



# SLA Quarterly

The Surplus Line Association of California  
388 Market Street, 11th Floor  
San Francisco, CA 94111

## October 1999

### What's Inside?

Report of the Chair	1
SLA Strategic Plan Summary	1
Report of the Director of the Stamping Office	2
SLA Employee Profile	4
California Legislation	5
Surplus Line Batch File Processing	6
1999 3rd Quarter Processing Report	7-8

## Report of the Chair

Katheryn A. Nelson

The Surplus Line Association has been busy for the past several months recording more premium data than in previous years due to an obvious upswing in the surplus line market. I think you'll agree that the third quarter figures are evidence of a robust California surplus lines market.

On the regulatory front, the SLA is working with the Department of Insurance on record keep-

ing regulations in preparation for a future data processing system that will allow surplus line brokers to file their forms electronically with the SLA. We have urged modifications to the regulations that permit electronic signatures and other caveats that would remove barriers to filing electronically in an efficient manner but still allowing for a thorough analysis of regulatory compliance and record keeping.

The Department of Insurance has released a notice of proposed broker fee regulations applicable to personal automobile insurance, homeowners insurance and other personal lines (CA Code Sec. 660 and 675).

The proposed regulations define "broker fee" and would establish preconditions for charging a broker fee by requiring a signed disclosure statement (a written broker fee

agreement) and deeming certain practices as unfair or deceptive.

Finally, the SLA, in cooperation with the Department of Insurance, was successful in sponsoring legislation (AB 478) that distin-



guishes surplus line broker certificates from ACORD certificates. This new law will exempt surplus line broker certificates from the requirements applicable to a certificate of insurance or verification of insurance. Unlike surplus line broker certificates, the ACORD certificates require specified statements relating to the fact the certificate or verification is not an insurance policy, and does not amend, extend, or alter the coverage afforded by the policies listed in the certificate or verification. The bill also clarifies that the D-1 and D-2 disclosure requirements apply to surplus line broker certificates, as defined, rather than ACORD certificates.

*Continued on next page*

## SLA Strategic Plan Summary

Theodore M. Pierce, Executive Director



The Surplus Line Association of California has developed a three-year strategic plan to provide the association with a strong, clear focus for the future. The strategic plan establishes the future direction of the Association as a private nonprofit trade association while staying within the confines of the Plan of Operation which directs the Association's duties to the California Department of Insurance.

The strategic plan establishes what the SLA can accomplish for key constituencies and the industry and provides an analysis of the environment in which the organization must operate in the future.

Much of the success of this planning process is due to the hard work and dedication of the Ad Hoc Committee on Strategic

*Continued on next page*

# Report of the Director of the Stamping Office

Deanna M. Zaroni



We have received our third quarter results: The total premiums for the first nine months of 1999 are \$1,217,891,210 which is up 31.75% over last year.

Twenty percent is due to the decrease in our backlog and the remainder is due to increase in volume of work.

The item count for the first nine months of 1999 is also up – 184,958 premium items were processed, which is an increase of 21.13% over last year. The total number of employees in the Data Processing Department is 18.

I would like to give recognition to two of our employees in the Data Processing Department – Ute Kilian and Sicilia Tan for coming up with the suggestion and writing instructions on recording macros for security lists with fifteen or more companies. This system has been implemented and is a great time saver. Thank

you again for your hard work.

Mark your calendars for our Annual Meetings – January 18, 2000 in San Francisco at the Fairmont Hotel and January 20, 2000 in Los Angeles at the Marriott Downtown. Hope to see many of you there. ♦

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*Report of the Chair  
Continued from Page 1*

## *SLA Strategic Plan Continued from Page 1*

Planning chaired by Stacey Beougher of IIW Insurance Services of California. The Plan consists of seven target areas described as follows:



### **Target 1**

Be recognized as the definitive voice of the California surplus line industry.



### **Target 2**

Promote and support the professional development of surplus line brokerages.



### **Target 3**

Enhance the image of the surplus line industry with legislators, regulators, retailers and policyholders.



### **Target 4**

Clarify the role and impact of the SLA as the representative of the surplus line industry in California.



### **Target 5**

Maintain and enhance the SLA's position as the definitive source of information on the surplus line industry.



### **Target 6**

Establish an environment which cultivates member involvement and contribution.



