

Report of the Chairman

The SLA is batting 1,000 in the California Legislature with all three items we supported in co-operation with the Department of Insurance (CDI) now signed into law by the Governor and due to take effect on January 1, 1999. We are better off with the passage of these bills for many reasons. To summarize these improvements, we now have improved language in the D-1 and D-2 (Disclosure Statement). Legislation, sponsored by CIWA, passed this year adding the following statement to these forms, "California maintains a list of eligible surplus line insurers approved by the insurance commissioner. Ask your agent or broker if the insurer is on that list". We also have a better

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Profile on John Voltz—

On first impression, Voltz, our senior financial examiner, can be described by one word: serious. In reviewing his past history with the company, this trait aptly characterizes his work performance.

In May 1993, John began his employment with the SLA as a financial examiner, updating statistics on security summary reports. After a month and a half, John was rewriting the text of the reports. He was hired as a permanent member of the staff in October 1993.

In 1996, John was promoted to senior financial examiner. In evaluating the solvency risk of LESLI insurers and applicants to the LESLI list, his focus centers on the more complex companies.



His work area provides a glimpse into another aspect of John. Alongside his work manuals and reference materials are a wide array of mechanical toys and Dilbert comic strips. This environment emphasizes his co-workers perception of John: thoughtful and creative.

John's creative side is expressed in his production of short films. Although he majored in biology and marketing and finance, John was involved in theatrical productions in college.

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Surplus Line Broker Filing Procedures Revised

The recent promulgation of Regulation 2190 (Production Agency Records) has altered and improved the filing procedures for the SLA Stamping Office. As of September 28, 1998, this regulation requires new record-keeping and document distribution requirements in surplus line transactions but represents a vast improvement in your filing re-

quirements with the SLA. Surplus line brokers are no longer required to supply the SLA with the original SL-1 (Confidential Report of Placement) or the SL-2 (Diligent Search Report). Photocopies or facsimile copies of these forms will be accepted. However, surplus line brokers are required to maintain the original, signed SL-1 for five (5) years after the expiration or cancellation of the policy. The agent, broker or surplus line

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SLA QUARTERLY

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The Surplus Line Association

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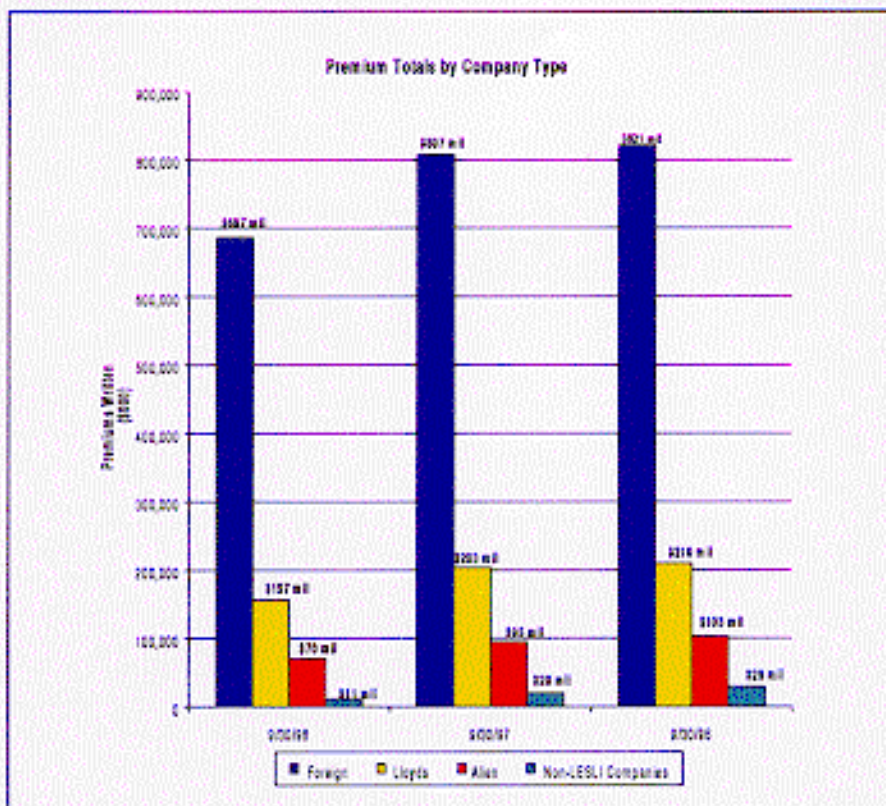
Report from the Director of the Stamping Office

