

THE SURPLUS LINE ASSOCIATION
OF CALIFORNIA

A. L. LATHROP
MANAGER

A. B. HERRICK
ASSISTANT MANAGER

315 MONTGOMERY STREET
SAN FRANCISCO 94104

TELEPHONE
986-0763 (415)

February 10, 1975

No. 339

BULLETIN TO ALL MEMBERS:

RE: Questions and Answers

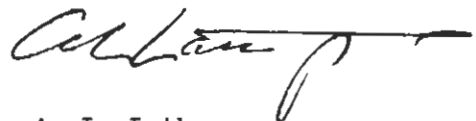
We have reprinted the Questions and Answers pages for your manual and copy is attached.

Note the Sections Covered:

FILINGS
TAXES
GENERAL

We have observed in visiting many offices that a usual problem is that the person actually making surplus line filings does not have a copy of the Questions and Answers available and in many cases is not familiar with the basic rules.

Please be sure to check this in your office. If you need more copies, let us know.



A. L. Lathrop
Manager

QUESTIONS AND ANSWERS

FILINGS

Q. WHAT IS FILED?

A. Complete copy of all certificates, with all coverage provisions. All Endorsements (premium or nil).

Q. WHAT KINDS OF BUSINESS ARE FILED?

A. All surplus except Ocean Marine, Aircraft Hull, Interstate Railroad, reinsurance, etc., as more fully described on page 14 of the SLA Manual under Insurance Code Sec. 1760.5.

Q. WHAT BATCHES ARE SENT?

A. Batches of filings should contain not over 75 certificates or endorsements to each batch.

Q. HOW IS THE TAPE HANDLED THAT GOES WITH EACH BATCH?

A. Make adding machine tape in duplicate. List each premium in same order as the filings in the batch. List each premium exclusive of taxes.

Send one copy of tape to SLA with filing.

Keep other copy in your Accounting Department.

Q. WHAT NOTATION IS MADE OF MONTH OF BUSINESS?

A. Show month of business.

If more than one filing, designate tape as "January No. 1" or "January No. 2."

Q. WHEN ARE FILINGS MADE?

A. At least monthly.

For members starting with the letters A through L.—

Send to reach SLA by the 25th of the month (example — business received by SLA between May 26th and June 25th will be recorded as June business.)

For members starting with the letters M through Z.—

Send to reach SLA by the 10th of the following month (example — business received by SLA between June 11 and July 10 will be recorded as June business.)

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Q. DOES SLA ACKNOWLEDGE FILING?

A. Yes. A post card acknowledging the filing is mailed. This shows either agreement with the tape you filed or tells you the discrepancy.

Q. IS BORDEREAU MAILED TO YOU?

A. Yes. A bordereau listing all business filed is mailed about the 20th of the month. You should reconcile this with your records at once.

TAXES

Q. WHAT TAXES APPLY?

A. Stamping Fee 4/10%.

State Tax 3%.

Federal Tax.

- 1) *No Federal Excise Tax applies to Lloyd's business or Excess Insurance Co. Ltd.*
- 2) *No Federal Excise Tax applies to U. S. non-admitted carriers.*
- 3) *For other non-admitted carriers, the Federal Excise Tax is 4% (except Accident & Health 1%).*

Q. TO WHOM ARE TAXES CHARGED?

A. The Stamping Fee and State Tax must be charged to the insured.

When the Federal Excise Tax is applicable, it is to be either assumed by the carrier and so confirmed in the cover note or treaty, or charged to the insured.

Q. HOW ARE TAXES SHOWN?

A. They must be shown separately, both on the certificate and on any premium endorsements or cancellations.

Q. HOW ARE STAMPING FEE AND TAXES PAID?

A: Stamping Fee:

Accompanying the bordereau will be a statement (form #102A) showing your prior month's premium total and stamping fee due. Sign and return the original with your check to the Surplus Line Association. If no business written, you must still sign and return the statement.

State: State will furnish forms for completion and remittance direct to the State annually. Remittance due May 1 each year — See Insurance Code Sec. 1775.5.

Federal: Make filing with Internal Revenue Service.

1. Make quarterly filing of Form 720 with IRS if monthly tax liability is \$100.00 or less.
2. If tax liability is more than \$100.00, file monthly using Federal Depository Receipt Form 537. The Federal Reserve Bank (or perhaps your bank will handle this for you) will furnish a numbered card for your use.

GENERAL

Q. WHAT TYPES OF COVERAGE MAY BE CONSIDERED SURPLUS?

A. In a general way, any class for which there is no majority (or substantial) admitted market. If in doubt, the risk or class in question should be discussed with the Stamping Office staff.

Q. OTHER THAN THE ABOVE CLASSES, MAY INDIVIDUAL RISKS BE TREATED AS SURPLUS.

A. Yes. If the individual risk is unacceptable to the admitted market, as evidenced by completion by the producing broker of form SLA-101.

Q. WHAT CONTROL, IF ANY, EXISTS ON RATES?

A. On any classes of insurance where there are admitted market rates you must use not less than the lowest rate which will be accepted by any admitted insurer. See SLA Manual page 15 and Insurance Code Sec. 1763.

When a specific risk is exported out of a class that is not generally surplus, one test of good faith is that it will not be at lower rates than the Board or Bureau rates of the majority of admitted insurers.

Q. WHAT FORMS ACCOMPANY THE CERTIFICATE TO BE FILED WITH THE STAMPING OFFICE ON NEW BUSINESS?

A. Either SL-1 (on classes that are surplus) or SLA-101 (on individual risks in classes not surplus.)

(A copy of each is attached.)