### **Target 7**

Ensure adequate resources exist to achieve organizational goals and priorities.

For a copy of the strategic planning document, please call Ted Pierce at (415) 434-4900, extension 132. ♦

This law also requires every nonadmitted insurer to provide a list of all California surplus line brokers authorized by the insurer to issue policies on its behalf in California, and any additions to or deletions from that list. ♦



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The Surplus Line Association

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## FRAUD REPORT



The Surplus Line Association recently testified at the trial of a former principal of a fraudulent Turks & Caicos Islands insurer, Winston Hill Assurance Co., Ltd. Mr. George L. J. Wilson was convicted of 18 counts of conspiracy, mail fraud and money laundering.

Through an underwriting office in Houston, TX, Winston Hill took in more than \$50 million in premiums between 1989 and 1992, including \$34 million written in Cali-

fornia alone. Federal prosecutors say Mr. Wilson skimmed 10 percent of the money his company took in as insurance premiums and laundered it through a bank in Houston and elsewhere. They are uncertain how much was skimmed but believe it was at least \$20 million. Mr. Wilson faces a 10 to 20-year prison sentence at his December 20 sentencing. ♦

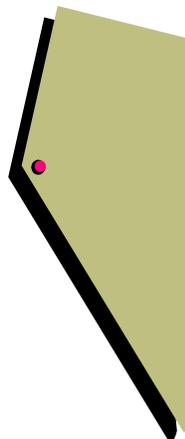
## List of Eligible Surplus Line Insurers (LESLI)

As of September 30, 1999, California had 302 non-admitted insurers approved on the List of Eligible Surplus Line Insurers (LESLI): 99 Foreign, 44 alien and 159 Lloyd's Syndicates.



*Note: The First Reinsurance Company of Hartford (a LESLI listed company) changed its name to Deerfield Insurance Company*

## Nevada Non-resident Surplus Lines Brokers License



Effective October 1, 1999, the state of Nevada will allow non-resident surplus lines brokers to be licensed in Nevada. To qualify for the license, the non-resident must hold a surplus lines broker license in their state of domicile. For information on the filing requirements, fees and forms, call the Nevada Surplus Lines Association at (775) 826-7898.

# Employee Profile

## Judith Flowers

Judith Flowers, Manager of the Data Processing Department, has an extensive career in the insurance industry. Her first interview after college landed Judith a position with the Equitable Life Assurance Society in Pittsburgh, Pennsylvania, where she quickly worked her way up the ranks. In 1980, during Equitable's transition from manual to on-line claims processing, Judith was selected as a member of the "Flying Squad". Traveling throughout the country, the Flying Squad processed claims in various Equitable offices, minimizing the backlog while the office staff was training on the new system.

Two years later, with the online system in place and the Flying Squad dismantled, Judith accepted a position as a claims adjuster in the Equitable office in Lafayette, California. With rumors of an imminent closing of the Lafayette office in the late 1980s, Judith decided to seek employment in a new environment.

In October of 1988, Judith joined the Surplus Line Association as an assistant supervisor of the Data Processing Department. Judith was promoted to supervisor in 1990 and manager in 1995. As the manager of the largest department in the Association with 18 employees, Judith juggles a multitude of responsibilities, from setting procedural guidelines to resolving human resource prob-

lems to speaking in filing seminars. Coming from a large family of four brothers and four sisters, responding to a variety of problems was not a difficult adjustment for Judith to make; Judith views the department as a family, individuals working together and caring about one another.

In her 11 years with the Association, Judith has watched and nurtured the growth of the Data Processing (D.P.) Department. With the implementation of stricter insurance regulations in the early 1990s, Judith developed procedures to accommodate the new regulations; the Data Analyst position evolved from a data entry processor to a position requiring analytical skills and computer savvy. In 1988, the D.P. Department did not possess a single personal computer (PC); in 1999, every employee of the Association has a PC with up-to-date software, and the capability to capture and record complex data.

Judith is excited about the current working relationship amongst the Association, the surplus line broker community and the California Dept. of Insurance (CDI). Judith has observed the development of these three separate entities into a working relationship, with the Association playing a more pro-active role as liaison between the surplus line community and the CDI; with more educational seminars being scheduled, Judith developed a

summary of filing procedures and speaks to the surplus line broker about proper filing requirements. Judith notes a major improvement in the public perception of the surplus line community in general.

