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Bulletin #496

BULLETIN TO ALL MEMBERS:

Re: Placement of Insurance with Alien Non - Admitted Insurers

Further to our Bulletin #481 dated June 24, 1991 regarding the above captioned subject, we enclose a letter dated July 31, 1991 from the Department of Insurance concerning the "Requirements for Minimum Capital and Surplus and U. S. Trust Accounts".

If you have further questions, please contact Carol Fistler, Counsel, State of California, Department of Insurance, (415) 557-3840.

A. D. Freeman, Jr.
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DEPARTMENT OF INSURANCE

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July 31, 1991

Mr. Arthur D. Freeman, Jr., Manager
Surplus Line Association
388 Market Street
San Francisco, California 94111

Re: ER 2174 - Alien Security Program

Dear Art:

The purpose of this letter is to clarify the subject emergency regulation with respect to the specific requirements for minimum capital and surplus and U. S. Trust Accounts. The provisions of ER 2174 relating to minimum capital and surplus and U. S. Trust Accounts are not intended to be cumulative.

Acceptable assets held in the U. S. Trust Account of an alien insurer operating on a surplus lines basis in California could be shown as assets (albeit restricted assets) on the insurer's balance sheet. As such, those assets would also be a component of the insurer's capital and surplus. The following balance sheet provides an illustration of that basic accounting concept:

<u>Balance Sheet</u>			
<u>\$000's omitted</u>			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 5,000	Losses	\$ 6,000
Bonds	10,000*	Unearned premiums	3,000
		Other liabilities	<u>3,000</u>
		Total	12,000
Receivables	1,000	Capital	2,600
Other Assets	<u>3,000</u>	Contributed Surplus	2,800
		Unassigned Funds	<u>1,600</u>
Total	<u>\$19,000</u>	Total capital & surplus	<u>7,000</u>
		Total liabilities, capital & surplus	<u>\$19,000</u>

*Includes \$5,400 in U. S. Trust Account

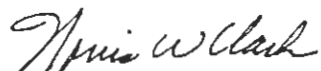
Mr. Arthur D. Freeman

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July 31, 1991

I trust the foregoing eliminates the confusion surrounding the capital and surplus and trust account requirements of ER 2174.

Very truly yours,



NORRIS W. CLARK, CFE
Chief, Financial Analysis Division

NWC:mh

cc: Victoria Sidbury
Carol Fistler
Woody Girion
Edmund DeGuzman