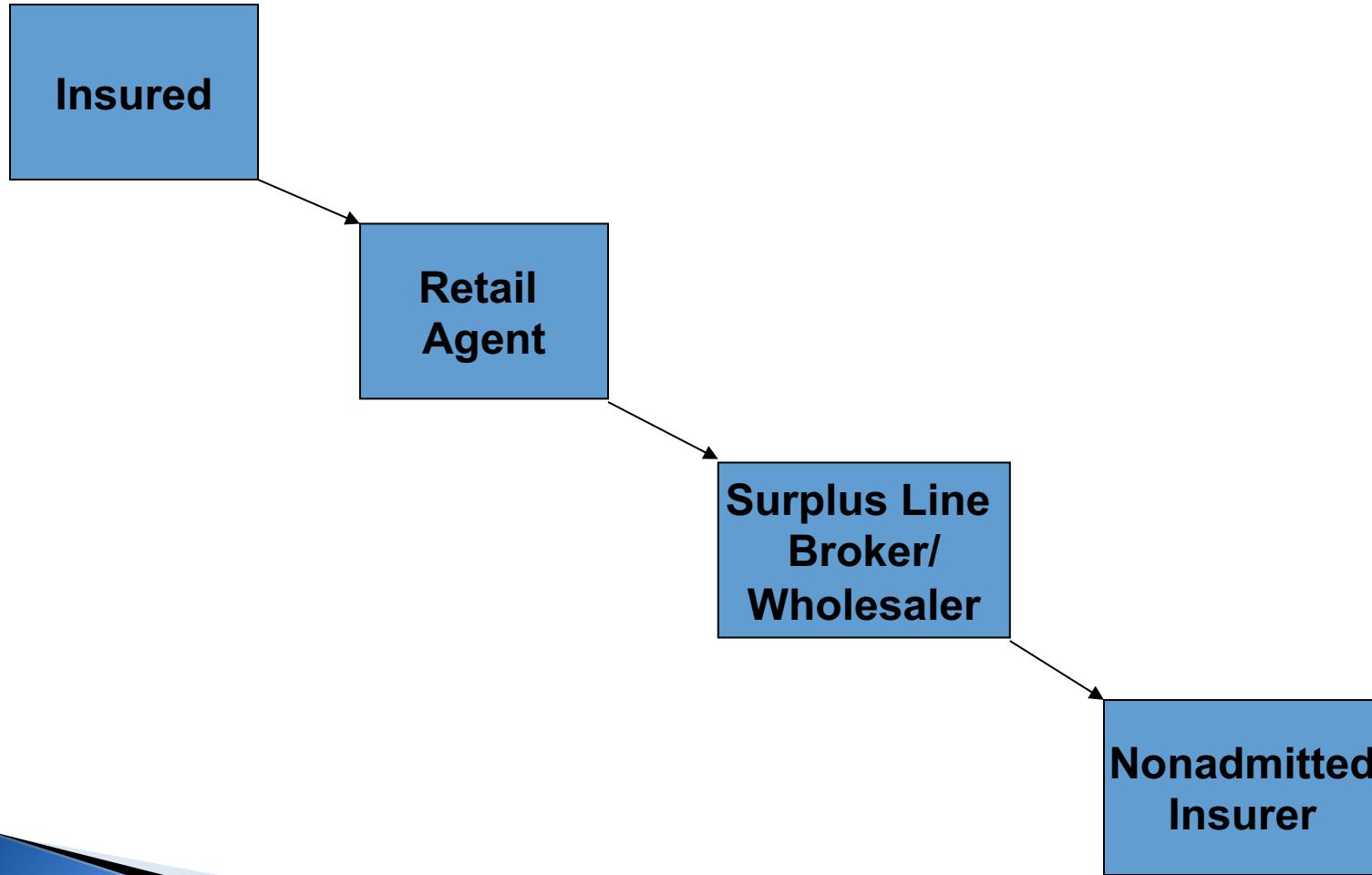




# **Building the Relationship Between the Wholesaler and Retailer**

# Flow of Business from Insured to Nonadmitted Insurer

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# **Benefits They Bring To Each Other**

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- ▶ **Benefits to Retailers**
  - Access to a wide range of markets
  - Source for financially sound insurers
  - Ability to place distressed, unique, or high-capacity risks
  - Knowledgeable in high risk admitted lines/products
  - Provides expertise in specialty and traditional risks
  
- ▶ **Benefits to Surplus Line Brokers/Wholesalers**
  - Access to a wide range of customers
  - Brings business to the non-admitted market
  - Assists with adherence to surplus line regulations
  - Depends on retailers to provide detailed information about clients

# **Regulatory Requirements**

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- ▶ Surplus line brokers are regulated under Chapter 6 of the California Insurance Code:  
[California Insurance Code Division 1, Part 2, Chapter 6](#)
- ▶ Before coverage can be placed with a non-admitted insurer, a diligent search must be performed.
- ▶ The Diligent Search Report (SL-2 form) is an affidavit attesting to the fact that a diligent search of the admitted market was performed and, at minimum, three admitted carriers who are authorized to write the risk declined the risk.

