



January 26, 1995

BULLETIN #683

RE: "RENTING OF LICENSES" AND "THE RULE OF EXPORTABILITY"

Enclosed are copies of the above handouts made available at the Surplus Line Association of California Annual Meeting on January 17, 1995 in San Francisco. Unfortunately, they were not available to those members who attended the Los Angeles Annual Meeting on January 18, 1995. Please circulate these handouts to those in your staff who may benefit from these important messages regarding license renting and rules of exportability. Thank you.

James S. Pugh

Manager

JSP/imb

Renting of Licenses

The illegal practice of "renting" licenses has brought increased attention to broker ethics. A broker rents his license when he relinquishes his responsibility to investigate the financial security and integrity of a non-admitted insurer and does not determine the exportability of the risk.

Renting a license by a surplus line broker typically involves a retail broker making an arrangement with a non-admitted carrier to handle various pieces of business. The retail broker does all the handling of the business up to and including preparation and mailing of the appropriate surplus line filings. The retailer then sends a check every month to the surplus line broker for the privilege of using the broker's license.

Sounds like a nice deal for the surplus line broker, but the real cost to the broker is a breach of his responsibilities under the law. The surplus line broker is duty bound to determine the financial capability of the non-admitted carrier used under his license and the exportability of each risk. If he doesn't perform these tasks, he is in violation of the requirements of the insurance code. The fact that the work done by the retail broker or agent may be perfect, does not excuse the surplus line broker's serious breach of ethics and the law. It must be emphasized that the vast majority of brokers do not engage in this practice. However, the conduct of a few is causing increased legislative pressure on the entire industry.

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THE SURPLUS LINE ASSOCIATION
OF CALIFORNIA