We are presently going through a very busy period. We are undergoing a Tri-annual audit of our Plan of Operation for the California Department of Insurance. We are working on two large projects – one being the rewrite of our Brokers' Manual. We are in the final stages of revision and hope to have them out by year end. The second project is the rewrite of our computer system. We are working with Bob Parker of Fulcrum.

NAPSLO hosted it's Annual Convention at the Marriott San Francisco in September. We had some of the staff of various states Surplus Line Associations tour our facilities. In October, the Nevada Surplus Line Association will be paying us a visit.

The results for the 3rd Quarter 1998 continue to be down from last year. The total Premiums processed was \$924,418,597, down 17.86% for the year. The item count is proportionately down by 15.81%.

Premium processed by the SLA continued to decline (down 17.9%) through the third quarter of 1998 to \$924.4 million processed during the same period in 1997. Likewise, card count dropped (by 15.8%) to 152,696 from 181,373. Premium processed by company type as of September 30, 1998, 1997 and 1996 are shown below. ▲



LESLI UPDATE

As of September 30, 1998, there were 306 non-admitted companies on the California List of Eligible Surplus Line Insurers ("LESLI"): 99 foreign (US domicile) insurers, 46 alien (domiciled outside of US) insurers, and 161 Lloyd's syndicates. The following lists the 24 insurers added to, and the 12 insurers deleted, from the LESLI during the first nine months of 1998:

<u>ADDED INSURERS</u>	<u>DATE APPROVED</u>
Atlas Assurance Company Limited (U.K.)	5/28/98
AXA Reinsurance UK plc (U.K.)	4/24/98
Caliber One Indemnity Company (Delaware)	9/29/98
CIGNA Insurance Company of Europe S.A. - N.V. (Belgium)	8/14/98
Copenhagen Reinsurance Company Ltd., The (Denmark)	8/20/98
Dakota Specialty Insurance Company (North Dakota)	3/3/98
Everest Indemnity Insurance Company (Delaware)	8/14/98
First Reinsurance Co. of Hartford, The (Connecticut)	7/1/98
Gemini Insurance Company (Delaware)	2/23/98
INEX Insurance Exchange member: Kemper Environmental, Ltd. (Illinois)	9/29/98
INEX Insurance Exchange member: Kemper Underwriting Brokers, Inc. (Illinois)	9/29/98
International Insurance Co. of Hannover Ltd. (U.K.)	9/29/98
Lloyd's of London Syndicate # 507 (U.K.)	7/1/98
Lloyd's of London Syndicate #1210 (U.K.)	1/1/98
Lloyd's of London Syndicate #1236 (U.K.)	1/1/98
Lloyd's of London Syndicate #1239 (U.K.)	1/1/98
Lloyd's of London Syndicate #1243 (U.K.)	1/1/98
Lloyd's of London Syndicate #1308 (U.K.)	1/1/98
Lloyd's of London Syndicate #1411 (U.K.)	1/1/98
Lloyd's of London Syndicate #1999 (U.K.)	1/1/98
Lloyd's of London Syndicate #2021 (U.K.)	1/1/98
Lloyd's of London Syndicate #2323 (U.K.)	1/1/98
Transnational Insurance Company (Connecticut)	4/20/98
X.L. Europe Insurance (Ireland)	1/9/98

