

2018
Annual Report



**POWER
TO SERVE**

FLORIDA SURPLUS LINES SERVICE OFFICE

POWER TO SERVE

In a world of varying state and federal regulations and complex risks and coverages, FLSO has made it our mission to serve the surplus lines community by facilitating compliance through innovative solutions. Thanks to the contributions, feedback and trust given to us by our customers, we've been bestowed the power to lead and serve the Florida surplus lines community.

Before we first opened our doors in 1998, finding ways to better serve the people that make up this community has always been at the forefront of our vision. Since then, we have come a long way in pioneering new products and services, accomplishing organizational initiatives, and continuously improving our proprietary filing platform, SLIP. But despite the ideas we have developed and the goals we have achieved, we recognize that none of the power we wield would be of any use without the constant trust and support of the customers that we work with every day.

So, from all of us here at FLSO, we want to say thank you. Thank you for the trust and the feedback that you have given to us. It's an important part of what allows us to continue leading and serving the surplus lines community. These two inseparable ideas - leadership and service - will always be our first mission. When properly combined, leadership and service allow us to contribute to this great community and continue working towards finding innovative solutions and facilitating compliance.

"The strength of this country isn't in the buildings of brick and steel. It's in the hearts of those who have sworn to fight for its freedom."
Captain America



MISSION:
facilitate compliance



VISION:
lead and serve through innovative solutions



VALUES:
efficiency and effectiveness

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LETTER FROM THE **EXECUTIVE DIRECTOR**



Gary Pullen
Executive Director

The Florida Surplus Lines Service Office has had the fortunate opportunity to have been granted the power to serve the Florida surplus lines community for more than 20 years. The longstanding success of our organization is due in large part to the ambitious goals we set that power our mission, vision, and values and propel the organization forward.

This year was a dynamite year not just for FLSO but for the Florida surplus lines industry as a whole. Premium written increased by more than \$545 million from 2017 to nearly \$5.8 billion. Our commitment to providing supreme customer service and staying at the forefront of technology runs deep, as we are constantly working to improve existing products and find innovative solutions in an effort to boost customer satisfaction. This year we were able to launch several new compliance products to accomplish our mission and serve our customers.

We made some powerful enhancements in SLIP by implementing a Compliance Checkup Dashboard, which allows agents to view a complete picture of their regulatory compliance health. The dashboard system provides real-time statistics and alerts on regulatory and compliance requirements. This helps combat non-compliance and raise the visibility of compliance management activities. We also developed the Production Ledger Review program, which automates the comparison of policy data reported to FLSO with the production ledger data of the agent and identifies any discrepancies. Rounding out the compliance activities for the year, was the development of SLICE or the Surplus Lines Information & Compliance Education online training course. SLICE is designed for agents and agency staff members who would like to become more knowledgeable about surplus lines regulations, filing requirements, and SLIP.

In 2018, we had two minor legislative changes that affected the Florida surplus lines market. Surplus lines insurers no longer submit their eligibility applications to FLSO, and the Managing General Agent category was eliminated and replaced as an appointment on a general lines license.

When fall arrived so did Hurricane Michael, which made landfall on October 10th as a category five and one of the strongest storms on record to hit the state of Florida. Michael barreled in like a supervillain and virtually destroyed hundreds of miles in the panhandle of Florida. Insurance claims have surpassed \$66 billion and many panhandle residents are still without homes and jobs. Sitting just east of the epicenter of the disaster, the FLSO team quickly took action to help our neighbors to the west by assisting the Department of Financial Services with insurance questions and recovery efforts and pivoting our charitable causes to relief efforts for those affected by the colossal storm.

Overall, 2018 was a strong year for FLSO as we were able to tackle our goals and assist our customers with the highest standard of service. We take pride in our work to serve our customers, and as we move into 2019 we will continue to do so. I would also like to offer my gratitude to this year's Chairman of the Board of Governors, Roy Fabry, as well as the FLSO staff for their unwavering commitment to the success of this office.

Sincerely,

A handwritten signature in black ink that reads "Gary D. Pullen".

Gary D. Pullen





Roy Fabry
Chairman

LETTER FROM THE **CHAIRMAN**

As Chairman of the Board of Governors of the Florida Surplus Lines Service Office, I am honored to present the 2018 Annual Report which shows the strength of the organization through action and analytics. FLSO has become a leader in the surplus lines industry by keeping their mission of facilitating compliance at the forefront of everything they do. It is a privilege to serve as chair of such a wonderful organization. Premium written this year was close to \$5.8 billion, making 2018 a successful year for FLSO and the Florida surplus lines market as a

whole. FLSO has done an exceptional job of facilitating compliance through the Compliance Review program, which resulted in an overall industry average score of 96% compliance. The Premium Reconciliation and Production Ledger Review programs identified more than \$87 million in unreported premium and recovered \$3.1 million in unpaid taxes, fees, assessments, and penalties.

While facilitating compliance is our mission, FLSO is deeply committed to serving and protecting the surplus lines industry. When asked about their satisfaction with our office, customers rated us 100% across the following categories: Level of knowledge, Professionalism, Responsiveness, and Ability to assist. Similarly, the level of satisfaction with SLIP was 100% across the following categories Ease of use, Reliability, Functionality, Performance, and Support. Both figures increased six percentage points from 2017.

