SLA CONNECTION

Surplus Lines News from the Golden State

The Surplus Line Association of California

Fall/Winter 2014-15

What's Inside:

Regulation: A Key Issue

Lines Between State, Federal, International Impact Brokers

By Cliston Brown
Editor-in-Chief

The predominant topic of conversation regarding the future of insurance regulation in the United States continues to be whether the federal government and the international community will wrest away the prerogatives of the state regulators, and if so, to what degree?

With the advent of a **Federal Insurance Office (FIO)** and a **Financial Stability Oversight Council (FSOC)**, the involvement of the **Federal Reserve** in insurance, and continuing discussions between Washington, D.C., the states and international supervisors, uncertainty abounds as to where the lines eventually will be drawn—and what impact these eventual delineations will have on various sectors of the insurance marketplace, including surplus lines.

Although there remains a widespread misperception that surplus lines are "unregulated," brokers know that the industry is well and diligently regulated via a system of broker responsibility. It is up to the individual broker, licensed by California, to ensure that the policies he/she places are in accordance with all laws and regulations in California. Additionally, the market to which the business is placed is regulated by a different regulator. As a result, the question of whether federal, state or international regulators and supervisors will have primacy is by no means an irrelevant issue within the surplus lines community.

"In thinking about whether you as an individual insurance professional prefer state or federal regulation, imagine that you are getting a call from your regulator in regards to your license," said **Benjamin J. McKay**, JD, MPA, the SLA's Executive Director. "Now imagine that call is coming from the U.S. Department of the Treasury in Washington, D.C. Would you prefer to deal with the U.S. Department of the Treasury, or with the California Department of Insurance?"

"Regardless of our desire to be state regulated, there is no question that the federal government will continue to seek a greater role, particularly when it comes to representing U.S. regulators in discussions with international supervisory entities," McKay added. "What remains constant in this amorphous regulatory environment is the need for the industry to work collaboratively on shaping these policies to ensure they protect the consumer while reflecting the realities in the marketplace."

McKay suggests that the notion of state vs. federal regulation, and which system is better, is a false choice; that, in fact, we already have both state and federal regulation.

The regulatory balance in insurance is weighted toward the states but this is not typical. Insurance has been the outlier. Since the business of insurance was deemed to be interstate commerce by the Supreme Court in 1944, the federal government has had a legitimate claim to regulate it. Only through the power of a strong, unified industry; the many structures it created like the National Association of Insurance Commissioners (NAIC); and resolute legislative action, has the industry able to fend off attempts at direct federal regulation. Yet, the pull is palpable; you can feel it. Whenever

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SLA 2015 Annual Meeting Highlights Winter Schedule

Registration open now for San Francisco and Los Angeles sessions in February

By Cliston Brown
Editor-in-Chief

If you have not already done so, please register for one of SLA's upcoming Annual Meeting sessions, which are taking place **Tuesday, February 3, 2015**, in San Francisco and **Thursday, February 5, 2015**, in Los Angeles.

Each segment of the Annual Meeting offers attendees the opportunities to network with brokers, markets, regulators and SLA staff. The knowledge and relationships you can gain at this event could be invaluable to your business endeavors.

The meeting also features the election of the 2015 SLA Board of Directors, who will determine the SLA's course and policies in the coming year. All resident licensed brokers are eligible to vote, so please take advantage of this opportunity to help guide the course of your association.

SLA Annual Meeting 2015

San Francisco: Tuesday, February 3, 2015, 3:00 p.m.

Los Angeles: Thursday, February 5, 2015, 10:00 a.m.

Registration: http://www.slacal.org/annualmeeting2015.html

Venue, Time Change in San Francisco

It is important to note that the SLA has changed the format of the San Francisco segment of the meeting this year. In response to suggestions from members, this segment of the meeting will take place in the afternoon, starting at **3:00 p.m.** and ending with a networking reception. The event will take place in the historic **Julia Morgan Ballroom at the Merchants Exchange**, in the heart of the Financial District. At **465 California Street**, it is easily reachable by public transit.

