



THE SURPLUS LINE
ASSOCIATION OF | CALIFORNIA

Bridge to a Vibrant Surplus Line Market

New Member Introduction

12667 Alcosta Boulevard, Suite 450
San Ramon, CA 94583

P: 415.434.4900

www.slacal.com

Welcome to

THE SURPLUS LINE ASSOCIATION OF CALIFORNIA

Benjamin J. McKay, CEO and Executive Director



Dear New Member:

Congratulations on earning your license as a surplus line broker in the State of California.

Upon attaining your license, you automatically became a member of the Surplus Line Association of California. I would like

to welcome you and take a moment to introduce our association to you.

The SLA is here to help you comply with all the state laws and regulations that pertain to you and your business, and it is our job to help you navigate it.

Our mission is to ensure that a responsive and lawful surplus line insurance market is maintained in California. Our measure of success in this respect is that the consumer is protected, the needs of the regulators are well-served, and unlawful activities are curtailed. Through a professional and committed organization, utilizing state-of-the-art technology, we respond to the needs of the California consumer, our

membership, and appropriate public agencies. We provide education, processing, evaluation, and dissemination of surplus line data and information to help ensure the financial integrity and stability of the surplus line market.

In this packet, you will learn how our various departments function and how they can serve you. Additionally, you will find information about the forms and filing procedures you need to know to stay in compliance.

We hope that you will come to know your association well, and that we can provide the high-quality, responsive service needed to help you successfully fulfill your obligations as a licensed California surplus line broker. We also urge you to be actively involved in the SLA by attending our Annual Meeting and also by exploring opportunities to participate in our various committees. Becoming actively involved will give you the chance to network and to learn from other brokers with many years of experience and deep knowledge about the California surplus line market.

We look forward to working together with you to help ensure a fair, healthy and competitive surplus line marketplace in California.

Sincerely,

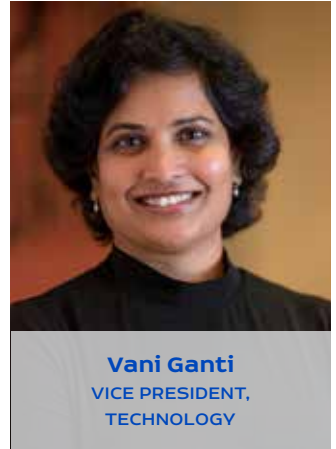
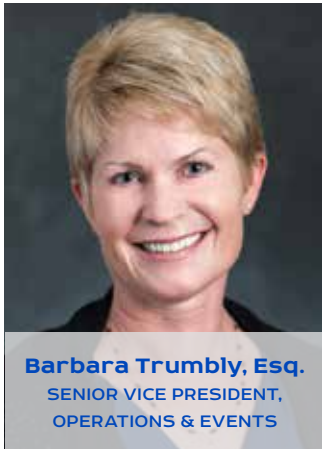
A handwritten signature in black ink that reads "Benjamin J. McKay". The signature is written in a cursive, flowing style.

Benjamin J. McKay, J.D., M.P.A.

CEO and Executive Director

Surplus Line Association of California

SENIOR STAFF



HOW WE SERVE OUR MEMBERS

Data Analysis Department

The Data Analysis department collects filings from brokers and maintains records for the California Department of Insurance (CDI). But we are so much more than that. We are your one-stop resource for filing issues, questions and help.

We help you make sure your filings are accurate and compliant with regulations. We notify you when we see errors or omissions, and we work with you every step of the way to make corrections. We want to help you address problems up front and reduce the overall number of tags you receive, thus saving you extra work in the long run and helping you improve your efficiency. When your filing systems are more efficient, you save time and money.

We are always available if you need a special report on any aspect of the surplus line market. We have a wealth of data and frequently use that data to lend deeper insight.

Finally, we listen. When you have suggestions for streamlining processes, we can make improvements that benefit everyone.