Through the strong sense of duty to our customers we are able to continuously improve operations and products. We are currently working towards our goals for 2019, 2020, and beyond, which will move our technology forward to the next generation.

I would like to extend my sincerest thanks to Gary Pullen for his excellent leadership as Executive Director, as well as the energetic FLSO staff for their continued commitment to outstanding customer service. Finally, I would like to thank the Board of Governors for bestowing upon me the role of Chairman. All of these elements make up a powerful team, which is why FLSO remains successful.

Please take a few moments to explore the annual report to learn more about the surplus lines industry in Florida and FLSO.

Sincerely,

Roy V. Fabry



2018 ORGANIZATIONAL ACHIEVEMENTS

Superheroes and FLSO have several things in common - one of which is our unique ability to pursue goals and organizational achievements for the good of many. Over the past 20 years, we have set goals for ourselves to develop innovative products and solutions for our customers to help serve the surplus lines community. Each year, we have faced challenges and endured setbacks to deliver the very best products and services to the Florida surplus lines marketplace.



"I think a hero is an ordinary individual who finds strength to persevere and endure in spite of overwhelming obstacles."

Superman

**POWER
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COMPLIANCE CHECKUP DASHBOARD



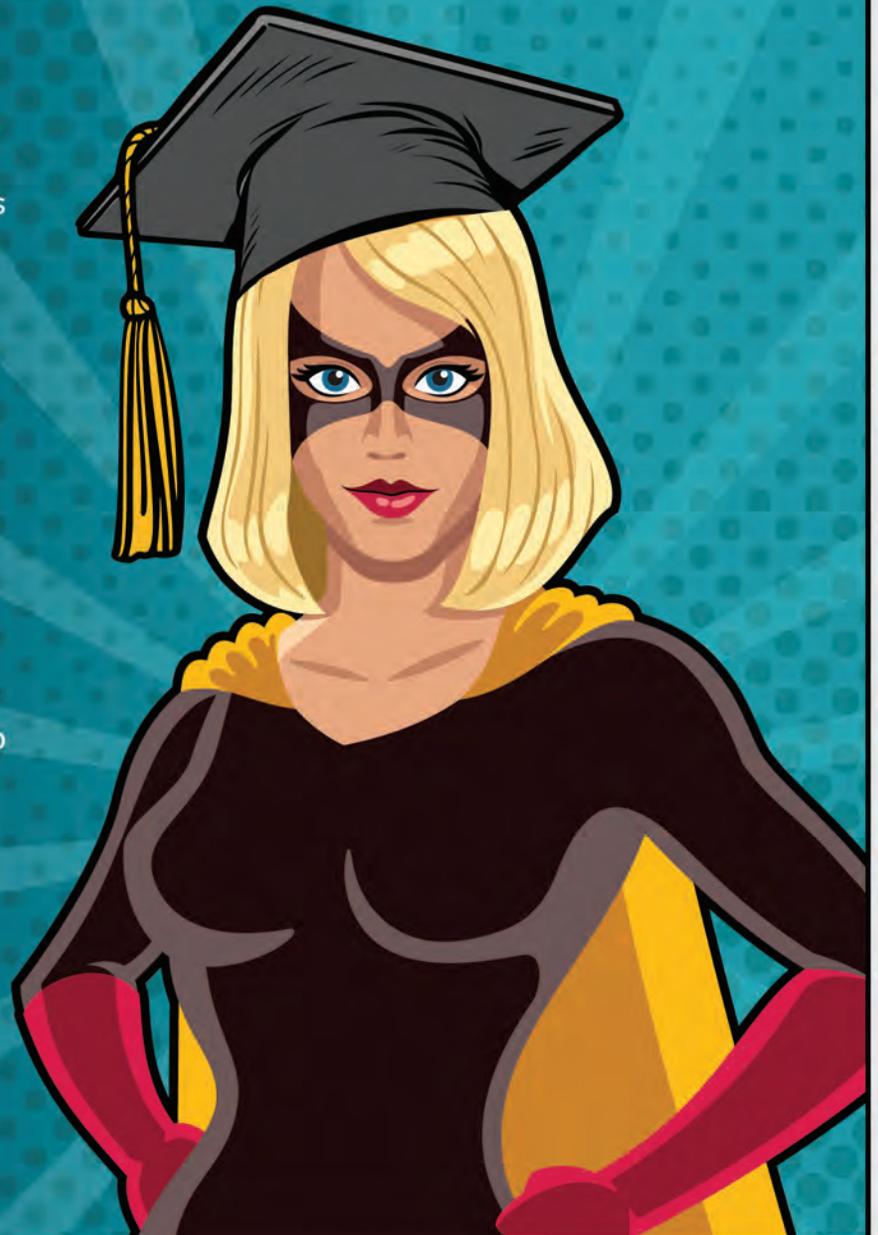
The FLSO superhero squad's mission is to facilitate compliance. We are driven to empower our customers to do their very best when transacting surplus lines business. In 2018, we unveiled the Compliance Checkup Dashboard in SLIP. The Compliance Checkup Dashboard is every agency's superhero gadget to help them stay in compliance. The Compliance Checkup Dashboard provides real-time information on timely filings and payments, Transactions in Question, and other regulatory tasks, including quarterly affidavit filings, self-appointments, and catastrophe contact information updates.