<u>DELETED INSURERS</u>	<u>DATE DELETED</u>
Assurances Generales de France IART (France)	4/1/98
Homestead Insurance Company (Pennsylvania)	2/9/98
Lloyd's of London Syndicate #123 (U.K.)	4/1/98
Lloyd's of London Syndicate #1323 (U.K.)	1/1/98
Lloyd's of London Syndicate #2176 (U.K.)	4/1/98
Lloyd's of London Syndicate #2658 (U.K.)	1/1/98
Lloyd's of London Syndicate #2659 (U.K.)	1/1/98
Lloyd's of London Syndicate #2734 (U.K.)	1/1/98
Lloyd's of London Syndicate #658 (U.K.)	1/1/98
Lloyd's of London Syndicate #734 (U.K.)	1/1/98
Lloyd's of London Syndicate #955 (U.K.)	4/1/98
Riunione Adriatica Di Sicurta (Italy)	2/20/98

definition of the advertising permitted by surplus line brokers, LESLI companies and non-LESLI companies. Finally, we have a definition of "surplus line broker" in statute and a better description of the exemptions that apply to the placement of special lines' insurance by special lines surplus line brokers. See the Report on *Legislation Enacted in 1998* for further details.

The SLA web site (www.sla-cal.org) is constantly being improved and now provides search capability. For those of you who like to surf the web, try searching the SLA web site, there's more there than meets the eye including over 1,500 pages of useful information.

The SLA has developed new and improved SL-1 (Report of Placement) and SL-2 (Diligent Search Report) diskettes which are in a second beta testing with 30 surplus line brokers. The diskettes allow brokers to complete the SL-1 and SL-2s from a stand-alone PC or a network PC. Once the beta testing is complete, the goal is to provide full distribution of the diskette to the SLA membership and eventually, full distribution to retail agents.

Finally, please keep January 12 and 13 on your calendars, those are the dates of the respective SLA Annual Meetings in San Francisco and Los Angeles.

William H. Newton



Report on Legislative Enactments in 1998

SB 678 (Leslie) Advertising by surplus line brokers and nonadmitted insurers

Status: Passed by the Senate and approved by the Assembly Insurance Committee on July 1, 1999, with a 3-year expiration clause. The bill was signed by the Governor on August 4, 1998 and will become effective on January 1, 1999.

This bill was originally introduced on February 25, 1997 by Senator Tim Leslie (R-Tahoe City). The bill will establish the requirements for "advertising" by surplus line brokers and both LESLI listed and non-LESLI listed nonadmitted carriers. The bill sets forth guidelines for surplus line broker advertising and explicitly allows limited advertising by LESLI and non-LESLI companies.

Specifically, this bill: Permits surplus line brokers to advertise and solicit in any advertising or marketing medium; these advertisements may include the name of specific nonadmitted insurers as well as the nonadmitted insurance products available, as long as: 1) the nonadmitted insurer is legally authorized to accept placements from the surplus line broker, 2) the nonadmitted insurer's name is not used in connection with any of its own nonadmitted insurance products, 3) the insurer's unlicensed status, and the nonadmitted status of the insurance prod-

ucts are disclosed in the ad in type no smaller than any telephone or fax number or address shown in the ad, 4) the ad does not contain any knowingly false or misleading information, and 5) the ad does not contain any information about rates. (New Ins. Code Sec. 1773).

Special lines' surplus line brokers are permitted to advertise and solicit business the same as surplus line brokers. (New Ins. Code Sec. 1760.5(h).) With respect to nonadmitted insurers that are members of groups of insurers, the bill allows surplus line brokers and special lines' surplus line brokers to use the name of the group in their advertising.

With respect to LESLI listed companies, the bill permits advertising if: 1) their unlicensed status is disclosed, 2) the ad is truthful, 3) the ad does not discuss premiums or rates, and 4) specific products are not mentioned in media of general circulation. (New Ins. Code Sec. 703.1.) The SLA understands that the prohibition against advertising specific products in "media of general circulation" means product lines may be advertised in insurance trade press as well as other trade, industry and special interest publications.

For nonadmitted insurers that are not on the LESLI list, advertising is permitted in any media except media targeted primarily at California insureds or prospective insureds, as long as they meet the

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On a Thursday in 1989, on a whim, John and a friend decided to create a film and submit it as an entry into the Cole Street Film Festival. Without any prior experience, the two friends completed the film, entitled Film 1271B, in twenty hours, barely beating the Saturday submission deadline. Six months later, this film was shown at a festival sponsored by the Film Arts Foundation, and subsequently, toured the world. Thus far, he has collaborated on the production of six film shorts.