Contact: Jody Black, Vice President,
Data Analysis
(415) 434-4900, extension 1135
jblack@slacal.com

Policy & Training Department

The SLA **Education Team (seminars@slacal.com)** provides a broad education program for our membership. Visit our **Learning Center** for all of your training needs, including the surplus line training required by California Insurance Code under 1765(f). We also have a robust continuing education program which offers live and on-demand continuing education. The curriculum is designed to provide a wide range of topics focused on current trends and emerging risks to assist our membership in staying current on the marketplace and new and pending legislation. All seminars are free of charge and approved by the California Department of Insurance. Continuing education credits are currently available for California resident property and casualty brokers.

The SLA Policy Team will keep you up-to-date on legislative and regulatory issues and can provide guidance on the California insurance code and related federal regulation. The SLA helps members improve their understanding and interpretation of California surplus line laws and regulations.

Legal & Compliance Department

The SLA **Membership Services Team (membership@slacal.com)** is the first welcome to the Surplus Line Association for new licensees. The team delivers the introductory packet and information on who we are, what we do, and the requirements to properly register and update your membership to ensure you can effectively and efficiently transact business in the state.

The SLA **Compliance Team (compliance@slacal.com)** is your trusted, comprehensive source of industry knowledge and an important first stop for new brokers.

The Compliance and Data Analysis Teams provide training on the surplus line filing procedures and filing your policies through SLIP. Training is free and can be provided by phone, webinar or in-person at your office for you and your team. We also host Compliance Connections which offers training and discussion on compliance topics. Courses are currently hosted via live webinars and are also available on-demand. Visit our Learning Center for details.

Questions about licensing and bonds? The Compliance Team is here and ready to help. The SLA is also available to assist with questions about getting set up to report and pay your premium taxes to the California Department of Insurance. We can help with questions on compliance requirements and tax filing amendments.

Our job is to help you work smarter, because a smarter industry is a stronger industry.

Contact: David Kodama Jr,
Chief Industry and Regulatory Officer
(415) 434-4900, extension 1136
dkodama@slacal.com

Financial Analysis Department

You may not get to know us until you need us, and that is all right. In the meantime, the SLA Financial Analysis Department is continually working to give you confidence in the surplus line market and assurance that every company on the California List of Approved Surplus Line Insurers (LASLI) is reputable, solvent and qualified to place insurance for California homestate insureds.

We conduct a financial review of each LASLI-listed company to ensure that the companies have met the financial stability, integrity and reputation standards of our state. We make sure the California Department of Insurance (CDI) is promptly alerted of any LASLI-listed company which no longer meets California requirements for placement of surplus line business and that appropriate regulatory action is taken.

We monitor the premium activities of surplus line insurers operating in California to ensure your placements are made with eligible insurers and in accordance with state laws.

We provide an extra layer of consumer protection by playing an active role in reporting allegations of illegal insurance activity in the surplus line market to minimize potential risk of harm to California home-state insureds.

We keep you informed of changes to the companies on the LASLI and maintain up-to-date contact information for each LASLI-listed company.

We help you conduct diligent searches of the admitted market by maintaining up-to-date pertinent information on admitted companies.

And we are here when you need us. We are your “go-to” source of expertise on surplus line matters and offer helpful guidance on compliance with California filing and eligibility requirements for nonadmitted insurers.

Contact: Glenn Leung, Vice President,
Financial Analysis
(415) 434-4900, extension 1184
gleung@slacal.com

Technology Department

Members may not see most of what we do, the bulk of which involves keeping our systems up and running so that the SLA's employees can continue to provide the excellent service on which you rely.

However, the SLA's Technology Department increasingly plays a crucial role in facilitating our members' filing experience. With more and more of our members utilizing electronic filing every month, the need for the Technology Department to provide technical support to our members grows as well.

For members who need technical assistance with SLIP and XML interfacing between systems, we are available to help make this process as smooth as possible. We are also available to provide end-user support and assistance with the SLIP online portal, account setup, filing assistance and login problems.

Additionally, we spend a significant amount of time soliciting member feedback on how to improve our existing systems and new tools we can create to aid broker productivity and ease the filing process.

Finally, we provide research for resolving broker-specific filing issues and generate industry reports and metrics to assist members with market analysis. We are here to help however we can, so please contact us if we can help you with any technical issues.