SLICE

A good education requires hard work and discipline. FLSO wanted to take some of the burden off of surplus lines agency and compliance staff by offering an online course based around surplus lines insurance knowledge and practices. In 2018, FLSO released the Surplus Lines Information & Compliance Education (SLICE) course designed to help agency and compliance staff develop and demonstrate knowledge and competency of Florida surplus lines compliance requirements and standards. SLICE also provides users with an in-depth review of SLIP and other FLSO tools and gadgets to help customers stay in compliance.

slice

SURPLUS LINES INFORMATION
& COMPLIANCE EDUCATION



PRODUCTION LEDGER REVIEW

The Roman philosopher Seneca is quoted as saying “luck is what happens when preparation meets opportunity”. For more than three years, the Compliance Review program had been reviewing agent production ledgers to identify misfiled or unfiled policy data. With that experience and knowledge under our belt, FLSO launched the Production Ledger Review program, which automates the review of agent production ledgers to improve efficiency in identifying unreported premiums. The Production Ledger Review program also maximizes the use of analytics to identify compliance risks and help agencies stay ahead of the compliance curve.



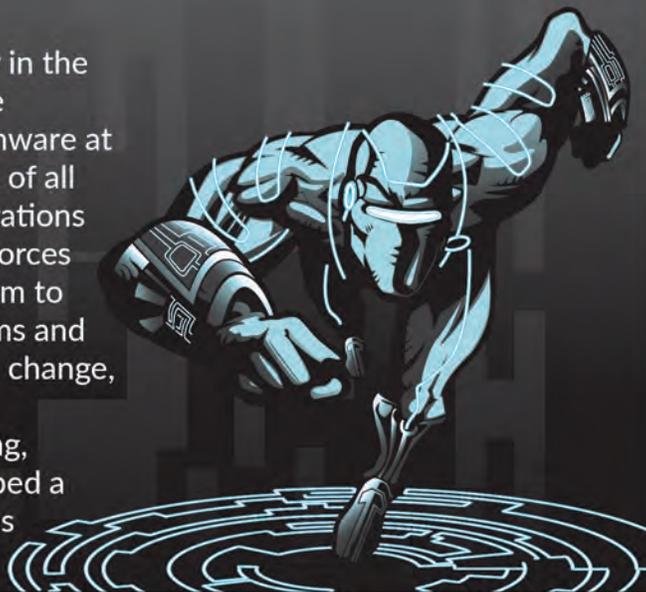
ENHANCED PREMIUM RECONCILIATION



In 2000, the Premium Reconciliation program was developed to compare agent and insurer policy data and identify any discrepancies in reporting. This initiative was the first of its kind and has been enhanced and improved with experience over the past 18 years. In 2018, the Premium Reconciliation team used their experience and insight to make significant improvements to the Premium Reconciliation automated system matching criteria and the ability for staff to identify possible matches for more efficient manual reconciliation. By the end of 2018, the percentage of transactions automatically matched by the system increased to 96%.

CYBERSECURITY

The number of cyber attacks has grown exponentially in the last several years. Hackers are not only targeting large corporations but are also directing attacks like ransomware at smaller, more vulnerable organizations. Organizations of all sizes are now facing relentless attacks impacting operations and stakeholders. In 2018, we gathered our security forces and developed a comprehensive cybersecurity program to better protect FLSO’s information technology systems and related data from unintended or unauthorized access, change, or destruction by implementing best practices and procedures for risk assessment, prevention, monitoring, detection, response, and recovery. Finally, we developed a complete incident response and crisis communications plan to guide us in the event of an adverse attack.



2018 ORGANIZATIONAL RESULTS

Everyone needs a sidekick – even superheroes. FLSO employees are there to serve as the sidekick for surplus lines agents to help guide them through the complex challenges of the surplus lines market by answering questions and helping them improve their compliance. The success of FLSO hinges on the success of our customers. As a non-profit organization, we measure success using our values of efficiency and effectiveness.



"It's not who I am underneath, but what I do that defines me."