When Judith originally settled out west, her intention was to stay five years and return home to Pittsburgh. After 16 years with husband James and raising two children, the West Coast has become Judith's permanent home. Upon entering her 12<sup>th</sup> year with the Association, Judith is very aware of the ever changing work environment; she is constantly exploring new ways to streamline procedures. Having aided in the transition period with the Equitable and upgrading the technology in the Association, Judith knows that the easiest transition into the new millennium is with efficient procedures to improve workflow. ♦





# California Legislation

## **Assembly Bill 413 (Brewer)**

### **Special Lines' Surplus Line Brokers**

Introduced on February 12, 1999 by Assemblywoman Marilyn C. Brewer (R-70).

*Status: October 25, 1999 Still pending in the Assembly Committee on Insurance and may be reconsidered next year.*

This bill permits special lines surplus line brokers to be referred to as "special lines brokers" in order to limit confusion between those producers that may place business with non-admitted insurers on the Commissioner's List of Eligible Surplus Line Insurers (LESLI), and those allowed to place special lines of insurance where the non-admitted insurer is not required to be on the LESLI.

## **Senate Bill 896 (Speier)**

### **Auditing Premium Tax Returns**

Introduced on February 25, 1999 by Senator Jackie Speier (D-8).

*Status: June 3, 1999, Failed to receive a two-thirds majority vote required for passage. Refused further consideration on the Senate floor, but may be reconsidered next year.*

Existing law imposes a tax upon the gross premiums of insurance and provides for the processing and auditing of tax returns by the DOI and for the issuing of deficiency assessments and the processing of petitions and refunds by the State Board of Equalization (SBE). This bill would transfer those tax return processing and auditing duties of the DOI to the SBE, and would appropriate an unspecified amount from the General Fund for the purpose of funding the SBE's performance of the transferred audit duties for the 1999-2000 fiscal year.

## **Assembly Bill 478 (Cox)**

### **Surplus Line Brokers Certificates**

Introduced on February 18, 1999 by Assemblyman Dave Cox (R-5).

*Status: Enacted. Chapter 255, Statutes of 1999. Becomes effective January 1, 2000.*

Provides a statutory distinction between certificates of insurance referred to in Insurance Code Section 384 and surplus line broker certificates referred to in Section 1764 and 1764.1 of the Code.

Existing law requires certificates evidencing the placement of insurance with an eligible non-admitted insurer to be in the name of the issuing surplus line broker and to contain specified provisions and disclosures. Existing law requires a certificate of

insurance or verification of insurance provided as evidence of insurance in lieu of an actual policy of insurance to contain specified statements relating to the fact the certificate or verification is not an insurance policy, and does not amend, extend, or alter the coverage afforded by the policies listed in the certificate or verification. This bill would exempt certificates evidencing the placement of insurance with an eligible non-admitted insurer from the latter requirements.

This bill will also require that every non-admitted insurer provide a list of all California surplus line brokers authorized by the insurer to issue policies on its behalf in California, and any additions to or deletions from that list.