Contact: Vani Ganti, Vice President,
Technology
(415) 434-4900, extension 1116
vganti@slacal.com

PROGRAMS & INFORMATION PRODUCTS

Filing Procedures and SLA 101

The Compliance and Data Analysis teams can provide training for members who need assistance with filing and reporting procedures or a background on the surplus line insurance industry.

The Surplus Line Filing Procedure course provides a comprehensive overview

of the related regulatory requirements and process for placing and reporting surplus line business. This course has been approved by the California Department of Insurance and provides one (1) Continuing Education credit to P&C licensed producers.

Our **SLA 101** course provides the history of surplus line insurance; how the surplus line marketplace differs from the admitted marketplace; basic terminology; types of risks insured and coverages offered. The course also details the role that the SLA plays as a bridge between the surplus line community, consumers, regulators and legislators.

Courses can be provided on-site or online. Please contact the **Membership Team** at (415) 434-4900, or email at membership@slacal.com.



New Filer Program

You've probably heard about the filing process and all of its requirements, and it may sound daunting, but it doesn't have to be.

Through the SLA's **New Filer Program**, you get step-by-step assistance as you go through the filing process for the first time. There are no penalties or tags (with the exception of late tags); just an opportunity for you to learn, working side-by-side with a representative of our Data Analysis Department. It's like having a filing coach!

Here is how it works. You submit your first batch - containing SL1s, SL2s, policy declaration, endorsements and cover sheet - and we review it for errors and omissions. Then we send it back to you with comments showing you where corrections need to be made. We will walk you through it and answer all of your questions. The New Filer Program is three months long. At the end of this period, tags will be issued without contacting the broker for clarification. During the three-month period, filings are submitted, reviewed, corrected, resubmitted and filed; however, tags are not issued (with the exception of late tags) unless the three-month period expires and the broker has not responded to the SLA's requests for corrections.

When we reduce the number of tags, everyone wins. Fewer errors mean fewer corrections for you and fewer tags submitted to the Department of Insurance, making the entire regulatory process more efficient. So it really benefits the entire broker community.

Let's get started. We're here to take the fear out of filing. Contact **Michael Caturegli** at (415) 434-4900, extension 1164, or at mcaturegli@slacal.com.

All The Information You Need

The SLA plays a vital role in making sure that its members are informed about important news that affects their livelihoods. That is why the association offers several news products to help you stay on top of what's happening in the California surplus line marketplace.

The SLA's **Daily News Digest** is e-mailed to members daily to keep you on top of all the important news happening in the industry.

News blasts are e-mailed to members when there is important news you need to know right now, such as marketplace changes or relevant insurance industry news of an immediate or urgent nature.

Bulletins, also delivered to members by e-mail, let you know about items such as regulatory clarifications by the California Department of Insurance (CDI) or changes in filing procedures.

And if you need to know something that isn't in print, or you can't find it, just ask. Give the SLA a call during normal business hours at (415) 434-4900.



SURPLUS LINE MARKET BASICS

The Surplus Line Market is a Well-Regulated and Well-Functioning Market

The surplus line market is often misunderstood. It is not unregulated, as some believe. Surplus line insurance carriers are regulated in their domiciliary jurisdictions and must be eligible under federal and California law before business can be placed with them (exported to them). Additionally, surplus line brokers in California are licensed and regulated directly by the California Department of Insurance (CDI). Surplus line brokers are also subject to periodic audits by the CDI. In summation, the surplus line market is a well-functioning, well-regulated market that serves as an appropriate place for consumers to obtain coverage when the admitted market is unable to meet their insurance needs.

State Regulations

There are 21 sections of the California Insurance Code devoted to regulating surplus line. Sections 1760 through 1780 provide surplus line broker licensing requirements, policy placement conditions with a nonadmitted insurer, and the prerequisites of a surplus line insurer writing business in California.