Batman

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2018 ORGANIZATIONAL RESULTS

FILING AND PAYMENT COMPLIANCE

Agent Policies Submitted Timely

90%

Agent Premium Reported Accurately

99%

TIQs Resolved in 90 Days

100%

Insurer Policies Submitted Timely

86%

System Matched Insurer Policies

96%

Agent Invoices Paid Timely

93%

INDUSTRY COMPLIANCE SCORES

99%

93%

98%

Industry Grade

Data Requirements

Regulatory Requirements

Financial Requirements

OPERATIONAL EFFICIENCY

\$1.00
Operating Costs



\$2.12
Compliance Revenue

Total Compliance Revenue | **\$13,103,140**

SYSTEM EFFICIENCY

Revenue from Rejected Credits and Tax Status Combinations | **\$2,203,619**

Total Transactions Processed | **1,724,383**

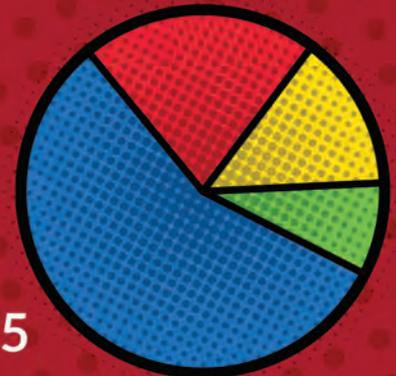
LABOR EFFICIENCY

Total Transactions in Question (TIQs) Processed | **19,197**

Tax, Service Fee, and Assessment Payments Processed | **12,153**

Premium Reconciliation Transactions Manually Reconciled | **26,635**

Compliance Review Reports Finalized | **411**



2018 ORGANIZATIONAL RESULTS

COMPLIANCE REVIEW

Compliance Reviews
411

Policies Reviewed
16,855

Transactions Reviewed
20,179

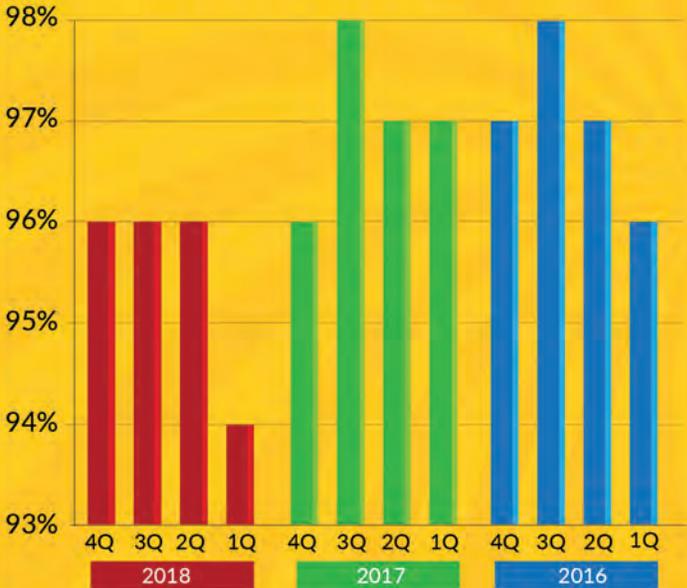
Unfiled Transactions
2,234

Agents with Unfiled Transactions
134



INDUSTRY GRADE
96%

COMPLIANCE REVIEW AVERAGE SCORES



PRODUCTION LEDGER REVIEW

Unfiled Premium | **\$24,604,254**

Taxes, Service Fees, Assessments, and Penalties Recovered | **\$1,123,908**

PREMIUM RECONCILIATION

System Reconciled Transactions
681,355

Manually Reconciled Transactions
26,635

Unfiled Transactions
706



PREMIUM RECONCILIATION STATISTICS

Unfiled Premium | **\$62,602,069**

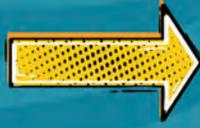
Taxes, Service Fees, Assessments, and Penalties Recovered | **\$1,984,637**