Los Angeles Venue Unchanged

The Los Angeles segment of the meeting remains unchanged from previous years, taking place at the storied Jonathan Club, 545 South Figueroa Street. This legendary social club, an L.A. icon for more than a century, is worth seeing if you have not been there, and certainly worth revisiting for those who have. This segment of the meeting starts at 10:00 a.m. and concludes with a reception and luncheon.

Please add these meeting dates to your calendar and make plans to attend one of these sessions in February. The SLA is your association, and attending the Annual Meeting is an important way to participate.

Regulation: A Key Issue

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the federal government is not consumed with other matters, it tilts its head toward the insurance industry and the gravitational pull intensifies. In fact, it feels inevitable that insurance will be more heavily regulated by the federal government than the states, like the banking industry.

The industry rightly argues that insurance is different from banking. However, to federal regulators and many policymakers, insurance looks more similar than different to banking. If for no other reason than they understand banking better and it would be more convenient if insurance was like banking. The federal gravitational pull is inescapable for three reasons: 1) insurance is interstate commerce and therefore the regulatory province of the federal government, if it wants it; 2) the federal government feeds on justifying its existence to voters and increasing its regulatory footprint is always on the menu; and 3) globalization of the insurance industry and insurance markets necessitates federal involvement due to the intercountry agreements necessary to ensure fair, healthy and competitive global markets.

But this is nothing new, in a sense. "We already see this dual system at play in many areas of law, including banking and criminal law," McKay said. "If, for example, you commit a crime within the bounds of one state, it is generally a matter for the state. However, if you cross state lines in the commission of the crime, it becomes a federal matter, in addition to being a concern of the individual states involved. And if you break a specific federal law, even though you do not cross state lines, the prosecution and resolution of the case is a federal matter. We have managed to navigate these various layers in terms of criminal law and with proper procedures and thoughtful processes, and the same can be done with respect to insurance law." The real question is one of balance; what is the proper mix of federal and state regulation?

That said, McKay also notes that when it comes to matters of licensing, there is certainly a strong case to be made for ensuring that this facet of regulation, among others, remains well within the realm of the states. Because broker licensing is the means by which surplus lines insurance is regulated, it is in our industry's interests to ensure that the licensing process remains a matter for the State of California and the other states. As an aside, multi-state licensing regimes such as the soon to be created National Association of Registered Agents and Brokers (NARAB) will streamline this process. (Interestingly, NARAB was created in federal law.)

McKay urges brokers to remain informed on discussions and developments that are taking place around the issue of state, federal and international regulation. Discussions are ongoing between the FIO, the NAIC and the **European Union (EU)**, as noted by NAIC CEO **Ben Nelson**, former Democratic U.S. Senator from Nebraska, at that organization's fall meeting in November in Washington, D.C. The outgoing chair of the NAIC's International Insurance Relations Committee, Commissioner **Michael Consedine** of Pennsylvania, said that that supervision remains one of three main areas of focus between the FIO, the NAIC and the EU, with the others being confidentiality and a reinsurance collateral covered agreement.

SLA Makes Key Staff Changes In Education & Compliance, Data Analysis Departments

By Cliston Brown
Editor-in-Chief

Effective November 3, 2014, the Surplus Line Association of California (SLA) promoted a longtime senior staff member to head another department, and three other staffers to key roles within their departments.

McAuley

First, **Pat McAuley**, CPCU, AIM, AIS, ASLI, AINS, the longtime manager of the **Data Analysis Department**, agreed to serve as Senior Vice President of the Education Department, which has been renamed the **Education and Compliance Department**.

Danoff

"Pat exemplifies the ongoing dedication to continual learning and skill enhancement that we hope to foster at the SLA, particularly within our education department," said **Benjamin J. McKay**, JD, MPA, SLA's executive director.

In her new role, McAuley was elevated to Senior Vice President, which reflects both her level within the organization and the more than 20 years of service she has given to the SLA. She will have the responsibility of adapting the department's focus in line with a new vision of how the SLA can best serve its members, and its expanded role is reflected in the department's name change.