Conditions of Placement with a Surplus Line Insurer

Before a risk is placed in the surplus line market, the surplus line broker must ensure that insurance is not generally available from admitted insurers qualified to write that type of insurance. Except for narrow exemptions for commercial insureds, specialty lines, and coverages listed on the “export list” maintained by the CDI, brokers must complete an affidavit (Diligent Search Report or SL-2 form) documenting the diligent search effort to place the risk in the admitted market. Insurance applicants must sign a disclosure statement (D-1 form) acknowledging that the risk is being placed with a nonadmitted insurer and that guaranty fund protection is unavailable to the buyer. If the SL-2 form shows that three admitted insurers that actually write the particular type of insurance declined the risk or fewer than three admitted insurers write that type of insurance, it is prima facie evidence that a diligent search was made.

The broker must not place insurance with a surplus line insurer solely for obtaining a premium less than the lowest premium offered by an admitted carrier. A premium tax is levied on all surplus line transactions to the insured with payment remitted to the CDI by the broker. The broker must submit the policy and required documents to the stamping office for review to verify that the placement was handled correctly by the broker.

Brokers are audited by the Premium Tax Audit Bureau of the CDI to ensure compliance with tax filings.

Surplus Line Broker Licensing Requirements

To transact business as a surplus line broker, a resident broker must hold a property and casualty (P&C) license, which requires passing the fire and casualty examination for broker-agents, before applying for a surplus line license. In addition to holding a P&C license in his/her resident state, a non-resident broker must also hold a surplus line license in his/her resident state before applying for a surplus line license. The broker must complete an application, complete a Surplus Line and/or Special Line Certification form stating the applicant has read the sections of the California Insurance Code pertaining to surplus line, and file a surety bond of \$50,000 to the people of the State of California.

To maintain the surplus line license, the resident broker must complete a renewal application and pay a fee to renew his/her license every two years. To maintain the P&C license, the resident broker is required to complete continuing education each license term. California resident property broker-agents and casualty broker-agents must also complete four hours of ethics Continuing Education as a part of, and not in addition to, their Continuing Education requirement during each two-year license term. The non-resident broker must complete the continuing education required by his/her state of residence. For an applicant applying for a business entity surplus line license, brokers transacting under the organizational license must be named under the license, and a surety bond of \$50,000 must be filed to the people of the State of California.

Eligibility Requirements for a Nonadmitted Insurer

Nonadmitted insurers on the List of Approved Surplus Line Insurers (LASLI) must demonstrate their financial stability, reputation and integrity; maintain a minimum of \$45 million in capital and surplus at all times; have three years’ seasoning (or qualify for an exception); have a valid license to transact insurance in their domicile; file financial information with the CDI; and adhere to specific capitalization, investment and solvency standards established under the California Insurance Code.

On July 21, 2011, the federal Nonadmitted and Reinsurance Reform Act (NRRRA) went into effect, establishing federal guidelines for nonadmitted insurer eligibility in all states. The SLA worked with California regulators to adapt California law to the new federal standards, which led to the creation of Assembly Bill 315. AB315 established the requirements for nonadmitted insurers not on the LASLI to write policies in California:

- **Foreign companies** (U.S. companies domiciled outside California) must maintain a minimum capital and surplus of \$45 million and be authorized to transact in their state of domicile.
- **Alien companies** (domiciled outside the United States) must be included on the NAIC’s Quarterly List of Alien Insurers.

KEY FORMS & DOCUMENTS

The state of California and the SLA require brokers to file several forms upon placing business. These forms, listed below, can be located at <http://www.slacal.com/brokers/broker-filing-forms>.

The SLA encourages brokers to file forms electronically through its **Surplus line Insurance Portal (SLIP)**, which can be accessed at <https://slip.slacal.com>. Electronic filing saves paper and time and also significantly reduces the rate of clerical errors. To sign up for SLIP, or for questions about these forms, contact **Michael Caturegli**, Executive Vice President, at (415) 434-4900, extension 1164, or mcaturegli@slacal.com.

Disclosure Statements: D-1 & D-2 Forms

The Freestanding Disclosure Statement, or D-1 form, informs an insured that his/her policy is being placed with a nonadmitted insurer which is not licensed by the State of California and not subject to the same financial solvency regulations and enforcement as licensed insurers.