2018 ORGANIZATIONAL RESULTS

AGENT TRANSACTIONS SUBMITTED

Batch
Submissions
72,274



Batch
Transactions
1,323,794

SLIP
Transactions
266,761

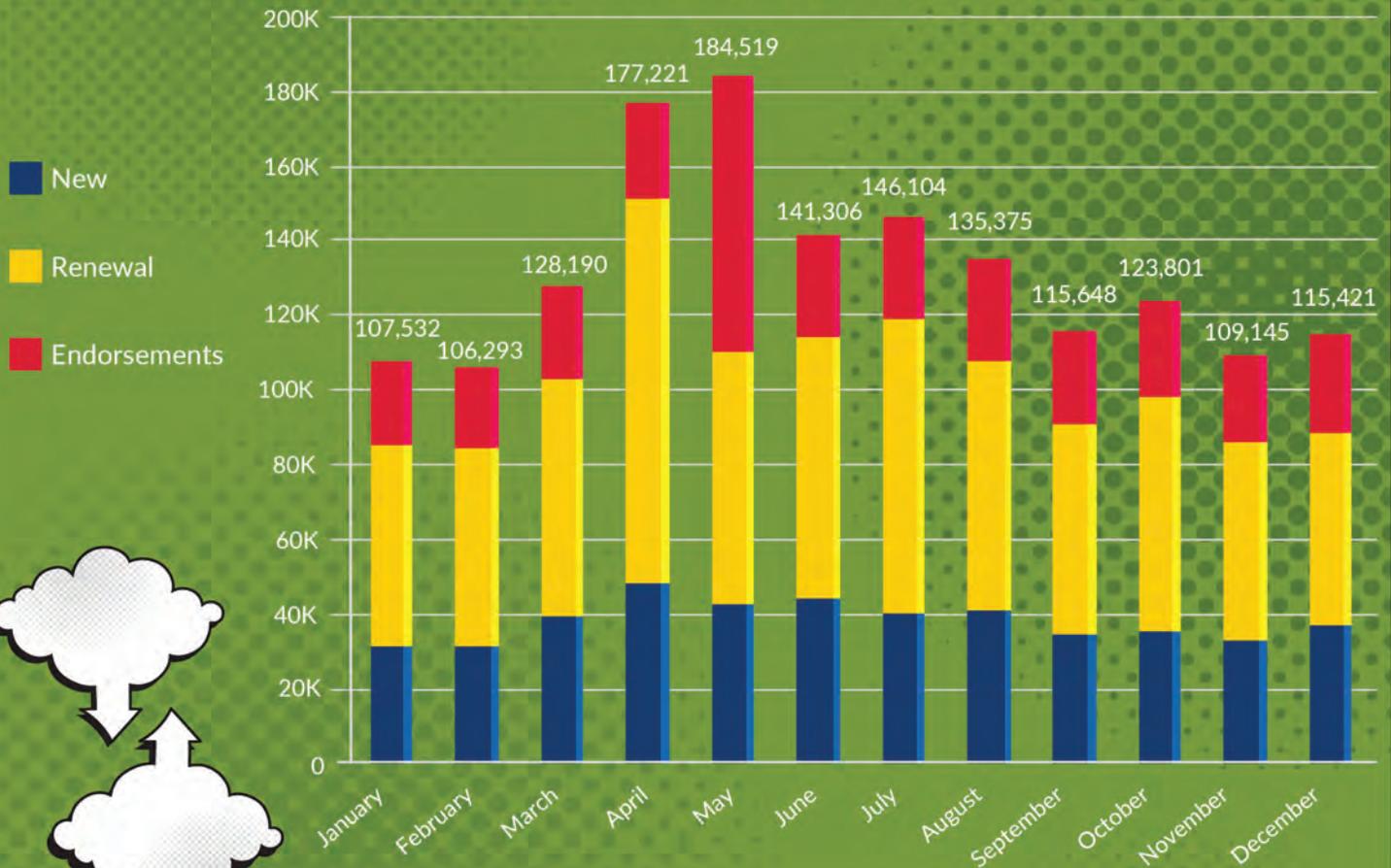


1,590,555*
Total Agent
Transactions
Submitted

SLIP - 17%
Batch - 83%

SLIP VS. BATCH AGENT TRANSACTIONS

AGENT TRANSACTIONS SUBMITTED BY MONTH



* Agent only. Excludes backout pair transactions.

SURPLUS LINES AUTOMATION SUITE

The *Surplus Lines Automation Suite* (SLAS) is an innovative reporting and payment solution for surplus lines premium taxes. SLAS is a comprehensive technology solution comprised of SLIP, a web portal used by agents and brokers, and RAPID, a sophisticated management system used by regulators for policy review, auditing, and reporting. SLAS has given FLSO the power to serve not only Florida but several other states.

**SLIP
RAPID**



"In a world of ordinary mortals, you are a Wonder Woman."
Queen Hippolyta
(Wonder Woman's Mother)

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SURPLUS LINES AUTOMATION SUITE

SLAS STATISTICS

**\$695
MILLION**

Invalid Credit
Endorsements
Automatically Rejected by
the SLAS System

**\$1
BILLION**

Unreported Premium and Revenues
Recovered through Premium
Reconciliation, Compliance Review,
and Production Ledger Review

Nationwide
Surplus Lines
Premium
Reported and
Processed by the
SLAS System

37%

99%

Overall
Level of
Satisfaction
with
SLIP

SLAS STATES

The Surplus Lines Automation Suite is currently used by 11 states and processes more than 1/3 of the nationwide surplus lines premium.



SLAS CLEARINGHOUSE



Transactions Processed | **135,785**

Premium Processed | **\$800 M**

Timely Payments | **94%**

2018 MARKET STATISTICS



FLSO is the keeper of data and protector of revenues for the Florida surplus lines market. As the agent of analytics, we are able to provide powerful statistics and offer insights into the Florida surplus lines marketplace that may not otherwise be clear. Analyzing premium, policy count, and coverage data allows us to gain significant understanding into the complexities of this highly specialized industry.



"With great power comes great responsibility."
Spider-Man

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TOTAL FLORIDA PREMIUM

\$5.78 BILLION



TOTAL PREMIUM

2018 - \$5,783,148,996

2017 - \$5,237,235,675

2016 - \$4,906,459,056

PREMIUM AND POLICY COUNT

	2018	FROM 2017
Total Premium	\$5,783,148,996	↑ 10.42%
Policy Count	1,164,880	↑ 11.1%
Average Cost Per Policy	\$4,965	↓ 0.61%

Premium and policy count based on effective date as of 3/31/2019.