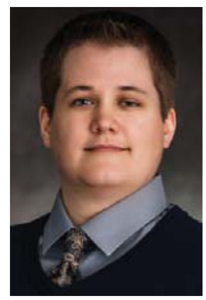
"We decided to rename this department to Education and Compliance because we intend to broaden its focus," McKay said. "Previously, the focus has largely been on broker education, but in recognition that we have other stakeholders, the department is going to expand its mission to providing educational opportunities and compliance training, in order to help improve compliance with all state laws and regulations."

Also within the Education and Compliance Department, **Laura Danoff**, who served as the acting department director for more than a year, has been promoted to Assistant Vice President.

"Laura performed admirably in her expanded role, and she has earned this well-deserved promotion," McKay said.

To lead the **Data Analysis Department**, SLA promoted **Rose Tocchini**, ASLI, to Vice President. Tocchini, with more than 10 years of service to the SLA, previously had been the assistant department manager and recently completed her ASLI designation. **Adriane Harm**, who will have 10 years of service as of January, 2015, was promoted to supervisor within the division as well.

Tocchini



Harm

"The SLA is committed to promoting from within where possible and rewarding those employees who demonstrate ongoing growth and leadership," McKay said. "We want our staff to know that there is room for advancement as they continue to grow professionally. These personnel moves are in line with that commitment."

Additional changes at SLA this fall included renaming the Financial Department the **Financial Analysis Department** and the Information Technology Department the **Technology Department**.

Eight Brokerages Complete 3rd Quarter With Tag Rates of Less Than 2 Percent Per Item Filed

Eight SLA member brokerages with a minimum of 300 items filed between July 1 and September 30, 2014, completed the third quarter with tag-per-item rates of less than 2 percent.

The brokerages who achieved this success rate for the quarter are listed in the gray box to the right. Five of them achieved rates of less than 1 percent.

SLA will be announcing a new award at its upcoming annual meeting, on Feb. 3 and Feb. 5 in San Francisco and Los Angeles, respectively, to the brokerage with the best tag-per-item rate over the course of the year 2014.

TOP TAG PERFORMERS

3rd Quarter, 2014

Brokerages with the lowest ratio of tags per item
(among brokerages with at least 300 items filed)

TOP TIER
(Tag Ratio Less Than 1%)

Beach & O'Neill Insurance Associates (#1892)
Brown & Brown of Missouri, Inc. (#6890)
Petersen International Undewriters (#390)
Seattle Specialty Insurance Services (#2672)
Sullivan Brokers Wholesale Insurance Solutions (#1057)

SECOND TIER
(Tag Ratio More Than 1%, Less Than 2%)

King Insurance Support Systems, Inc. (#1304)
New Life Agency, Inc. (#2172)
Proctor Financial, Inc. (#1609)