- **Must be in 16-point bold type font**
- **Must be signed and dated by the insured at the time insurance is placed**
- **Not required when renewing with same carrier(s)**
- **Not required if insured is an industrial insured**
- **(See California Insurance Code, Section 1764.1)**
- **Does not need to be filed with SLA**
- **Must be maintained in files for five years**

The Disclosure Statement, or D-2 form, contains basically the same information as the D-1 form but, unlike the D-1 form, does not require the insured's signature. This form must be attached to the surplus line policy and is required even if renewing with the same carrier or carriers. All other requirements are the same as with the D-1 form.

Confidential Report of Surplus Line Placement: SL-1 Form

The Confidential Report of Placement, or SL-1 form, provides the California Insurance Commissioner with a written report of a placement with a nonadmitted insurer. This is a requirement under Section 1763(a) of the California Insurance Code.

- **Line 1 must include the first and last name of the transactor (as stated) and either his or her own license number (1b) or the name of the company under whose license he or she is transacting (1c) and that company's license number (1d).**
- **Line 2(C), the Description of Risk, must describe what is being insured, not the type of coverage.**
- **Line 2(D) must state the physical location of the risk; a post office box is not acceptable.**
- **Line 2(D) can state "various" if there are multiple locations.**
- **Line 3 must show the full name of the nonadmitted insurer for which the insurance was placed. The name must correspond with the information on the policy declaration page, certificate or binder.**
- **If more than one carrier insured the risk, state "See Attached" and attach the list of multiple carriers and their respective percentages of participation.**
- **Must be signed by the person named on Line 1**
- **Must be maintained in files for five years**

Diligent Search Report: SL-2 Form

Before a risk is placed in the surplus line market, the broker must document a diligent search to procure insurance with an admitted California carrier. The Diligent Search Report, or SL-2 form, is the California insurance commissioner's standardized form in which the broker documents his/her efforts to place the coverage with admitted insurers. This is a requirement under section 1763(a) of the California Insurance Code.

- **Line 1 must include the first and last name of the transactor (as stated) and either his or her own license number (1b) or the name of the company under whose license he or she is transacting (1c) and that company's license number (1d).**
- **Rules for Lines 2(C) and 2(D) are identical to the rules listed for those lines on the SL-1 form.**
- **Line 6(A) must describe the search effort to place the risk with admitted carriers.**
- **In Section 7(B), the full name of the admitted company or first part of name with the NAIC number must be entered.**
- **Companies must be licensed and authorized to transact the same type of coverage as the risk in California.**
- **In Section 7(B), the month and year of declination must not exceed one year prior to the policy effective date.**
- **SL-2 form must be signed by person named on Line 1.**
- **Not required if the type of coverage being placed is on the Export List or qualifies as an exempt commercial purchaser/commercial insured (ECP/CI); see below**
- **Must be maintained in files for five years**

Policies Exempt From Diligent Search

California allows exceptions to performing a diligent search if the type of coverage is on the **Export List** and/or if the insured qualifies as an exempt commercial purchaser/commercial insured. The Export List contains types of coverages for which the California Department of Insurance has determined that admitted coverage is not available in California. The current list can be found at <http://www.slacal.com/brokers/export-list>.

Under the federal Nonadmitted and Reinsurance Reform Act (NRRRA), a surplus line broker does not need to perform a diligent search if the insured qualifies as an **exempt commercial purchaser/commercial insured (ECP/CI)**. Three requirements must be met: 1) the broker does not need to perform a diligent search if the insured qualifies as an exempt commercial insured; 2) the broker procuring or placing the insurance must have disclosed in writing to the ECP/CI that such insurance may or may not be available in the admitted market; and 3) the ECP/CI must have subsequently requested in writing that the surplus line broker procure or place insurance from a nonadmitted insurer. Please refer to <http://www.slacal.com/resources/nrra>.

FILING & PLACEMENT BASICS

Filing Requirements

Section 1763 of the California Insurance Code requires all surplus line transactions to be filed with the California Department of Insurance (CDI) or its designee, the Surplus Line Association of California (SLA). As the advisory organization to the insurance commissioner, the SLA also has imposed additional requirements based on specific requests by the CDI. As noted on the previous page, the SLA encourages brokers to file electronically through SLIP (further details on page 11).