TAXES, FEES, AND ASSESSMENTS

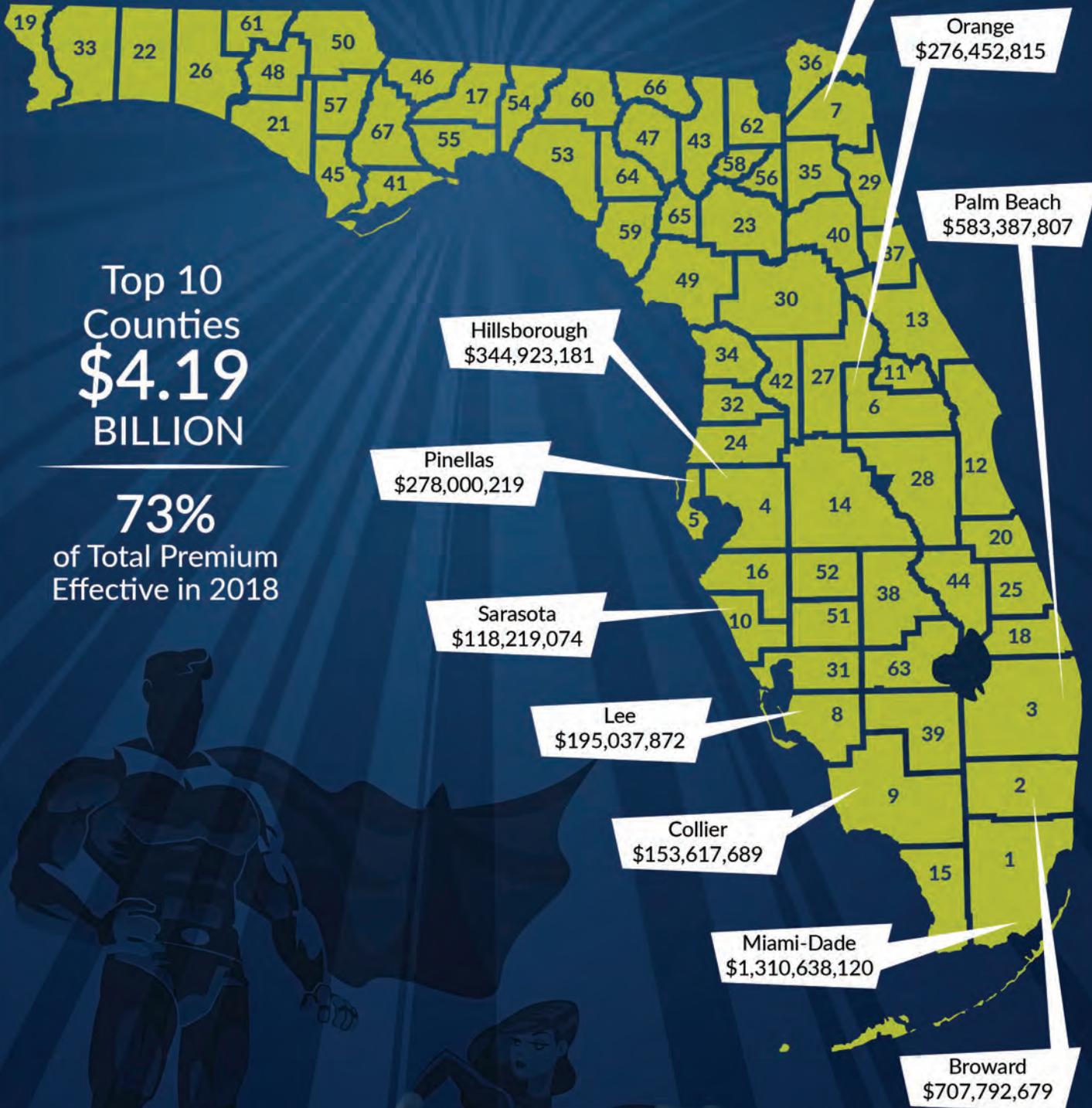
	2018
Taxes	\$258,814,717
Fees	\$6,765,223
Assessments	\$1,539,834

Taxes, fees, and assessments invoiced during 2018

COUNTIES BY TOTAL FLORIDA PREMIUM

COUNTY	PREMIUM	COUNTY	PREMIUM
1 Miami-Dade	\$1,310,638,120	35 Clay	\$12,647,947
2 Broward	\$707,792,679	36 Nassau	\$12,096,532
3 Palm Beach	\$583,387,807	37 Flagler	\$10,679,516
4 Hillsborough	\$344,923,181	38 Highlands	\$10,593,015
5 Pinellas	\$278,000,219	39 Hendry	\$7,297,346
6 Orange	\$276,452,815	40 Putnam	\$6,679,286
7 Duval	\$226,814,744	41 Franklin	\$5,781,581
8 Lee	\$195,037,872	42 Sumter	\$5,757,600
9 Collier	\$153,617,689	43 Columbia	\$5,754,492
10 Sarasota	\$118,219,074	44 Okeechobee	\$5,086,583
11 Seminole	\$110,226,917	45 Gulf	\$4,651,841
12 Brevard	\$108,142,999	46 Gadsden	\$4,526,070
13 Volusia	\$95,059,134	47 Suwannee	\$4,100,675
14 Polk	\$91,178,119	48 Washington	\$3,941,060
15 Monroe	\$88,099,503	49 Levy	\$3,614,825
16 Manatee	\$78,723,227	50 Jackson	\$3,574,884
17 Leon	\$71,170,962	51 DeSoto	\$3,223,755
18 Martin	\$65,206,831	52 Hardee	\$2,911,444
19 Escambia	\$60,902,667	53 Taylor	\$2,332,865
20 Indian River	\$59,286,963	54 Jefferson	\$2,299,568
21 Bay	\$58,546,084	55 Wakulla	\$2,254,830
22 Okaloosa	\$55,763,006	56 Bradford	\$1,878,995
23 Alachua	\$52,974,655	57 Calhoun	\$1,716,033
24 Pasco	\$46,917,494	58 Union	\$1,619,450
25 St. Lucie	\$46,811,702	59 Dixie	\$1,535,567
26 Walton	\$42,592,910	60 Madison	\$1,458,515
27 Lake	\$41,898,393	61 Holmes	\$1,374,274
28 Osceola	\$40,133,317	62 Baker	\$1,079,316
29 St. Johns	\$37,141,549	63 Glades	\$1,044,233
30 Marion	\$32,026,501	64 Lafayette	\$897,504
31 Charlotte	\$23,998,790	65 Gilchrist	\$759,687
32 Hernando	\$22,493,220	66 Hamilton	\$705,033
33 Santa Rosa	\$20,973,085	67 Liberty	\$448,122
34 Citrus	\$14,994,808		