Top 50 Brokers by Premium - processed through 9/30/2014

Rank	BROKER	PREMIUM PROCESSED	% OF TOTAL
1	MARSH USA INC.	$462,481,605	10.31%
2	SWETT & CRAWFORD	436,469,473	9.73%
3	AMWINS INSURANCE BROKERAGE OF CALIFORNIA, LLC	293,712,698	6.55%
4	AON RISK INSURANCE SERVICES WEST, INC.	287,557,863	6.41%
5	R-T SPECIALTY, LLC	253,976,779	5.66%
6	CRC INSURANCE SERVICES, INC.	169,076,991	3.77%
7	RISK SPECIALISTS COMPANIES INSURANCE AGENCY, INC.	137,265,087	3.06%
8	WORLDWIDE FACILITIES, INC.	134,809,488	3.01%
9	BLISS AND GLENNON INC.	113,790,105	2.54%
10	RISK PLACEMENT SERVICES, INC.	107,300,141	2.39%
11	BURNS & WILCOX INSURANCE SERVICES, INC.	86,177,585	1.92%
12	LOCKTON COMPANIES, LLC	82,454,965	1.84%
13	BROWN & RIDING INSURANCE SERVICES, INC.	75,221,314	1.68%
14	ARTHUR J. GALLAGHER & CO. INSURANCE BROKERS OF CALIFORNIA, INC. (GLENDALE)	73,281,350	1.63%
15	PARTNERS SPECIALTY GROUP, LLC	53,840,093	1.20%
16	WILLIS INSURANCE SERVICES OF CALIFORNIA, INC.	50,997,916	1.14%
17	CROUSE & ASSOCIATES INSURANCE SERVICES OF NORTHERN CALIFORNIA, INC	45,620,665	1.02%
18	ALL RISKS, LTD.	43,032,822	0.96%
19	WOODRUFF-SAWYER & COMPANY	37,141,949	0.83%
20	ALLIANT INSURANCE SERVICES, INC.	35,846,156	0.80%
21	AIG PROPERTY CASUALTY INSURANCE AGENCY, INC.	35,398,182	0.79%
22	SOCIUS INSURANCE SERVICES, INC.	33,533,395	0.75%
23	MONARCH E&S INSURANCE SERVICES	33,404,562	0.74%
24	COVE PROGRAMS INSURANCE SERVICES LLC	32,518,787	0.72%
25	WHOLESALE TRADING CO-OP INSURANCE SERVICES LLC	32,379,877	0.72%
26	BEECHER CARLSON INSURANCE SERVICES, LLC	31,038,975	0.69%
27	HARRY W. GORST COMPANY, INC.	30,793,084	0.69%
28	AMWINS BROKERAGE OF GEORGIA, LLC	30,278,029	0.68%
29	NATIONAL TRANSPORTATION ASSOCIATES, INC.	28,631,400	0.64%
30	HULL & COMPANY, INC.	27,662,456	0.62%
31	INTEGRO USA INC.	26,872,780	0.60%
32	PATERSON, DONALD THOMAS	26,530,093	0.59%
33	ALLIANT SPECIALTY INSURANCE SERVICES, INC.	25,541,936	0.57%
34	COASTAL BROKERS INSURANCE SERVICES INC.	23,637,146	0.53%
35	WELLS FARGO INSURANCE SERVICES USA, INC.	22,666,380	0.51%
36	BASS UNDERWRITERS, INC.	21,234,006	0.47%
37	W. BROWN & ASSOCIATES PROPERTY & CASUALTY INSURANCE SERVICES	20,775,140	0.46%
38	PETERSEN INTERNATIONAL UNDERWRITERS	20,679,615	0.46%
39	DILLON, THOMAS FREDERICK	20,547,714	0.46%
40	AMWINS BROKERAGE OF NEW YORK, INC.	18,232,821	0.41%
41	MIDWESTERN GENERAL BROKERAGE, INC.	17,750,697	0.40%
42	NAS INSURANCE SERVICES, LLC	16,313,255	0.36%
43	WILLIS OF NEW YORK INC.	16,312,587	0.36%
44	R.I.C. INSURANCE GENERAL AGENCY, INC.	16,050,153	0.36%
45	LAE INSURANCE SERVICES, INC.	15,787,537	0.35%
46	M.J. HALL & CO., INC.	15,159,844	0.34%
47	EXCEPTIONAL RISK ADVISORS, LLC	14,208,725	0.32%
48	COOPER & MCCLOSKEY, INC. INSURANCE BROKERS	13,742,504	0.31%
49	R.E. CHAIX & ASSOCIATES INSURANCE BROKERS, INC.	12,563,013	0.28%
50	USI OF SOUTHERN CALIFORNIA INSURANCE SERVICES, INC.	12,511,098	0.28%
	SUBTOTAL	**$3,672,810,837**	**81.88%**
	ALL OTHER BROKERS	812,587,591	18.12%
	TOTAL	**$4,485,398,428**	**100.00%**