Submissions to SLA

For non-SLIP electronic submissions, the cover sheet must list all the items within the submission, including the total premium being filed. All items that comprise the submission (new policies, renewals and endorsements, and the required documentation) must follow in the same order as listed on the cover sheet.

At the close of each month, SLA generates an invoice for each brokerage listing all of the submissions, and items within those submissions, that the SLA processed during the month. This enables efficient reconciliation between the brokerages' accounts payable and SLA's accounts receivable. Submissions may be uploaded through the online SLIP portal at <https://slip.slacal.com>; or mailed to:

The Surplus Line Association of California
12667 Alcosta Boulevard, Suite 450
San Ramon, CA 94583

Cover Sheet Contents

Cover sheets must have:

- **Assigned SLA broker number**
- **Exempt commercial purchaser/commercial insured checkbox**
- **Insured's name**
- **Transaction type**
- **Policy number**
- **Premium amount (including taxable fees)**
- **State tax**
- **Stamping fee**
- **Invoice date**
- **California percentage of premium allocation for multistate risks, even if 100 percent of the premium is to be filed in California**
- **Total amount of items and premium**

Also, please include the name and contact information for the person responsible for submitting the filing, so the SLA can correspond with the appropriate filer.

Requirements By Transaction Type

New and Renewal Policies

For all new and renewal policies, the following documentation must be provided within 60 days of placing the coverage with a surplus line insurer (calculated from the postmark date against the policy effective date):

- **Copy of the declaration page, certificate, cover note or binder**
- **Copy of the security or syndicate list for policies with multiple insurers**
- **Completed copy of the Confidential Report of Placement form (SL-1)**
- **Completed copy of the Diligent Search Report form (SL-2), unless the risk or type of coverage meets the Export List requirements or the insured qualifies as an exempt commercial purchaser/commercial insured.**

Endorsements

For all endorsements, a copy of the addendum or endorsement must be provided.

Extension Endorsements Extending Past 90 Days In Rolling 12-Month Period

For all premium and non-premium endorsements extending the policy term for more than an aggregate of 90 days in a rolling 12-month period, these documents are required:

- **Copy of the addendum or endorsement**
- **Completed copy of the Confidential Report of Placement form (SL-1)**
- **Completed copy of the Diligent Search Report form (SL-2), unless the risk or type of coverage meets the Export List requirements or the insured qualifies as an exempt commercial purchaser/commercial insured.**

Non-Money Endorsements

All non-money endorsements must be submitted to the SLA with a cover sheet marked "Non-Money Endorsements." A listing of the individual items is not required. At a minimum, those non-money endorsements that update the following items must be submitted for the SLA database:

- **Insured's name**
- **Insured's address**
- **Policy period**
- **Insurer**
- **Coverage**
- **Policy number**
- **Invoice date**

With the exception of extension endorsements, non-money endorsements should not be filed electronically through SLIP.

Qualifications of Acceptable Surplus Line Insurers

After the passage of the **Nonadmitted and Reinsurance Reform Act (NRRRA)** and **California Assembly Bill 315**, brokers may make placements with a nonadmitted insurer if the broker has determined, at the time of placement, that the carrier has met the following criteria (SLA Bulletin #1278):

A foreign insurer (U.S. domiciled) must be licensed in its domiciliary jurisdiction to write the type of coverage being placed in California and maintain a minimum capital and surplus, or its equivalent, of at least \$45 million (unless excepted).

An alien insurer (non-U.S. domiciled) must be on the current International Insurance Department's Quarterly Listing of Alien Insurers (110 list) maintained by the National Association of Insurance Commissioners (NAIC) or the List of Approved Surplus Line Insurers (LASLI), both of which are available at www.slacal.com under "Companies."

TAGS & UNUSUAL FILINGS

Notification of Violations (Tags)

Under the direction of Section 1780.56 of the California Insurance Code, the SLA notifies the filing surplus line broker of incomplete or inaccurate information within the filed documents by issuing tags. Upon issuing a tag or tags, the SLA asks the filing broker to correct any problems in the required documentation.