PREMIUM BY COUNTY

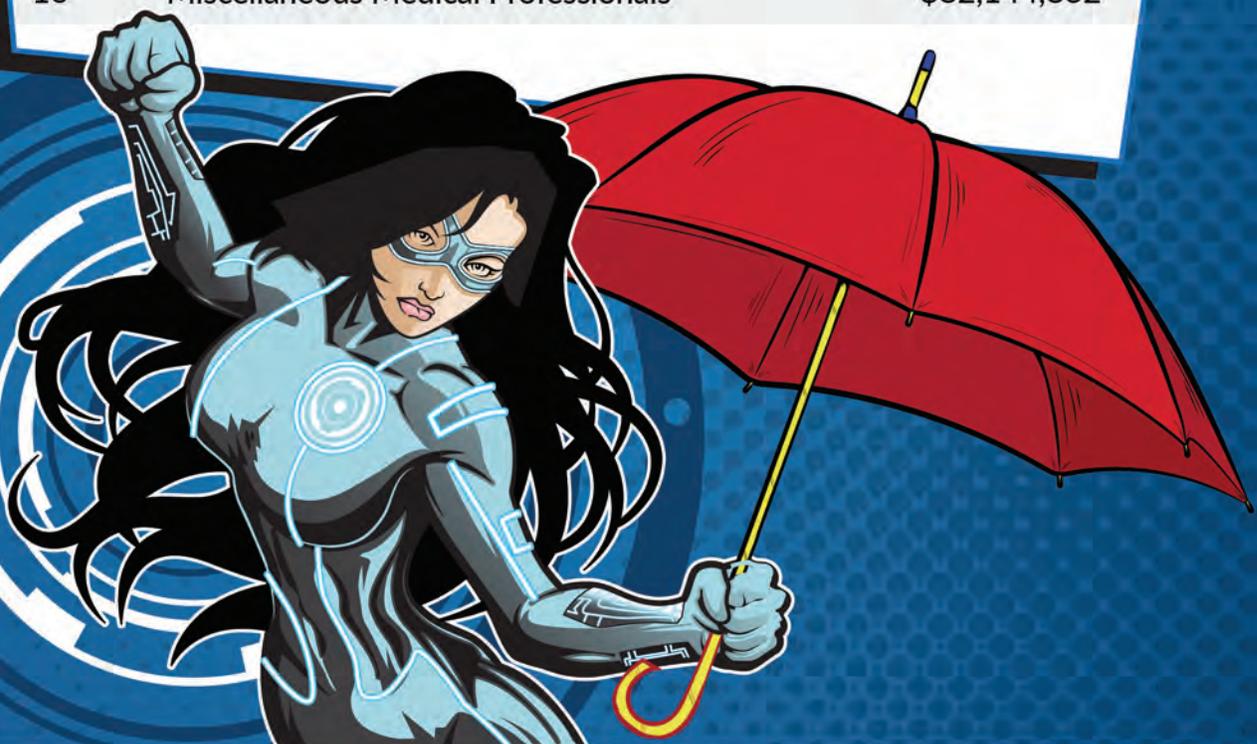


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Data based on effective date as of 3/31/2019.

TOP 10 COVERAGES BY TOTAL FLORIDA PREMIUM

RANK	COVERAGE	PREMIUM
1	Commercial Property	\$1,933,152,933
2	Commercial General Liability	\$900,493,287
3	Homeowners-HO-3	\$449,547,858
4	Commercial Package	\$363,308,149
5	Excess Commercial General Liability	\$229,500,509
6	Miscellaneous E&O Liability	\$133,838,676
7	Dwelling Property	\$113,743,585
8	Collateral Protection (Force Placed Coverage)	\$99,018,582
9	Homeowners-HO-6 - Condo Unit Owners	\$84,328,991
10	Miscellaneous Medical Professionals	\$82,144,832



TOP 10 INSURERS BY TOTAL FLORIDA PREMIUM

RANK	INSURER	PREMIUM
1	Lloyd's Underwriters at London	\$1,643,331,470
2	Lexington Insurance Company	\$419,697,031
3	Scottsdale Insurance Company	\$212,104,434
4	Indian Harbor Insurance Company	\$159,943,317
5	QBE Specialty Insurance Company	\$142,406,232
6	United Specialty Insurance Company	\$138,612,047
7	National Fire and Marine Insurance Company	\$136,927,850
8	Evanston Insurance Company	\$136,845,480
9	Ironshore Specialty Insurance Company	\$124,486,024
10	Westchester Surplus Lines Insurance Company	\$120,631,435



Data based on effective date as of 3/31/2019.

2018 FINANCIAL STATEMENTS



"That person who helps others simply because it should or must be done, and because it is the right thing to do, is indeed without a doubt, a real superhero."