John's motto is to be "serious about work, fun about life." This motto is reflected for a few hours on Halloween Day when John trades in his three-piece suit for a chance to be a cow (with full udder), or a mutant superhero with 17.5 inch claws.

John was married last October to his longtime companion, Cindy. The centerpiece of each table at their wedding reception was a cornucopia filled with miniature toys, to be divided amongst the guests after the festivities. The couple reside in San Francisco with their cat, Zoe.

John feels his job and hobby complement each other; as an examiner, he works within an organization while in creating film, he is the controlling force. In both areas, he looks for the complete picture, and how the parts relate to each other in their respective systems. It is this trait that makes him effective in his work. ▲

standards set out for LESLI listed companies and do not advertise any information about a specific product. (New Ins. Code Sec. 703.1(b).)

SB 237 (Johnson) Special lines' surplus line broker

Status: Signed into law by the Governor on August 24, this bill becomes effective on January 1, 1999.

This bill was introduced by Senator Ross Johnson (R-Irvine) and makes technical, conforming changes related to specified exemptions that apply to the placement of special lines' insurance by a special lines' surplus line broker which are consistent with AB 816 of 1997. The sponsors of this bill indicated that some inappropriate language regarding special lines' surplus line brokers inadvertently remained in laws which were intended to apply solely to surplus line insurers and brokers. The co-sponsors indicated that this bill contains solely technical cleanup amendments consistent with AB 816 (Brewer, 1997), which exempted special lines' surplus line brokers from using only the nonadmitted insurers on the LESLI when placing marine, aviation, spacecraft and other special line transportation risks.

The bill also adds a new section to the insurance code which states, the commissioner has the discretion to direct special lines' surplus line brokers to not place further business with an insurer whose eligibility has been with-

drawn from the LESLI.

AB 1975 (Brewer) Surplus line broker definition/section 1764.1 disclosure statement

Status: The bill was signed into law by the Governor on August 17 and will become effective on January 1, 1999.

This bill was introduced by Assemblywoman Marilyn C. Brewer (R-Newport Beach) and defines "surplus line broker" as a person licensed pursuant to the surplus line law. The bill also improves the mandatory disclosure statement (D-1 & D-2 Forms) to be provided to policyholders who are purchasing insurance from a nonadmitted insurer by adding the following language: "California maintains a list of eligible surplus line insurers approved by the insurance commissioner. Ask your agent or broker if the insurer is on that list." The new D-1 and D-2 forms are available on the SLA web site (www.sla-cal.org) or by calling the SLA at (415) 434-4900. ▲

VISIT OUR WEB SITE!

WWW.SLA.CAL.ORG



broker who signs the SL-2 must maintain the original and send copies to other agents, brokers or surplus line brokers involved in the transaction. The agent, broker, surplus line broker or special lines surplus line broker who receives the original D-1 (Disclosure Statement) from the insured must maintain the original for 5-years after expiration of the policy and send copies to all other, brokers or surplus line brokers involved in the transaction. Please be advised, the SLA should no longer receive the original SL-1 or SL-2 forms.

On another front, the term "copy" as defined in the regulation has been expanded to permit the SLA to facilitate electronic filing of SL-1 and SL-2's when the association becomes technically able to do so. ▲

The Export List, which was adopted in December 16, 1996, contains those types of insurance for which the Commissioner has determined there is not a reasonable or adequate market among admitted insurers. Types of insurance on the Export List may be placed with eligible surplus line insurers without a need for a Diligent Search Report (SL-2), although surplus line brokers must continue to file a Confidential Report of Placement (SL-1).