## **Assembly Bill 1081 (Calderon)**

### **Pre-Answer Bonds**

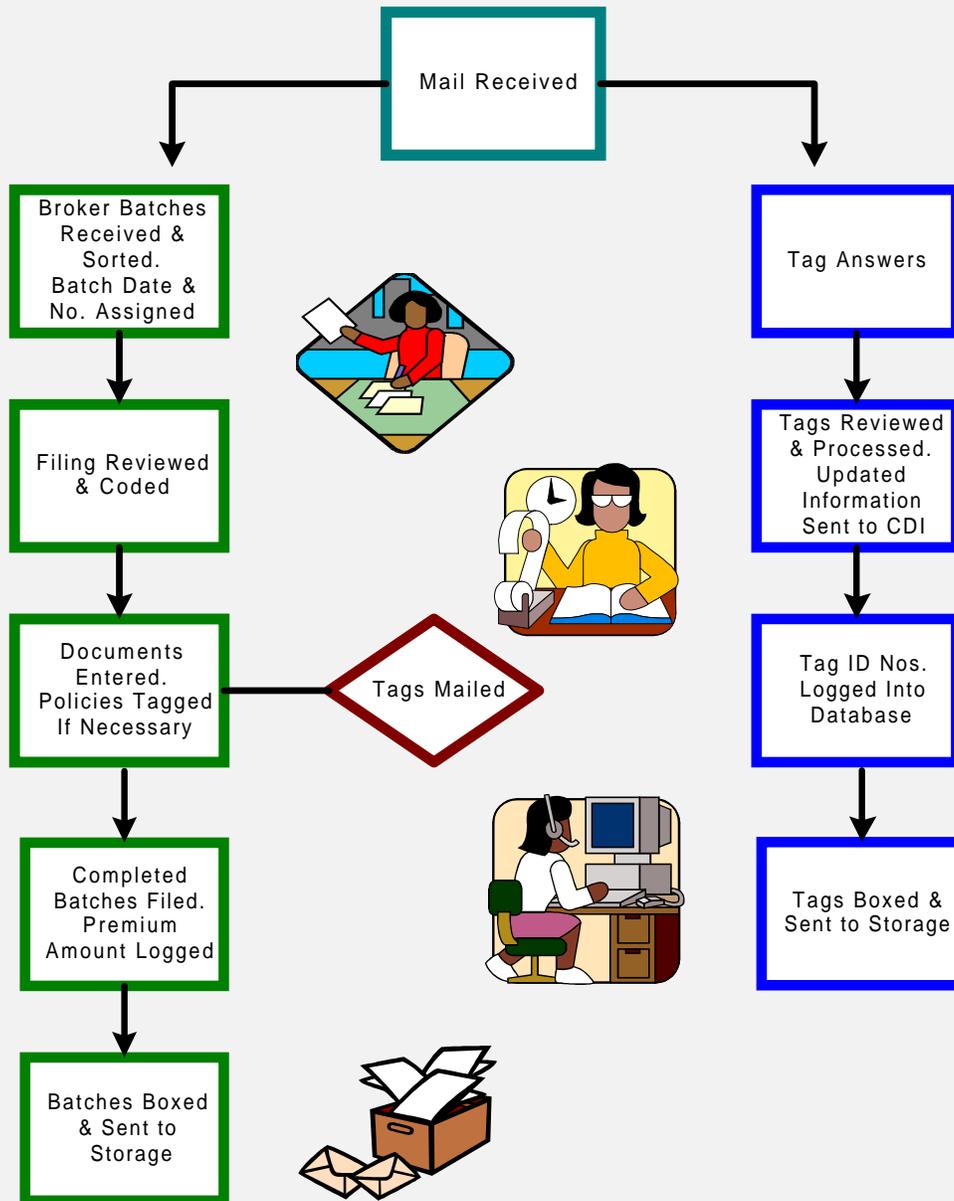
Introduced on February 25, 1999 by Assemblyman Thomas Calderon (D-58).

*Status: Enacted. Chapter 498, Statutes of 1999. Becomes effective January 1, 2000.*

Eliminates a sunset date on a statute governing exceptions to when a non-admitted insurer must post a pre-answer bond. ♦

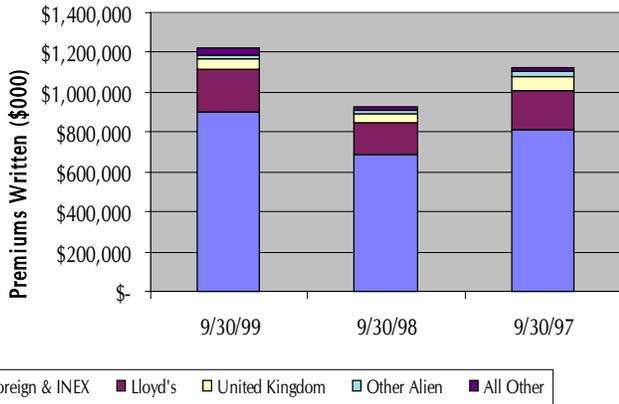
# Surplus Line Batch File Processing

This flowchart traces the path of a batch filing when it is received by the Surplus Line Association.