# **Delegation of Responsibilities**

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- ▶ **Responsibilities of Retailer**
  - The person signing the SL-2 form must have performed the diligent search or supervised the unlicensed person who conducted the search.
  - If the retailer performed the search, the retailer should sign the form confirming the accuracy of the content.
- ▶ **Responsibilities of Wholesaler**
  - Under the Code, surplus line brokers are ultimately responsible for the accuracy of all forms they submit to the SLA, including those submitted to them by the retail producer.
  - Therefore, it is crucial that the forms are completed accurately and in a timely manner. Retail producers and surplus line brokers must work together to ensure that regulatory requirements are met.

# Consequences of Missing/Inaccurate Information

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- ▶ If the forms are incomplete, missing, or inaccurate:
  - Surplus line brokers will be tagged, or notified of the violation, and allowed a specified number of days to correct the problem.
  - The Investigation Division of the California Department of Insurance, will be notified if an adequate response is not received in a specified time period from the Surplus line broker.
  - The following three slides provide some helpful hints on how to correctly complete sections 6 and 7 of the SL-2 form.

# SL2 Section 6- Description of Diligent Search Effort

6. (A) **Describe the diligent efforts made to place this coverage with admitted insurers and describe how the search was performed (please add additional pages if necessary):**

**Description of the Diligent Search Efforts**

**(e.g., phone calls, checked websites, or underwriting guidelines**

(SL-2 (Revised 06/2004)

- (B) If search was performed by someone other than the person named on line 1, please provide full name of that individual:

- ▶ Section 6(A): Enter a description of what diligent efforts were made to place this coverage with admitted insurers and how you tried to place this risk with admitted insurers.
  - This question must be answered and cannot be deferred to another question on the form.
  - A search must be performed for all new and renewal policies (even if the insured wants to remain with the surplus line insurer).
- ▶ Section 6(B): If the diligent search was performed by someone other than the person named on Line 1, enter the first and last name of that person.

\***Captive agents** can still perform the diligent search by researching through the internet, discussing the market with wholesalers and other agents, or years of knowledge from industry experience. In our experience, the captive agent would skip section 7(B) because they did not submit an application to three admitted insurers and complete section 8(A) and 8(B) or 8(A) and 8(C).

# SL2 Section 7- Submission to Three Admitted Insurers

7. (A) Was the risk described in Section 2 submitted by you or by someone under your supervision to at least (3) insurers that are admitted in California <b>and</b> who actually write the type of insurance described on lines 2(C) and 2(E)? <b>(CHECK ONE)</b> YES <input type="checkbox"/> NO <input type="checkbox"/>				
(B) If YES, please complete ALL sections of the following table; if NO, skip to Section 8.				
Full Name of Admitted Company	First & Last Name of Company Representative AND Telephone Number	Check if Employee (E) or Agent (A)	Month, Year of Declination	Declination Code*
1. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	
2. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	
3. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	
<small>*Declination Codes: 1 - Company's capacity reached    2-underwriting reason    3-refused to state    4-other</small>				

- ▶ If you checked the YES  on 7(A), proceed to 7(B).
  - If you checked the NO , skip to 8(A).
- ▶ Enter the full name of the admitted company or NAIC number in the first block so the SLA can identify the exact admitted insurer contacted.
  - The admitted insurer must be authorized in California for the type of risk being placed.
  - An insurer listed on the AM Best Guide does not automatically mean it is an admitted insurer in California for that coverage.
  - You may enter a group name or NAIC number. But you cannot use multiple companies under the same group NAIC number nor list the group number more than once.
- ▶ Enter the first and last name of the company representative and their phone number, or the insurer's website address in the second block.
  - The company representative's email address is not acceptable in this section.

# SL 2 Section 7- Submission to Three Admitted Insurers

7. (A) Was the risk described in Section 2 submitted by you or by someone under your supervision to at least (3) insurers that are admitted in California <b>and</b> who actually write the type of insurance described on lines 2(C) and 2(E)? <b>(CHECK ONE)</b> <b>YES</b> <input type="checkbox"/> <b>NO</b> <input type="checkbox"/>				
(B) If <b>YES</b> , please complete <b>ALL</b> sections of the following table; if <b>NO</b> , skip to Section 8:				
Full Name of Admitted Company	First & Last Name of Company Representative AND Telephone Number	Check if Employee (E) or Agent (A)	Month, Year of Declination	Declination Code*
1. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	
2. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	
3. - Full Name - Full NAIC # - Partial Name with matching NAIC #	First and Last Name ( ) Full Telephone Number or "Online Declination" Website Full Website Address	E <input type="checkbox"/> A <input type="checkbox"/>	/	

\*Declination Codes: 1 - Company's capacity reached    2-underwriting reason    3-refused to state    4-other

- ▶ If you entered the name of the company representative on the second block, check if the representative is an Employee (E) or Agent (A) in the third block.
  - A declination through the insurer's website is considered an 'Employee.'
  - A declination from a third-party broker is an 'Agent.'
- ▶ Enter the month/year of declination in the fourth block.
  - A current search should be performed within one year prior to the policy effective date.
- ▶ Enter one of four declination codes on the fifth block.
  - 1-Company capacity reached, 2-Underwriting reason, 3-Refused to state, 4-Other