



The Surplus Line  
Association of California

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**BULLETIN #1498:**  
**RE: Surplus Line Broker Licensing**

The Surplus Line Association of California (SLA) issues this reminder regarding the licensing requirements for the placement of surplus line insurance in California on behalf of a business entity licensee.

It has been some time since the 2008 update of the licensing laws for surplus line brokers, and there may still be some confusion as to who is required to be licensed and for what activity. This bulletin addresses:

- Who is required to be licensed in California for surplus line transaction/placement for a business entity licensee?
- What are the basic requirements for a licensed broker-agent to obtain an individual surplus line broker license?
- What are the potential penalties for transacting surplus line insurance without the required license?

1. Activities Requiring a License

Both a business entity and any employee of a business entity who transacts surplus line insurance for a California home state insured must have a California surplus line broker license. This requirement applies regardless of where the business entity or its employees are located and regardless of their resident or nonresident status in California. "Transacting" in the surplus line context means soliciting, negotiating, or effecting insurance with a non-admitted insurer for a California home state insured.

Prior to 2008, an individual with only a broker-agent license could be endorsed to a business entity's surplus line broker license to transact surplus line insurance on behalf of the business entity. After the law was amended in 2008, however, all individuals transacting surplus line insurance, whether transacting individually or on behalf of a licensed surplus line broker business entity, were required to obtain an individual surplus line broker license.

2. Basic Requirements to Obtain a License

The licensing process for an individual already licensed as a broker-agent was simplified and now requires meeting minimum requirements, filling out the application through an on-line process, paying the required licensing fee, and being in good standing with respect to the individual's broker-agent license and other regulatory requirements. No additional education or exam is required. A nonresident individual would also need to

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maintain a surplus line broker license in the individual's state of residence. Once the surplus line broker license is issued, the individual licensee can be endorsed to a licensed surplus line broker business entity's license.

Individual licensees who are endorsed to and transacting only on behalf of a licensed surplus line business entity are not required to maintain a \$50,000 surplus line bond. However, if the individual licensee also places surplus line business other than on behalf of the business entity, the individual must have his or her own bond.

### 3. Potential Penalties

Criminal misdemeanor statutes apply to transactions of surplus line insurance without a proper license, including:

- California Insurance Code ("CIC") section 1633: Any person who transacts insurance without a valid license is guilty of a misdemeanor.
- CIC section 1776: Transaction of surplus line insurance except by and through a licensed surplus line broker is a misdemeanor. It is also a misdemeanor for a surplus line broker to accept or pay compensation for placement of surplus line insurance when the placement was not done by a licensed surplus line broker.
- CIC section 1760.5(e): Each placement of insurance in violation of the surplus line law is a misdemeanor.
- CIC section 703: Except when done by a licensed surplus line broker, it is a misdemeanor to act as an agent for a nonadmitted insurer in transacting insurance for a California home state insured or to aid a nonadmitted insurer to transact insurance for a California home state insured in any manner.

Penalties under these criminal provisions include monetary fines, imprisonment, or both. License suspension and revocation, as well as fines are also potential penalties. Business entities whose management knowingly ignores California's requirements may also be acting in collusion with the unlicensed individual, which can lead to increased penalties.

Should you have any questions regarding the content of this advisory, please direct them to Yusuf Mayet, Vice President, Legal Compliance at [ymayet@slacal.com](mailto:ymayet@slacal.com) or to the SLA's Legal Compliance Department at [Compliance@slacal.com](mailto:Compliance@slacal.com), or call or (415) 434-4900.