Categories of Tags

- **Standard tags** notify the broker of errors, problems, discrepancies or missing information in their filed documents. These discrepancies may be noted on the policy declaration page, cover page, binder, endorsements, Confidential Report of Placement (SL-1) form or Diligent Search (SL-2) form. Standard tags have a 30- or 90-day response time. If the tag is not adequately answered, or not answered within the designated response time, the tag is referred to the California Department of Insurance (CDI). For tags with a 90-day response window, brokers are notified every 30 days until the deadline.
- **Priority tags** notify the broker of violations of a California statute or regulation in his/her filed documents. Many priority tags concern the acceptability of the nonadmitted insurer with which the risk is placed. Priority tags have a 28-day response window. If the tag is not adequately answered, or not answered within the designated response time, the tag is referred to CDI.

Reports to the California Department of Insurance (CDI)

For tags that are inadequately answered, or not answered within the allotted time, the SLA generates a weekly report for the CDI Investigations Division. Another report to that division is generated for tags previously reported as unanswered, but for which an adequate response has been received.

Tags may be answered through SLIP or via postal mail. If using the mail, direct your answers to Tag Responses, Surplus Line Association of California, 12667 Alcosta Boulevard, Suite 450, San Ramon, CA 94583.

Examples of Unusual Filings

Lloyd's List

For policies written by Lloyd's, California requires a listing of all syndicate numbers and their percentages of participation to be filed with the policy. If there are multiple line slips, a breakdown of the premium is required by each line slip. For example, here is a sample listing of three line slips:

Syndicate #382	25.00%
Syndicate #566	35.00%
Syndicate #1225	40.00%

Some Lloyd's policies have groups or consortia within a line slip that comprise a percentage of the premium. The consortia usually begin with the number nine and a breakdown of the syndicates and percentage of participation that form the consortium is required.

Section 8(A) Through 8(C) of the Diligent Search Report (SL-2)

- If the risk was not submitted to three admitted carriers, sections 8(A) and 8(B) or sections 8(A) and 8(C) must be completed.
- If the agent did not determine fewer than three admitted carriers write the risk, the insurance commissioner requires a detailed explanation of why the risk was submitted to fewer than three admitted insurers that write this type of risk in California in section 8(B).
- If the agent did determine that fewer than three admitted carriers write the risk, the insurance commissioner requires a description of how the determination was made in section 8(C).

Why Tags Matter

Tags are issued for any part of a filing that is not compliant with California surplus line laws or for lateness, and in fact, late filings are by far the largest cause. An SLA survey has shown that approximately 70 percent of all tags are due to late filings. The impact of tags is widespread.

Tags impact almost everyone involved in the surplus line transaction, from the brokerage's compliance officer who reviews the form, to the retail agent who corrects the form, to the insurer who provides the syndicate list to the SLA analyst who determines the adequacy of the response, to the California Department of Insurance, which receives the report when the tag is not sufficiently answered.

If we consider that the average tag for a filing error takes anywhere from a few minutes to a few hours to fix, and we also consider the nearly 30 percent of tags typically assigned for reasons other than lateness, the SLA and its members spend thousands of worker hours per year finding and fixing tags. That is a lot of time and money that brokerages could save if tags could be significantly reduced. Given the number of worker hours involved, and the general undesirability of tags, it is clear why significantly reducing tags is a top priority for the SLA.

Multistate

For policies that have risks in more than one state, the Nonadmitted and Reinsurance Reform Act (NRRRA) has determined that 100 percent of the taxes and fees must be filed with the home state.

To determine which is the home state:

- If the insured is a business entity, home state is where the insured maintains its principal place of business.
- If the insured is an individual, the home state is where the insured maintains his/her principal residence.
- If none of the insured's risk is located in the state where the insured is domiciled, the home state for the purposes of that placement is the state to which the greatest percentage of the insured's taxable premium is allocated.