Top 50 Carriers by Premium - processed through 9/30/2014

RANK	COMPANY	PREMIUM PROCESSED	% OF TOTAL
1	LEXINGTON INSURANCE COMPANY	$382,022,813	8.52%
2	SCOTTSDALE INSURANCE COMPANY	202,276,096	4.51%
3	LLOYD'S OF LONDON SYNDICATE #2623	115,473,029	2.57%
4	QBE SPECIALTY INSURANCE COMPANY	100,579,222	2.24%
5	AIG SPECIALTY INSURANCE COMPANY	95,231,742	2.12%
6	IRONSHORE SPECIALTY INSURANCE COMPANY	90,440,464	2.02%
7	STEADFAST INSURANCE COMPANY	88,361,531	1.97%
8	COLONY INSURANCE COMPANY	86,250,564	1.92%
9	WESTCHESTER SURPLUS LINES INSURANCE COMPANY	82,940,523	1.85%
10	ASSOCIATED ELECTRIC & GAS INSURANCE SERVICES LIMITED	81,819,448	1.82%
11	UNITED SPECIALTY INSURANCE COMPANY	80,064,432	1.79%
12	ADMIRAL INSURANCE COMPANY	72,912,798	1.63%
13	HOUSTON CASUALTY COMPANY	72,886,371	1.62%
14	COLUMBIA CASUALTY COMPANY	71,510,938	1.59%
15	INDIAN HARBOR INSURANCE COMPANY	68,336,861	1.52%
16	LANDMARK AMERICAN INSURANCE COMPANY	64,333,573	1.43%
17	MT. HAWLEY INSURANCE COMPANY	64,231,674	1.43%
18	AXIS SURPLUS INSURANCE COMPANY	62,613,523	1.40%
19	SWISS RE INTERNATIONAL SE	62,409,352	1.39%
20	EMPIRE INDEMNITY INSURANCE COMPANY	62,372,239	1.39%
21	ILLINOIS UNION INSURANCE COMPANY	61,026,692	1.36%
22	NAVIGATORS SPECIALTY INSURANCE COMPANY	59,303,292	1.32%
23	ARCH SPECIALTY INSURANCE COMPANY	55,596,353	1.24%
24	CHUBB CUSTOM INSURANCE COMPANY	54,402,278	1.21%
25	GREAT LAKES REINSURANCE (UK) PLC	51,013,105	1.14%
26	JAMES RIVER INSURANCE COMPANY	50,442,288	1.12%
27	GEMINI INSURANCE COMPANY	49,189,570	1.10%
28	GREAT AMERICAN E&S INSURANCE COMPANY	46,669,258	1.04%
29	EVEREST INDEMNITY INSURANCE COMPANY	46,513,279	1.04%
30	ASPEN SPECIALTY INSURANCE COMPANY	46,044,192	1.03%
31	EVANSTON INSURANCE COMPANY	46,004,182	1.03%
32	LLOYD'S OF LONDON SYNDICATE #2987	45,895,084	1.02%
33	ESSEX INSURANCE COMPANY	45,554,312	1.02%
34	LIBERTY SURPLUS INSURANCE CORPORATION	43,866,760	0.98%
35	LLOYD'S OF LONDON SYNDICATE #0510	43,728,989	0.97%
36	ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY	43,575,628	0.97%
37	INTERNATIONAL INSURANCE COMPANY OF HANNOVER PLC	42,783,494	0.95%
38	PRINCETON EXCESS AND SURPLUS LINES INSURANCE COMPANY	40,834,438	0.91%
39	LLOYD'S OF LONDON SYNDICATE #2003	40,541,943	0.90%
40	NATIONAL FIRE & MARINE INSURANCE COMPANY	37,527,244	0.84%
41	NAUTILUS INSURANCE COMPANY	36,771,053	0.82%
42	LLOYD'S OF LONDON SYNDICATE #3624	35,213,367	0.79%
43	ENERGY INSURANCE MUTUAL LIMITED	34,892,564	0.78%
44	CATLIN SPECIALTY INSURANCE COMPANY	33,795,314	0.75%
45	STARR SURPLUS LINES INSURANCE COMPANY	32,939,562	0.73%
46	FIRST MERCURY INSURANCE COMPANY	32,938,195	0.73%
47	AMTRUST INTERNATIONAL UNDERWRITERS LIMITED	31,876,526	0.71%
48	TOKIO MARINE SPECIALTY INSURANCE COMPANY	31,867,524	0.71%
49	ALLIED WORLD NATIONAL ASSURANCE COMPANY	31,388,419	0.70%
50	LLOYD'S OF LONDON SYNDICATE #0033	29,664,594	0.66%
	SUBTOTAL	**$3,288,926,691**	**73.33%**
	All Other Companies	1,196,471,737	26.67%
	TOTAL	**$4,485,398,428**	**100.00%**

SLIP, E-Check Usage Continue To Grow

By Michael Caturegli
SLA Vice President, Technology

The Surplus Lines Information Portal (SLIP) Broker Portal, which allows for electronic filing, continues to show an ongoing uptake in adoption and use by our membership. SLIP now processes 49% of SLA's policies, or approximately 23,000 per month. This is a result of a growth rate of 500 policies per month submitted through SLIP.