Stan Lee

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STATEMENT OF NET POSITION

	Year End December 31, 2018
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,960,395
Accrued interest income	38,769
Investments	5,381,486
Total current assets	7,380,650
Long-term investments	28,513,363
Property and equipment, net	3,794,955
Deposits	7,859
Total assets	<u>\$ 39,696,827</u>
Liabilities and net position	
Current liabilities:	
Accounts payable and accrued expenses	\$ 157,138
Accrued tax expense	118,175
Total current liabilities	275,313
Deferred compensation:	
Deferred compensation payable	267,729
Investments designated for deferred compensation	(267,729)
Total liabilities	275,313
Net position:	
Investment in capital assets	3,794,955
Unrestricted	35,626,559
Total net position	<u>39,421,514</u>
Total liabilities and net position	<u>\$ 39,696,827</u>

STATEMENT OF ACTIVITIES & CHANGES IN NET POSITION

	Year End December 31, 2018
Changes in unrestricted net position:	
Revenues and other support:	
Charges for services	\$ 6,913,768
Interest and finance charges on service fees	2,096
Other income	35,833
Total revenues and other support	<u>6,951,697</u>
Operating expenses:	
Administration and support	2,967,171
Education and outreach	979,207
Agent and insurer services	1,102,636
Clearinghouse	444,965
Total operating expenses	<u>5,493,979</u>
Operating income	1,457,718
Nonoperating revenues:	
Investment income	(720,276)
Rental income	115,774
Rental expense	(75,710)
Gain (loss) on sale of assets	(3,683)
Total nonoperating revenues	<u>(683,895)</u>
Change in net position before income taxes	773,823
Income tax expense	<u>281,860</u>
Change in net position	491,963
Net position at beginning of year	<u>38,929,551</u>
Net position at end of year	<u>\$ 39,421,514</u>

STATEMENT OF CASH FLOWS

	Year End December 31, 2018
Operating activities:	
Receipts from agents	\$ 5,522,847
Receipts from Clearinghouse	1,390,921
Payments to employees for service	(2,969,129)
Payments for Clearinghouse	(176,885)
Payments to vendors	(2,095,229)
Other cash receipts	37,929
Net cash provided by operating activities	<u>1,710,454</u>
Investing activities:	
Investment income, net	1,261,766
Purchases of investments	(8,081,599)
Sales of investments	4,302,926
Net cash used in investing activities	<u>(2,516,907)</u>
Capital and related financing activities:	
(Purchases) sale of property and equipment	(690,077)
Payment of income taxes	(195,934)
Other receipts	36,381
Net cash (used in) provided by capital and related financing activities	<u>(849,630)</u>
Net increase (decrease) in cash and cash equivalents	(1,656,083)
Cash and cash equivalents at beginning of year	<u>3,616,478</u>
Cash and cash equivalents at end of year	<u>\$ 1,960,395</u>
Reconciliation of operating income to net cash provided by operating expenses	
Operating income	\$ 1,457,718
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	269,195
Changes in operating assets and liabilities:	
Accounts payable and accrued expenses	(16,459)
Net cash provided by operating activities	<u>\$ 1,710,454</u>

BOARD OF GOVERNORS AND STAFF



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2018 FLSO BOARD OF GOVERNORS AND STAFF

BOARD OF GOVERNORS

Gary D. Pullen, *Executive Director*

Roy V. Fabry, *Chair*

Irvin "Skip" Wolf, III, *Vice Chair*

David Holcombe, *Secretary/Treasurer*

C. Sha'Ron James, *Insurance Consumer Advocate*

Keith M. Driggers

Michael J. Franzese

Steven Finver

D. Conor O'Leary

Lorna Wirtz

STAFF

Gary D. Pullen, *Executive Director*

Georgie Barrett, *Deputy Director of Operations*

Bryan Young, *Assistant Director, Agent & Insurer Services*

Sheila Pearson, *Controller*

Tiffany Maruniak, *Product & Business Development Manager*

Trevor Flanagan, *Information Technology Manager*

Barry Lanier, *Compliance Manager*

Jesse Barrett, *Technical Support Analyst*

Brian Bogner, *Insurance Audit Analyst*

Jim Day, *Database Administrator*

James Farmer, *Senior Information Architect*

John Felder, *Senior Technical Support Analyst*

Jean Ferrer, *Staff Accountant*

Lisa French, *Insurance Analyst*

Brad Givens, *Staff Accountant*

Kristen Gray, *Insurance Systems Analyst*

Rachel Hoffman, *Business Systems Specialist*

Tracy Ingle, *Premium Reconciliation Specialist*

Kim Mask, *Public Information Coordinator*

Jordan Mauro, *Customer Outreach Specialist*

Felicia Meredith, *Compliance Review Analyst*

Jennifer Mills, *Business Operations Specialist*

Kelli Moser, *Business Data Analyst*

Tracy Pafford, *Public Information Specialist*

Amber Pullen, *Accounting Specialist*

Cyrus Yazdanpanah, *Business Analyst*



LOOKING AHEAD

In order to protect the people, we must always look to the future and how we can make it better for those who come after us. Our goal of facilitating compliance through innovative solutions is future driven and hinges on seven key foundations that will carry us into 2020 and 2021.



1 *Cloud computing:* migration to state-of-the-art, cloud-based solutions;



2 *System architecture:* transition application architecture from a monolithic design to a microservices architecture;



3 *SLAS NextGen:* creation of a single product solution for the SLAS platform;



4 *Peripheral applications:* enhance performance and user experience with system interfaces and auxiliary applications;



5 *Cybersecurity:* implementation of cybersecurity best practices;



6 *Business intelligence and analytics:* promote the use of analytics and knowledge management to provide meaningful insights for decision-making, problem solving and market analysis; and



7 *Project management:* improve project, task and issue management tracking.

**FACILITATING COMPLIANCE
THROUGH INNOVATIVE
SOLUTIONS**



FSLSO  EST. 1998

Florida Surplus Lines Service Office

1441 Maclay Commerce Drive, Suite 200

Tallahassee, FL 32312 • 800.562.4496