- Megan P. Suchoff, Indiana University
- Justin T. Teal, University of Connecticut-Storrs

The **Herbert W. Kaufman Memorial Scholarship** recipient is:

- Megan B. Richardson, Middle Tennessee State University

The **Derek Hughes/NAPSLO Educational Foundation Insurance Scholarship** recipient is:

- Jessica A. May, St. John's University

The **Gary E. Frohn Memorial Scholarship** recipient is:

- Brian T. Ford, Florida State University

The **Richard Hull Educational Scholarship** recipient is:

- Terri R. Ketzner, Indiana State University

Foundation Scholarships

The **Russell Bond Memorial Scholarship** recipient is:

- Rajiv Sagewan, St. John's University

The **NAPSLO Insurance Scholarship** recipient is:

- Megan M. Ward, Olivet College

The **Michael J. Snead Memorial Scholarship** recipient is:

- Tyler D. Hall, Illinois State University

The **Rolland L. Wieggers Scholarship** was made possible by a donation by the Scottsdale Insurance Co. and industry participants in honor of the founder of the company.

The **Kevin A. McLaughlin Memorial Scholarship** was added in 2000 and in memory of Mr. McLaughlin.

The **Herbert W. Kaufman Memorial Scholarship** was added in 2001 from proceeds donated in memory of Herbert W. Kaufman.

In 2003, the **Scott W. Polley Memorial Scholarship** was established with contributions in memory of Mr. Polley.

The **Russell Bond Memorial Scholarship** was added in 2007 and came from funds donated by Russell Bond & Co., Inc, to recognize the firm's founders.

The **Richard Hull Educational Scholarship** was established in the name of Hull & Company founder.

The **Gary E. Frohn Memorial Scholarship** was established in 2008 to recognize Mr. Frohn.

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

Surplus Lines direct premiums decline in 2009, according to AM Best

Breaking a two-decade run of fairly consistent gains, the surplus lines industry's direct premiums written declined for a third consecutive year in 2009, however it should continue to generate positive underwriting results driven by adherence to disciplined underwriting and favorable prior-year loss-reserve development, according to the A.M. Best Co.'s U.S. Surplus Lines Market Review report.

Copies of the annual report were sent to NAPSLO members and a PDF copy of the report is available to download from the NAPSLO website.

At 4.1%, the decline was still better than the previous year's 6.2% reversal, but higher than the overall property/casualty (P/C) industry's 3.3% DPW fall off. A major source of pricing pressure and profit margin compression still are the standard market carriers that compete on risks traditionally insured in the surplus lines market. Recessionary economic conditions, volatile financial markets and competition from Bermuda-based carriers are added challenges for this market, according to A.M. Best.

The surplus lines market's total return on surplus (equity), reflecting the impact of unrealized capital gains or losses, was much improved in 2009, due to the financial market recovery. While both the surplus lines composite and the P/C industry, overall,

experienced tremendous improvement in return on surplus, the composite still outpaced the total P/C industry by more than three percentage points. In terms of both five and 10-year average returns on surplus, the surplus lines composite exceeded the total industry's by slightly greater margins.

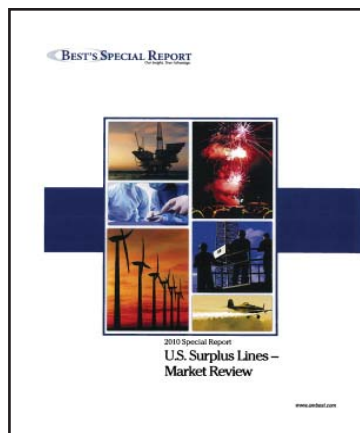
Still, surplus lines specialists, particularly the market leaders, generated considerable operating profits and returns on both revenue and surplus. In 2009, favorable prior-year loss reserve development also helped offset aided underwriting performance. Surplus line specialists in 2009 released a significant percentage of prior year loss reserves relative to net premiums earned, as did the P/C industry, which led to a sizable benefit on their year-end combined ratio.

• Nine of the top 10 U.S. surplus lines groups by DPW remained the same as in 2008, and the rankings from one to eight did not change. • For the sixth year in a row, the surplus lines industry recorded no financial impairments, compared with 18 financial impairments for the admitted property/casualty industry.

The report said that there might be a twinge of tightening in the market, with a select few standard and specialty carriers beginning to step back from certain unprofitable classes. Recognizable trends have yet to emerge, however.

The Special Report on the Surplus Lines Market, commissioned by the Derek Hughes/NAPSLO Educational Foundation, is the 17th annual study of the surplus lines industry which analyzes the various segments of the U.S. excess and surplus lines market and provides A.M. Best's perspective on the industry's operating performance, financial condition, solvency trends, stability and emerging issues in the market.

In addition to the financial review of the industry, the surplus lines distribution systems was a focus of the special sections topic of the report, examining licensing and compliance, tax reporting; pending legislation; commissions; relationships, and mergers and acquisitions.



Foundation passes \$5.6 million in assets

Thanks to contributions and a successful Golf Invitational event at the 2010 NAPSLO Mid-Year Leadership Forum, the Derek Hughes/NAPSLO Educational Foundation had more than \$5.6 million in assets by July 31, 2010 the end of the Foundation's fiscal year.

"The Foundation is grateful for the continued support provided by firms and individuals in our industry," said President Joseph D. Timmons, CPCU, ASLI. "This continued support enables us to continue our efforts to improve the educational opportunities in the industry."

A number of firms made significant pledges or contributions in 2010 including \$25,000 from the Surplus Lines Association of Arizona Foundation, \$15,000 from the Kemper Educational and Charitable Fund; \$5,000 each from Partners Specialty Group, the Surplus Line Association of Washington, and Bell & Clements. In addition, employees of Partners Specialty combine to contributed approximate \$4,400.

The 14th Annual Foundation Golf Invitational in 2010 also raised more than \$100,000 and a Golf Invitational is scheduled for the 2011 NAPSLO Mid-Year Leadership Forum in Naples, Fla., in late February and the Foundation expects to again raise a significant amount of money for its projects.

Major expense areas for the Foundation during the past year included commissioning the A.M. Best Annual Review of the Surplus Lines Industry; 14 \$5,000 scholarships for students; the annual golf tournament expenses; and sponsorship of college symposiums with Olivet College and Troy University.

Balance Sheet For Twelve Months Ended July 31, 2010

Assets			
Cash & Money Market	\$158,197		
Short Term Investments	\$5,454,252		
Interest Receivable	\$15,055		
Total Assets			\$5,627,504
Liabilities & Fund Balances			
Liabilities			\$1488
Fund Balances			
Unrestricted	\$3,976,630		
Temporarily Restricted	\$156,936		
Permanently Restricted	\$1,492,450		
Total Fund Balance			\$5,626,016
Total Liabilities & Fund Balances			\$5,627,504

Income Statement For Twelve Months Ended July 31, 2010

Revenue			
Contributions & Special Events	\$230,731		
Investment Income	\$178,293		
Total Revenue			\$409,024
Expenses			
Program Services	\$190,387		
General & Administrative	\$21,688		
Fund-raising Expenses	\$63,856		
Total Expenses			\$275,931
Excess of Revenue Over Expenses			\$172,037
Fund Balance, Beginning of Period			\$5,492,923
Fund Balance, End of Period			\$5,626,016

"Through our scholarships, symposiums at colleges, and the ASLI designation program we have been able to increase the knowledge about the surplus lines industry," said Mr. Timmons. "We will continue to look for ways to provide additional educational outlets to members of the industry."



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