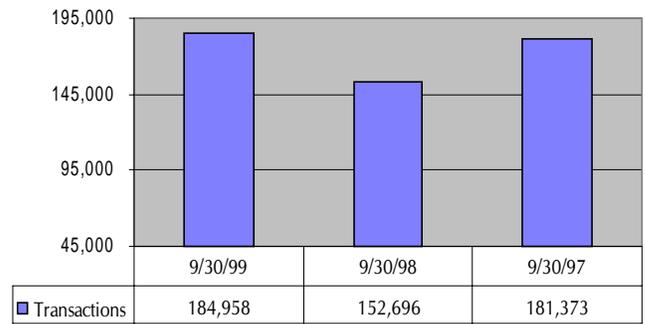


# Premium Volume and Transaction Count

## Premiums Written



## Transactions Processed



	9/30/99 (\$000)	9/30/98 (\$000)	9/30/97 (\$000)
Foreign & INEX	\$ 903,640	\$ 686,731	\$ 807,470
Lloyd's	\$ 210,796	\$ 156,803	\$ 203,050
United Kingdom	\$ 53,905	\$ 52,479	\$ 68,874
Other Alien	\$ 19,505	\$ 17,549	\$ 25,939
All Other	\$ 30,045	\$ 10,857	\$ 20,053
<b>TOTAL</b>	<b>\$ 1,217,891</b>	<b>\$ 924,419</b>	<b>\$ 1,125,386</b>

## Coverages

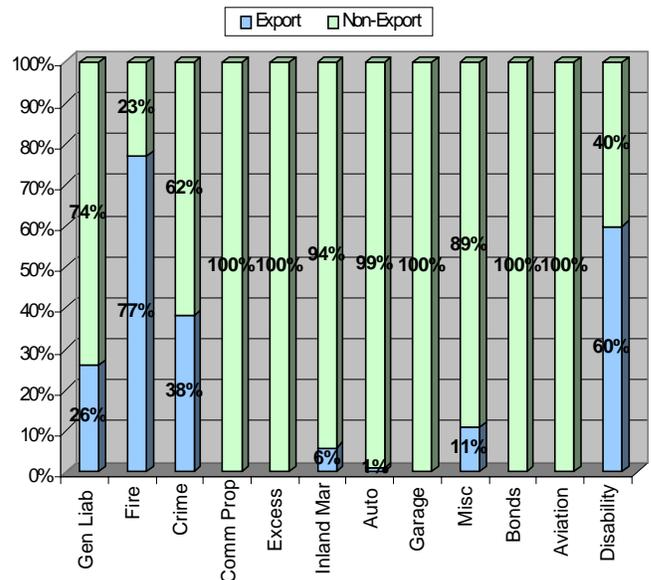
### Top Ten Export Coverages by Premium Volume January 1999 through September 1999

Fire-Commercial DIC/Stand Alone Earthquake	\$ 113,711,135
Gen Liab-Environmental Impairment Remediation	\$ 62,420,682
Gen Liab-Employment Practice Liability	\$ 48,479,061
Gen Liab-Contractors: New Tract Homes	\$ 39,867,556
Fire-Individual Insureds w/Large Schedules	\$ 33,632,291
Gen Liab-Excess Liability/Underlying Nonadmitted	\$ 17,535,531
Disability-High Limits Disability	\$ 8,546,338
Gen Liab-Products/Completed Operations	\$ 5,261,724
Gen Liab-Security Guard Services	\$ 4,634,303
Gen Liab-Clinical and Similar Tests	\$ 3,954,382