Exceptions: SL-1 forms not necessary on the following classes of business.

1. Taxicab and Public Livery Bodily Injury and Property Damage Insurance.
2. Excess Liability Insurance.
3. Furriers Block Insurance.
4. Professional Liability (Malpractice) Insurance, including Beauty Parlors and Beauty Schools.
5. Cast Insurance.
6. Over-Age Accident Insurance.
7. Earthquake Insurance written with a Co-insurance Clause of 25% or less.
8. Unprotected Mercantile Open Stock Burglary Risks coming within Trade Groups 6, 7, and 8 and "automobiles and accessories where tires and tubes are carried" which come within Trade Group 3.
9. Livestock Mortality.
10. Auto Physical Damage where Liability is in Assigned Risk Plan.

Q. WHAT ARE REQUIREMENTS OF MEMBERSHIP, OTHER THAN FILINGS AS COVERED?

A. Member should attend the Association Annual Meeting in January each year.

Q. WHAT EXAMINATION BY INSURANCE DEPARTMENT?

A. The Insurance Department examines the records of the Surplus Line Broker's office (usually every three years). The premium reported to the state by the member and to the Stamping Office must coincide. Thus, accurate records are important to the member in saving time and money in examination expense. (See Insurance Code Sec. 1770 and 1771).

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Q. WHO IS RESPONSIBLE FOR SECURITY USED?

A. The Surplus Line Broker is responsible for the use of good judgment in selection of the security used.

Q. SHOULD THE SURPLUS LINE BROKER CONTACT THE STAMPING OFFICE CONCERNING NEW SECURITY HE PROPOSES TO USE?

A. Yes, if he is negotiating for security on a contract basis, or on the basis of prior written authority for placements. The Stamping Office will desire to review the financial statement of the insurer proposed, discussing it with the Insurance Commissioner's office if necessary. If the company is used in open market placements by the London broker, prior clearance of the company is not required and the Stamping Office will endeavor to secure information on the company, contacting the Surplus Line broker only if further information is necessary.

Q. WHY IS IT NECESSARY TO SHOW SECURITY USED?

A. The insured is entitled to know the company or companies insuring his risk. Or, from the Insurance Code, Sec. 1764, certificates "shall contain all of the matters specified in Insurance Code Sec. 381," and this section requires that it specify "the parties between whom the contract is made."

The individual companies of a group must be shown separately with the percentage participation for each.

Q. WHAT IS THE PROVISION FOR SERVICE OF SUIT?

A. All certificates must contain a provision designating a resident of this state or any firm of which one member is a resident of this state to be its true and lawful attorney upon whom may be served all lawful process in any such action, suit or proceeding.

STATE OF CALIFORNIA
DEPARTMENT OF INVESTMENT

DIVISION OF INSURANCE

To the Insurance Commissioner of the State of California:

The following statement of insurance, written or proposed to be written in non-admitted insurers, is hereby offered for filing, pursuant to the provisions of section 1763 of the Insurance Code, after refusal to accept the coverage by a majority of admitted insurers. Copy of certificate of insurance, binder, cover note or other evidence of coverages, together with any other written documents required to be filed, are hereby attached.

1. Name of filing Surplus Line Broker:

..... By:
(Signature)

2. Name of broker or agent producing business:

.....

3. Name and address of insured:

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4. Brief statement of coverage: (This is for identification only and need not be precise. Such common trade terms as "personal accident", "furriers' block", etc., are permissible. Any ruling or letter will be based solely on the provisions of the attached certificate or policy form and not on this statement of coverage.)

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5. Nearest rate and premium in admitted insurer and name of admitted insurer from whom procured:

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6. Such insurer's manual or tariff rate if published: (Refer to manual or tariff page)

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7. Statement of reason for placing with non-admitted insurer: (Use additional page if necessary)

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CERT. NO. _____

SURPLUS LINE ASSOCIATION
FORM REQUIRED BY INSURANCE COMMISSIONER

NOTICE: "Wherever in these rules and regulations a requirement is made for filing with the Commissioner under Section 1763 or otherwise, the Surplus Line Broker will supply the Commissioner with a signed statement of the originating broker or agent if placed for the account of any such broker or agent, specifically stating that the risk in point has been submitted to and refused by a majority of admitted insurers holding certificate of authority to execute policies in the class or classes of insurance undertaken in the subject contract of insurance." (From the Insurance Commissioner's Rules and Regulations.)

TO _____
(Surplus Line Broker's Name)

NAME OF ASSURED _____

LOCATION OF RISK _____

CLASS OR TYPE OF INSURANCE APPLIED FOR _____

PREMIUM OR RATE AT WHICH THIS
INSURANCE IS OFFERED TO US _____

The above risk has been offered by me/us to a majority of the Insurance Companies licensed to do this class of business in and under the Laws of the State of California and has been declined by them. This risk is not offered for the sole purpose of securing a rate or premium lower than the lowest rate or premium obtainable from Companies licensed to write this class of insurance in the State of California.

REMARKS: There must be shown the names of at least three admitted companies who have declined to write the risk or the portion being exported, as the case may be. Note excess liability is reported separately and requires no filing on this form.

Date _____ Signature _____

IMPORTANT: "Any person licensed by this Division who misrepresents to any Surplus Line Broker any material fact regarding insurance coverage, or misrepresents to such Surplus Line Broker facts with regard to the rules of submission or rates, or in any way conspires to procure non-admitted insurance in violation of the Law or of the Basic Principles herein set forth, will subject himself to action in respect to his license as provided in Section 1731 of the Insurance Code." (From Insurance Commissioner's Rules and Regulations.)