In addition to the exceptional volume, these policies equate to more than 50% of the total premium processes, or $290 million in processed premium per month. We have learned that once brokerages, agents or wholesalers use SLIP, they never go back to filing paper batches, and they have substantially fewer errors and tags with their filings.

SLA continues to solicit feedback from our members regarding the SLIP Portal, and we strive to continually improve the processes for using it.

Another exciting feature of SLIP that has a high adoption rate is the online payments function. This function in SLIP allows registered users to securely pay their stamping fees associated with an invoice directly through SLIP using either credit cards or ACH/Debit.

We have learned that once brokerages, agents or wholesalers use SLIP, they never go back to filing paper batches, and they have substantially fewer errors and tags with their filings.

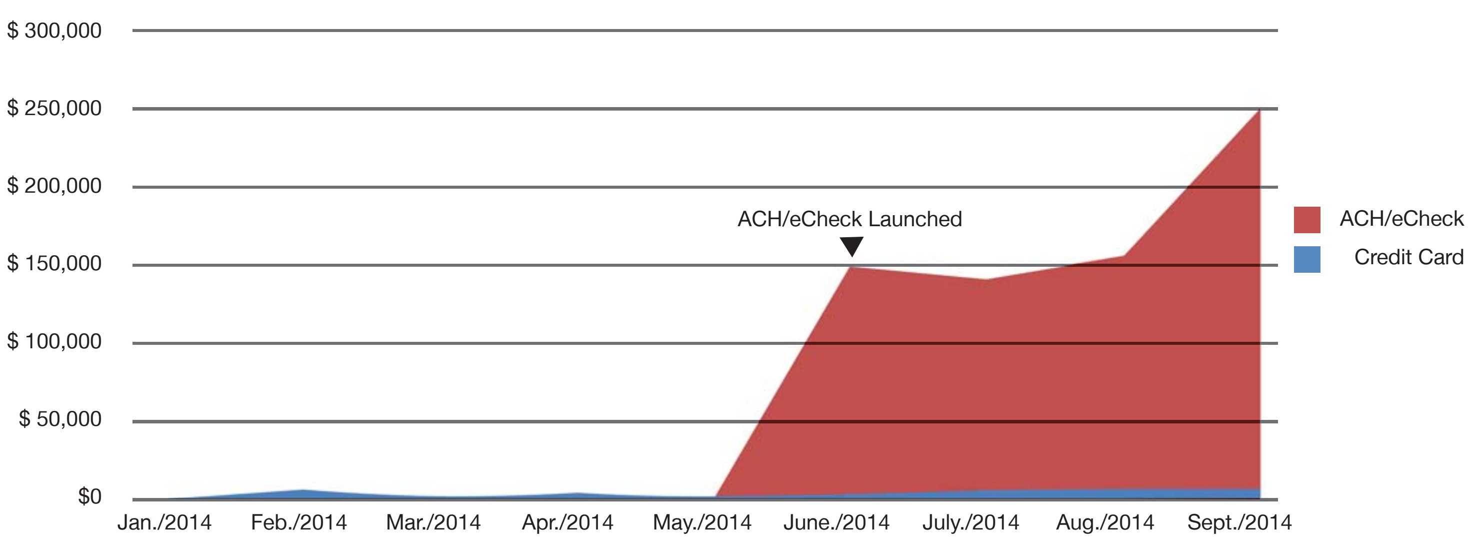
At present, SLA is receiving an average of $150,000 per month in stamping fees via online payments. In the upcoming months, SLA will implement an "auto-pay" option, which will allow registered SLIP users to automatically pay their stamping fees on a monthly basis a specified number of days after the invoice is generated. It is anticipated that this option will help our members by eliminating one regular obligation that often gets forgotten or overlooked. We encourage all of our members to use the online method when paying stamping fees. It is inexpensive to use, convenient, secure, and gives access to payment details that are not available for paper check payments.