### Top Ten Coverages by Premium Volume January 1999 through September 1999

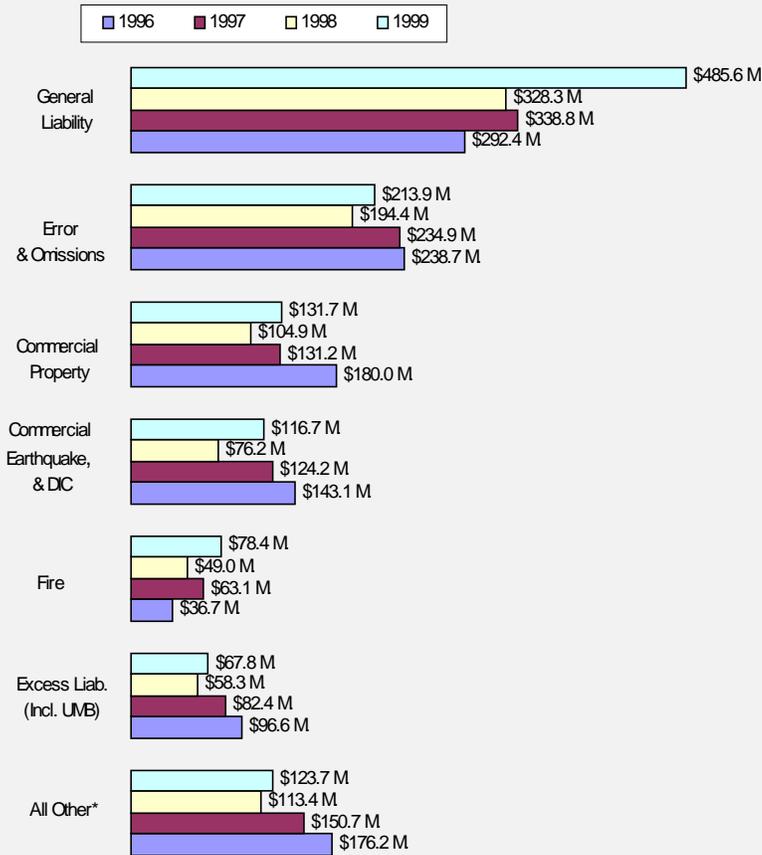
General Liability	\$ 285,770,078
Errors & Omissions-All Others	\$ 128,995,158
Fire-Commercial DIC/Stand Alone Earthquake	\$ 113,711,135
Errors & Omissions-Directors & Officers	\$ 84,918,551
Commercial Property-All Risk	\$ 69,159,532
Excess Liability (Including Umbrella)	\$ 67,849,297
Commercial Property-Special Multi-Peril	\$ 62,531,039
Gen Liab-Environmental Impairment Remediation	\$ 62,420,682
Gen Liab-Employment Practice Liability	\$ 48,479,061
Gen Liab-Contractors: New Tract Homes	\$ 38,867,556

### Percentage of Non-Export vs Export Coverage by Premium Volume for Jan. 1999 through Sept. 1999



# Comparison of Premiums Processed by Coverage

## Premiums Processed by Largest Coverages January through September 1996-1999



\*Includes inland marine, accident & disability, all auto coverage, excess workers compensation, and miscellaneous

Through the first nine months of 1999, all main insurance coverages showed increases in premiums processed by the SLA. One factor contributing to these increases was the reduction of the SLA's backlog, from six weeks all throughout 1998 to four weeks as of September 30, 1999. The other major factor is an obvious increase in premium volume. Among the main coverages, the sharpest increases were on fire (up almost 60% from the same period in 1998), commercial earthquake & DIC (up 53%), and general liability (up 8%).

## Top 25 California Surplus Line Writers

By Premium Processed  
January 1999 through September 1999

9/30/99 Ranking	Company	Premiums Processed	9/30/98 Ranking	9/30/99 Ranking	Company	Premiums Processed	9/30/98 Ranking
1	American Int'l. Spec.Lines Ins. Co.	\$ 141,902,852	2	14	Acceptance Insurance Co.	19,464,625	9
2	Lexington Ins. Co.	82,068,152	1	15	Clarendon American Ins. Co.	18,808,232	15
3	Scottsdale Ins. Co.	73,351,676	3	16	Essex Ins. Co.	17,713,593	21
4	Pacific Ins. Co. Ltd.	51,034,573	4	17	Zurich Specialties (London) Ltd.	16,474,639	20
5	General Star Indemnity Co.	44,663,682	5	18	Lloyd's Syndicate #435	16,269,789	16
6	Steadfast Ins. Co.	35,251,890	7	19	United National Ins. Co.	15,926,482	12
7	United Capitol Insurance Co.	32,502,416	10	20	Columbia Casualty Co.	15,518,097	22
8	Reliance Ins. Co. of Illinois	31,492,879	6	21	American Equity Ins. Co.	14,255,074	17
9	Admiral Insurance Co.	30,888,296	8	22	Tudor Insurance Company	13,756,285	19
10	Evanston Insurance Co.	23,178,195	11	23	Commonwealth Insurance Co.	13,083,813	30
11	Gulf Underwriters Ins. Co.	22,473,614	14	24	Caliber One Indemnity Ins. Co.	10,845,769	0
12	Legion Indemnity Ins. Co.	22,105,038	24	25	Lloyd's Syndicate #79	10,842,503	26
13	Royal Surplus Lines Ins. Co.	21,654,604	18		Sub-total	\$ 795,526,768	65.3%
					All other companies	422,364,446	34.7%
					Total	\$1,217,891,214	100.0%