STAMPING FEE, TAXES, SLIP & ADDITIONAL RESOURCES

Stamping Fee

All operations of the Surplus Line Association of California (SLA) are funded by stamping fees assessed against every premium-bearing transaction processed. While it has varied over the years, it is currently 0.18 percent, effective January 1, 2023. Since 1983, it has ranged from 0.1 percent to 0.5 percent. The SLA Board of Directors sets the stamping fee annually depending on anticipated premiums and what the board expects will be necessary to continue to fund SLA operations in the coming year.



Key points

- The stamping fee for endorsements, audits, installments or cancellations (excluding extension endorsements) is the same percentage that corresponds to the inception date of the endorsed policy/certificate.
- The stamping fee for extension endorsements is the percentage that corresponds to the date the extension becomes effective after the parent policy has expired.
- The broker should pay the stamping fee within 30 days upon receiving the invoice.

SLIP: Paperless, Accurate, Easy to Use

Filing electronically through SLIP provides many benefits to brokers and filers, including greater ease and speed of use, fewer tagged violations, and paperless filings. For SLIP electronic submissions, SLIP creates the batch cover sheet when the information is entered into the portal. Online completion of the forms provides the broker with alerts of possible violations that he/she can correct before submitting.

The SLA has found that the error rate for non-SLIP filings exceeds 30 percent, but the error rate for SLIP filings is less than 3 percent. This saves you time, effort and money.

Additional SLIP benefits include:

- **Answering tags online for faster resolution**
- **Mass closing of informational tags**
- **Access to viewing data for your brokerage**
- **Setting up direct ACH payments from bank accounts**
- **Reports that allow brokers to choose their preferred format**
- **Filings do not get lost in the mail**
- **Batch confirmations are sent by e-mail**
- **Status of submitted filings available online**

Contact **Michael Caturegli** at (415) 434-4900, ext. 1164 or mcaturegli@slacal.com to sign up for SLIP now.

State Surplus Line Tax

Sections 1775.5 to 1776 of the California Insurance Code require every surplus line broker to file an annual state tax filing to the insurance commissioner on or before March 1 of every year. The amount of the state tax is 3 percent of the California taxable nonadmitted premium transacted by the broker from Jan. 1 to Dec. 31 of the prior year.



Key requirements

- The original form must be sent to the California Department of Insurance (CDI).
- Every surplus line broker whose annual tax liability for the preceding calendar year was \$20,000 or more shall make monthly installment payments on business transacted each month.
- Brokers whose tax liability is more than \$20,000 are required to participate in the Electronic Funds Transfer (EFT) program. To register as an EFT taxpayer, contact CDI's EFT unit at (916) 492-3288.

Monthly vouchers and annual tax forms are available through the SLA website at www.slacal.com or through the CDI website at www.insurance.ca.gov.

Other Resources

Key Bulletins to Note and Bookmark

(Bulletins can be found at www.slacal.com)

- Bulletin 997:** Premium Tax on Broker Fee/Policy Fees
- Bulletin 1123:** Independent Procurement and Courtesy Filings
- Bulletin 1141:** Short-Term Extensions and Stamping Fee
- Bulletin 1278:** Update on Nonadmitted Carrier Eligibility
- Bulletin 1429:** Stamping Fee Lowered Effective Jan. 1, 2023

Key California Insurance Code Sections

- Section 1763:** Conditions to Placement
- Section 1764.1(2)(c):** Industrial Insured
- Section 1775.5:** Premium Tax Allocation

Important Websites

The Surplus Line Association of California
www.slacal.com

California Department of Insurance
www.insurance.ca.gov

National Association of Insurance Commissioners (NAIC)
www.naic.org



Mission Statement

Our mission is to ensure that a responsive and lawful surplus line insurance market is maintained in California. Our measures of success in this respect are that the consumer is protected, the needs of the regulators are well-served, and unlawful activities are curtailed. Through a professional and committed organization, utilizing state-of-the-art

technology and a challenging work environment, we respond to the needs of the California consumer, our membership, and appropriate public agencies. We provide education, processing, evaluation and dissemination of surplus line data and information to help ensure the financial integrity and stability of the nonadmitted market.