One additional new feature that is also growing in popularity, especially with our larger filing members, is our XML system-to-system interface. This feature allows our members to download filing information (policies, endorsements, certificates, etc.) directly into our SLIP system directly from their Agency Management System. While some programming is required on the AMS side, it is straightforward, and SLA's IT department will provide guidance and support to members throughout the process.

For those agencies that use Vertafore's AIM products, there will be a new release of AIM coming soon. It incorporates the automated XML download feature to California SLA directly from AIM. This feature reduces, or in some cases eliminates, manual interaction when filing with us, and saves internal costs by allowing compliance personnel to perform more value-added duties.

The SLA IT department is available to assist with any questions or concerns about our website and software. Please contact us at (415) 434-4900 or email IT@slacal.org. If we can't answer your questions immediately, we will return your call as soon as possible.

Credit Card/ACH Payments Received by Month



New State, Federal Laws Take Effect In 2015

By Benjamin McKay
SLA Executive Director

Here in California, the legislature and the governor moved swiftly to enact insurance laws in 2014, while in the nation's capital, two key insurance issues had to wait until the new year for passage.

In September, Governor **Jerry Brown** signed into law **Assembly Bill 2293**, which establishes coverage requirements for ridesharing companies, and **Assembly Bill 2056**, the nation's first pet insurance law. Both will take effect on July 1, 2015.

Meanwhile, on the federal level, the new Congress passed an extension of the **Terrorism Risk Insurance Act (TRIA)** and related legislation establishing the **National Association of Registered Agents and Brokers (NARAB II)**. TRIA had lapsed on Dec. 31, 2014, after the previous Congress failed to enact an extension, but the new Congress acted within three days of being seated to restore the program.

New California Insurance Laws: Ridesharing and Pet Insurance

First, let's take a look at the laws recently enacted here in California and what they will mean going forward.

AB 2293, the ridesharing bill introduced by Assembly Member **Susan Bonilla** (D-Concord), underwent some modifications en route to passage and signing, chiefly related to Phase 1 of the ridesharing sequence, the point at which a driver turns on the application to look for a match, but before the match is made. The final version of the bill provides that a participating driver's or owner's personal auto insurance policy does not provide coverage for ridesharing purposes unless that policy specifically provides for it, and requires written disclosures by transportation network companies (TNCs) to drivers to advise of this fact.

During Phase 1 of the three-phase sequence, the TNC's coverage is primary and must provide $50,000 for death and personal injury per person; $100,000 for death and personal injury per incident; and $30,000 for property damage, with excess liability coverage of $200,000 per occurrence. In Phase 2 (beginning when the driver accepts a match) and Phase 3 (the ride itself), the TNC's coverage is primary and in the amount of $1 million for death, personal injury and property damage.

AB 2056, the pet insurance bill introduced by Assembly Member **Matt Dababneh** (D-Encino), requires insurer disclosure of policy exclusions due to preexisting conditions, hereditary disorders, congenital anomalies or disorders, or chronic conditions, as well as any other exclusions.

Additionally, it requires disclosure of whether the insurer reduces coverages or increases premiums based on the insured's claim history, and of any policy provision limiting coverage through waiting periods, deductibles, coinsurance or annual lifetime limits.

In addition to these and other disclosures regarding claims payments, fees and benefit schedules, the law also requires a 30-day free-look period, during which a policy can be returned for a full refund.

With both of these laws enacted, insurers and consumers in California now have a greater degree of certainty on these issues than they did previously.

New Federal Insurance Law: TRIA and NARAB II

On the federal level, insurers and consumers faced three weeks of uncertainty after the U.S. Senate adjourned on Dec. 16, 2014, without passing legislation on TRIA or NARAB II. Retiring Sen. **Tom Coburn** (R-Okla.), who wanted a provision allowing states to opt out of NARAB II, used Senate procedures to block the bill—which had passed the House 417-7—from coming up for a vote, so TRIA lapsed on Dec. 31, 2014.

Fortunately for proponents of both proposals, the new Congress seated on Jan. 5, 2015, acted quickly, with the House passing new legislation **416-5** on Jan. 6, and the Senate following suit, **93-4**, on Jan. 8.