As required by law the Commissioner holds a public hearing annually to give interested parties an opportunity to provide the California Department of Insurance (CDI) with their input, comments and testimony regarding which types of insurance should remain on, be added to, or be removed from the Export List. The next public hearing was scheduled for October 23, 1998 at the California Department of Insurance Los Angeles Office. Anyone who is interested in attending the hearings or would like more information on the Export List should contact Roger Chaix at 714-722-4177.

The charts below compare the utilization of the Export List coverage codes vs. non-Export List coverage codes for the period of January 1, 1998 through September 30, 1998. Chart 1 compares the percentage of premiums filed; Chart 2 compares the transaction count. There were premiums and transactions filed under auto, crime, inland marine and miscellaneous coverage but they constituted less than 1% of the total policies filed. ▲

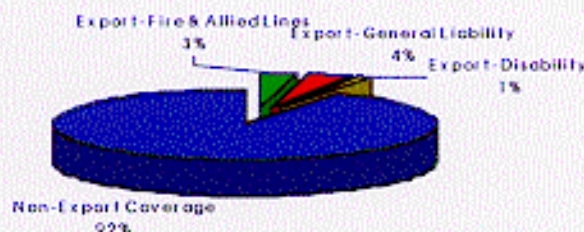
Export Premium: \$189,205,064.97

Non-Export Premium: \$735,213,538.45

Chart 1: Comparison of Premium Volume by Export vs Non-Export Coverage



Chart 2: Comparison of Transaction Count by Export vs Non-Export Coverage



Export Transaction Count: 13,606

Non-Export Transaction Count: 140,480

Listed below are the most common types of inquiries the SLA receives AND the person(s) qualified to help you with your questions and requests.

If you have a question regarding ... Please contact ...

Accounts Receivable	Cynthia Alvarez, Kerry McDaniel, Pat McAuley, Judy Flowers
Billings, Invoices, or Remittance Notices	Cynthia Alvarez, Kerry McDaniel, Pat McAuley, Judy Flowers
Broker Membership Inquiries	Nadine Watso, Judy Flowers, Deanna Zaroni, Renea Allen
Broker Filing Procedures/Requirements	Judy Flowers, Pat McAuley, Nadine Watso
Broker Policy or Batch Filings	Cynthia Alvarez, Kerry McDaniel, Pat McAuley, Judy Flowers or any member of the Data Processing staff
Compliance Examination, Audit	Nadine Watso, Deanna Zaroni
D1* and D2*	Judy Flowers, Pat McAuley, Nadine Watso
E-mail/ Electronic Communication	Mark Uyeda, David Koon
Export List	Judy Flowers, Pat McAuley, Nadine Watso, Deanna Zaroni
Fees (Broker, Policy or Inspection Fees)	Judy Flowers, Nadine Watso, Deanna Zaroni
Financial Document Filing Requirements (for Non-admitted Insurers)	Melissa Easley, Linda Cheng, John Voltz or any member of the Financial Department staff
GAP Filings	Kerry McDaniel, Pat McAuley, Judy Flowers
Legislation	Ted Pierce, Deanna Zaroni
List of Eligible Surplus Line Insurers (*LESLI*) Inquiries	Melissa Easley, Linda Cheng, John Voltz or any member of the Financial Department staff
Licensing	Nadine Watso, Deanna Zaroni
Non-Admitted Insurer Eligibility Requirements In California	Linda Cheng, John Voltz, or any member of the Financial Department staff
Publications: LESLI*, Membership & Directory*, Jon Greany, Michelle Alexandra Export List*, SLA Bulletins*, SLA Newsletters*	
SL1* and SL2*	Any member of the Data Processing staff
SLA Bulletin — Inquiries Regarding the content of the Bulletin	Ted Pierce, Deanna Zaroni, Nadine Watso, Linda Cheng, Judy Flowers
SLA Educational Seminars & Conferences	Nadine Watso, Stephanie Lymore
Stamping Fee	Any member of the Data Processing staff
Stamping Fee Discrepancies	Cynthia Alvarez, Kerry McDaniel, Judy Flowers
Tags — Priority	Renea Allen, Judy Flowers
Tags — Standard	Author of the Tag
Taxes	Deanna Zaroni, Nadine Watso
Web Site	Mark Uyeda