



The Surplus Line
Association of California

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BULLETIN #1467

Re: Clarification on Filling Out Section 3(B) of the SL-2 (Diligent Search Report)

This Bulletin updates SLA Bulletin #1450 to reflect the revised SL-2 Diligent Search Report form, which became effective January 1, 2024.

In accordance with California Insurance Code Section 1763, the Surplus Line Association of California (SLA) reminds all surplus line brokers that the California Department of Insurance (CDI) and applicable law permit the waiver of the declination requirement in section 3(A) of the SL-2 (Diligent Search Report) only when the broker determines that fewer than three admitted insurers actually write the type of insurance or risk in California. In this situation, the broker is required to complete section 3(B) of the SL-2 form, explaining in detail how the broker determined that fewer than three admitted insurers write the type of insurance or risk.

The SLA urges all surplus line brokers to take due care when responding to section 3(B). An insufficient response will result in further inquiry and/or possible investigation, including potential referral of the licensee to the CDI. The detailed explanation in section 3(B) must include a description of the steps the broker took to determine whether three insurers write the type of insurance or risk and the reasoning for the determination. A conclusory statement is insufficient. Some examples of insufficient explanations are:

1. No appetite due to prior experience
2. Exclusive insurer
3. Captive agent
4. No access to three admitted carriers
5. Market research finds no available admitted markets

An appropriate detailed response to section 3(B) is required from every broker that does not complete section 3(A) of the SL-2 form. **This requirement cannot be waived or modified for any broker, regardless of the size of the broker, the use of third-party filing services, or any other factor.**

Additionally, the SLA has not granted, and will not grant, any special arrangement, consideration, or permission for any broker or third-party filer for an exemption from, or modification to, any section of the SL-2 form.

Should you have any questions regarding the content of this bulletin, please direct them to Yusuf Mayet, Vice President, Legal Compliance at ymayet@slacal.com or (415) 434-4900.