The legislation is similar to the proposal that died when the previous Congress adjourned, extending TRIA for six years and increasing the trigger amount from $100 million in damages to $200 million, at a rate of $20 million a year starting in 2016.

The bill also increases the federal government's total mandatory recoupment by $10 billion, from $27.5 billion to $37.5 billion, at a rate of $2 billion a year starting in 2016. The private industry recoupment total will increase from 133% to 140% of covered losses.

President Obama signed the Congressionally passed bill into law on Monday, January 12, 2015.

NAIC Surplus Lines Task Force Approves Tweak For ECPs

By Cliston Brown
Editor-in-Chief

At the November, 2014 meeting of the National Association of Insurance Commissioners (NAIC) in Washington, D.C., the Surplus Lines Task Force approved a recommendation regarding the adjustment time period for exempt commercial purchaser qualifications under the Dodd-Frank Act (DFA).

The need for action, according to the NAIC staff proposal, relates to Section 527(5)(C)(i) of DFA, under which there are five subclauses listed that describe persons who may qualify as exempt commercial purchasers characterized by either a dollar threshold or a minimum employee count. Of those five subclauses, the three having a monetary minimum amount (I, II and IV) are scheduled to be adjusted on January 1, 2015, and each January 1 thereafter.

The adjustment to the minimum amounts in those three subclauses is to be based on the percentage change "for such 5-year period" in the Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics of the Department of Labor. NAIC staff said this was ambiguous, and that it was unclear whether the phrase "for such 5-year period" meant 1) the period from the date of Dodd-Frank enactment on July 21, 2010 until December 2014, or 2) a full 5-year period from January 2010 to December 2014. The fact that the December 2014 CPI-U will not be released until January 18, 2015, makes it impossible to determine a percentage change adjustment to the minimum amount qualifications in time for the January 1, 2015 effective date.

To remedy this issue, the task force adopted the following recommendation:

"Using the September CPI-U results that are currently available and that should be available by mid-October in subsequent years, determine an adjustment percentage using the CPI-U results from the period beginning December 2009 through September 2014. This adjustment percentage will be applied to the three sub-clause minimum amounts to determine new standards that will be in effect January 1, 2015, but only on an interim basis. This will provide brokers and others with certainty in advance of the effective date when quoting or binding coverage. The minimum amounts will then be recalculated when the December 2014 CPI-U results become available, on or around January 18, 2015. These final calculated amounts using the December 2014 results, when disseminated, will immediately supersede the interim amounts, and will be in effect until the next required adjustment scheduled for January 1, 2020." (This proposed language was tweaked slightly, as part of the motion made by California, to state that the evaluation period should go from September to September, in order to make the interim adjustment consistent.)

The task force adopted this proposal unanimously.

SLA Industry Calendar: January-March 2015

CIWA Wholesaler Industry Days
Torrey Pines, San Diego
January 11-13, 2015
http://www.gocwid.com/

NAPSLO 2015
Management Operations School
Atlanta
January 20-23, 2015
http://www.napslo.org

SLA Annual Meeting
Julia Morgan Ballroom, San Francisco
February 3, 2015
The Jonathan Club, Los Angeles
February 5, 2015
http://www.slacal.org/annualmeeting2015.html

NAPSLO Mid-Year Leadership Forum
Fontainebleau Hotel, Miami Beach
February 23-25, 2015
http://www.napslo.org/wcm/Networking/wcm/Networking/Mid-Year.aspx

NCOIL
Wyndham Grand Hotel, Charleston, S.C.
February 27-March 1, 2015
http://www.ncoil.org/schedule/spring15.html

IICF Club 100 Dinner
Avalon, Los Angeles
March 19, 2015
http://www.iicf.org/images/IICF_Club100_Registration_Form_2015.pdf

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Benjamin J. McKay, J.D., M.P.A.
SLA Executive Director
Cliston Brown, Editor-in-Chief
SLA Vice President, Communications

Phone: (415) 434-4900
Toll-Free (CA): (800) 334-0491
Fax: (415) 434-3716

Website: www.slacal.org
Twitter: @SLACALNews