

THE SURPLUS LINE ASSOCIATION

OF CALIFORNIA

315 MONTGOMERY STREET

SAN FRANCISCO 94104

A. L. LATHROP
MANAGER
A. B. HERRICK
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LOS ANGELES
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March 17, 1969

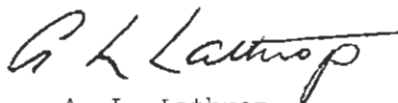
No. 305

BULLETIN TO ALL MEMBERS:

RE: Federal Tax

Supplementing Bulletins 296 and 297, attached is an exchange of correspondence between the Lloyd's Brokers' Association and our Chairman. This is for your information.

Very truly yours



A. L. Lathrop
Manager

ALL:dl

Enclosures

LLOYD'S INSURANCE BROKERS' ASSOCIATION

EXECUTIVE OFFICER
AND SECRETARY
A. TEALE, A.C.I.S., A.C.I.L.

LLOYD'S BUILDING
5 & 6 LIME STREET
LONDON, E.C.3

TELEPHONE
01-623 2855/6/7

ALL:dd
T/R

10th March, 1969.

S.R. Farley, Esq.,
Chairman,
The Surplus Line Association of California,
315 Montgomery Street,
SAN FRANCISCO 94104,
U.S.A.

Dear Sir,

United States Federal Tax

Since receiving your letter of February, 13th, we have given the most urgent consideration to the difficulties confronting your Members.

Whilst understanding the Resolution enclosed with your letter, however, and in full appreciation of the difficulties of enforcing the Agreement contained in page 34B of the Surplus Line Manual, we fear the result of the Resolution from the viewpoint of Assureds.

The amendment to the Lloyd's tax situation naturally gives rise to a number of problems, and the situation concerning your Association has our sincere sympathy. We have been, and are continuing, to exert our influence in every way possible to mitigate your problems and the 5% of Excise Tax refunds to be paid to American Surplus Line Brokers was agreed as the direct result of the Association stressing the problems to Lloyd's Underwriters.

The situation as it affects the London Company market is extremely delicate. The Lead Companies are very conscious of the situation that has been created for them, and are vociferous in stressing their awareness of being 4% (or 1% in the case of reinsurance) worse off than the Lloyd's co-insurers.

With the Underwriting results enjoyed over the past few years, they maintain that this is something that they cannot live with, and whilst efforts are being made by all Insurers to increase rates, they are equally forthright

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in saying that they are, generally speaking, unwilling to be put in a position whereby they are worse off than Lloyd's.

Certain London companies have already indicated strongly their refusal to make Excise Tax allowances on some Insurances negotiated with them, and we are striving hard, as an Association, to contain this situation. We hope that in the long run we can overcome it, and thus maintain the availability of capacity which is so important to everybody.

Some of the Companies in fact feel upset that it was not possible to effect similar tax legislation embracing them, and whilst they themselves are now investigating possible ways and means of achieving a similar tax position, the result is, naturally, in doubt and, of course, the inevitable time factor is involved.

There is real danger that some Companies could easily decide not to continue writing in the U.S.A. and in view of the existing serious capacity shortage we are trying to take every possible precaution to avoid this happening.

It seems that to give effect to your resolutions we would have to study:-

- 1) the handling of premium transactions on current risks (e.g. long term cases etc.) and
- 2) the situation affecting new and renewal business.

In these two regards:-

- 1) whilst there could be embarrassment in explaining that tax is still required from them on any company participation, we feel that this should be more than offset by the Assured realising that his contract, involving his payment of tax on the whole amount, has been alleviated insofar as the Lloyd's proportion is concerned. We would hope that this explanation would satisfy them.
- 2) if reference should need to be made to Companies on current long term risks we fear that there could be cancellation notices given by them which might not otherwise occur; this would be very

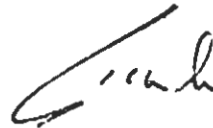
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unfortunate in the eyes of assureds.

Summing up our view, we know that any effort to get the Companies to agree to take up the tax would be resisted strongly, and could precipitate a decision which might result in them withdrawing their capacity entirely.

This letter is lengthy, but we feel it terribly important that you are acquainted with all aspects of the current position, with the hope that your Association, even at this late stage, could give further thought to the matter before the Resolution is actively applied in practice.

Yours faithfully,

A handwritten signature in dark ink, appearing to be 'C. C. L.' or similar, written in a cursive style.

Executive Officer & Secretary.

March 13, 1969

Mr. A. Teale, A.C.I.S., A.C.I.I.
Executive Officer and Secretary
Lloyd's Insurance Brokers' Association
Lloyd's Building
5 & 6 Lime Street
London, E. C. 3, England

United States Federal Tax

Dear Mr. Teale:

This will acknowledge your letter of the 10th, and we certainly appreciate your help on this matter, which unfortunately appears to have become unduly complicated. We are still awaiting instructions as to how refunds can be secured from the I.R.S. on the Lloyd's share, so we can inform our members, and the delay is a little embarrassing.

Speaking in my capacity as Chairman of the Association, I must explain that all we have done is to tell our members as an Association we can no longer be responsible to see that Excise Federal Tax is paid on all business controlled by the Surplus Line Association. The necessary changes in our manual have been made. This decision, however, in no way affects the responsibility of our individual members to see that the Excise Federal Tax is paid on that portion of the premium on which it is due. That is to say that if 20% of the premium applies to unauthorized companies (other than Lloyd's) on a policy issued after January 1, 1968, the member is responsible under the law to see that the tax is paid on that portion developed after inception, whether it is collected from the assured or the company.

Mr. A. Teale, A.C.I.S., A.C.I.I.
Executive Officer and Secretary
Lloyd's Insurance Brokers' Association
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As a practical matter, we do not see how any of our members can expect the companies to pay the tax on audits or three-year installments on existing policies, but a member on new or renewal business can tell the London broker that the Excise Federal Tax must be paid by the Company if they want to write it. If the Company refuses to write the business on this basis but is willing to write it with the Assured paying the tax, it is up to the broker's correspondent to give his approval, but our Association is in no way involved in this transaction.

Incidentally, it may be difficult for some of our members to understand why there is any difference between the West Coast and the rest of the U.S.A., as Federal Tax has always been paid by both Lloyd's and Companies on business other than business written through our Associations. (Western states).

I hope this clarifies the position of our Association for you.

Sincerely yours,

S. R. Farley, Chairman

SRF:leg

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OF CALIFORNIA**

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463-3981

A. L. LATHROP
MANAGER
A. B. HERRICK
ASSISTANT MANAGER

March 17, 1969

NEW MEMBER BULLETIN

The following has joined the Association:

Michael Bender & Associates, Inc.
5225 Wilshire Boulevard
Los Angeles, California 90036

Very truly yours,



A. B. Herrick
Assistant Manager

ABH:dl