New Member Introduction
Welcome to

THE SURPLUS LINE ASSOCIATION OF CALIFORNIA

Benjamin J. McKay, Executive Director

Dear New Member:

Congratulations on earning your license as a surplus lines 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 lines 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 lines 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 lines 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 lines market.

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

Sincerely,

Benjamin J. McKay, J.D., M.P.A.
Executive Director
Surplus Line Association of California
SENIOR STAFF

Benjamin J. McKay, JD, MPA
Executive Director

Ben McKay joined the SLA in 2012 after a career in both the private and public sector. Previously, Ben spent eight years with the Property Casualty Insurers Association of America (PCI) as Senior Vice President for Federal Government Relations. In that role, Ben was named one of Washington, D.C.’s top lobbyists five times by The Hill, one of the city’s leading political newspapers. Prior to his time at PCI, Ben served as Chief of Staff to a member of the United States Congress in Washington, D.C., and worked on financial services and international relations issues. Other career highlights include eight years as staff to members of the Florida legislature, where he worked on insurance, economic development, banking, criminal justice and other important issues. He then worked as a regulator at the Florida Department of State, where he served as Deputy Secretary for International and Legislative Affairs and later as the youngest Chief of Staff in the history of the 750-employee department. Ben received his Juris Doctor from Catholic University, his Master in Public Administration from Harvard University, and his Bachelor of Science from Florida State University.

Joy Erven, MBA
COO and Director

As Chief Operating Officer and Director, Joy is responsible for overseeing accounting, purchasing, banking and financial investments. Joy prepares and presents the annual budget and quarterly financial statements, and she interfaces with auditors for the annual financial audit. She also leads the SLA’s stamping office function, which oversees broker compliance with state laws and regulations.

Michael Caturegli
Senior Vice President, Data Analysis and Technology

As Senior Vice President, Data Analysis and Technology, Michael leads two departments. The Data Analysis Department is responsible for managing the processing, recording and storing required for all filings under California Insurance Code (CIC) section 1780.56(a)(1), and overseeing the invoicing and collecting of stamping fees from brokers for document processing in accordance with CIC section 1780.56(b). The Technology Department is responsible for all computing technology, office equipment, and telecommunications at the Surplus Line Association of California, and also for ensuring that all internal employees and SLA members have the automated tools they need to access information and comply with all applicable laws and regulations. Additionally, the Technology Department supports its end-users and continually keeps up with industry trends relating to technology and automation in the marketplace.

Pat McAuley, CPCU, AIM, AIS, ASLI, AINS
Senior Vice President, Education and Compliance

As Senior Vice President, Education and Compliance, Pat provides guidance, education and support to the association’s membership and affiliates in their understanding of California’s surplus line laws. Her department develops and provides Continuing Education (CE) courses throughout the state, and she works closely with the California Department of Insurance (CDI).

Susan Bryant, MBA
Senior Vice President, Financial Analysis

As Senior Vice President, Financial Analysis, Susan coordinates SLA participation in the security review program for the insurance commissioner’s List of Approved Surplus Line Insurers (LASLI). Susan represents the SLA at periodic meetings with the California Department of Insurance (CDI) and provides input on SLA compliance with the CDI Plan of Operation.

Cliston Brown
Vice President, Communications and Government Relations

As Vice President, Communications and Government Relations, Cliston is responsible for ensuring SLA members receive timely, high-quality communications about SLA and news affecting surplus lines brokers doing business in California. He serves as editor-in-chief of the SLA’s newsletter, SLA Connection, publishes news alerts to members and manages the SLA’s social media presence. He also spearheads the SLA’s communications efforts with legislators and regulators at the state and federal level.
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 here for you anytime you have a question about filing procedures, tags, NRRA, SLIP, bulletins, premium tax or the California Insurance Code in general.

If you have a specific issue with premium tax owed, we help you work with the Premium Tax Audit Bureau to answer compliance questions.

We are always available if you need a special report on any aspect of the surplus lines 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: Michael Caturegli, Senior Vice President, Data Analysis and Technology
(415) 434-4900, extension 1164

Education & Compliance Department

When you need to know ...

When you are new to filing responsibilities and procedures ...

When you need to satisfy a continuing education requirement ...

When you want to build your expertise ...

The SLA Education and Compliance Department is your trusted, comprehensive source of industry knowledge and an important first stop for new brokers.

We offer instruction in filing and filing procedures - via monthly webinars, one-on-one by web or phone, and in person at your office for you and/or your staff.

Whether it is a webinar, a seminar, training in your office or just a walk-through over the phone, the SLA Education and Compliance Department is your learning partner in all things surplus lines. If you want to convert to SLIP for filing, we can get you started or give your new employees a walk-through.

We help you stay current on legislative and regulatory issues. Our continuing education seminars are held at northern and southern California locations on topics such as the required ethics class, risk management programs, specialty claims and the impact of new legislation on underwriting. All seminars are free of charge and approved by the California Department of Insurance for California property and casualty broker-agents continuing education credits.

We are an indispensable partner at tax time, helping you with questions and reports about filings. We are also here to lend a hand if you have licensing needs. The SLA’s Education and Compliance Department helps members improve their understanding and interpretation of California surplus lines laws and regulations. Our job is to help you work smarter, because a smarter industry is a stronger industry.

Contact: Pat McAuley, Senior Vice President, Education and Compliance
(415) 434-4900, extension 1111
pmcauley@slacal.org
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 lines 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: Susan Bryant, Senior Vice President, Financial Analysis
(415) 434-4900, extension 1121
sbryant@slacal.org

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: Michael Caturegli, Senior Vice President, Data Analysis and Technology
(415) 434-4900, extension 1164
Filing Procedures Training and SLA 101

For members who need training on filing procedures, the SLA’s Education and Compliance Department offers online training sessions the third Thursday of each month. To participate in a session, please contact the Education and Compliance Department at (415) 434-4900, or via e-mail at education@slacal.org.

Additionally, the SLA 101 course explains how surplus lines insurance came to exist and why; how the surplus lines marketplace differs from the admitted marketplace; the basic terminology of the industry; types of risks insured and coverages offered; business flow; roles of retail agents, wholesalers and surplus lines insurers; types of filings; and the types of services the SLA offers its members. The course also details the role that the SLA plays as a bridge between the surplus lines community, consumers, regulators and legislators.

The short SLA 101 course (less than one hour) can be taken in person, either by visiting the SLA, arranging for the SLA come to you, or via telephone or web. To sign up, contact SLA COO and Director Joy Erven at (415) 434-4900, extension 1105, or at jerven@slacal.org.

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.org.

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 lines 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.

The SLA Connection newsletter, published three times a year, covers in-depth topics, such as how filers can avoid tags, market trends, key legislative news, Board of Directors issues, and listings of upcoming seminars and meetings. Bulletins and the newsletter can be accessed at the SLA website, www.slacal.com, under publications.

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.
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 lines. 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 lines, 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 (NRRA) 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.

The SLA website, www.slacal.com, provides more information on the surplus line laws of California and the NRRA.
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 Lines Insurance Portal (SLIP), which can be accessed at https://slip.slacal.org. 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, Senior Vice President, Data Analysis and Technology, at (415) 434-4900, extension 1164, or mcaturegli@slacal.org.

**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 (NRRA), 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.org; 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 (NRRA) 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.”
**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:

<table>
<thead>
<tr>
<th>Syndicate</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>#382</td>
<td>25.00%</td>
</tr>
<tr>
<td>#566</td>
<td>35.00%</td>
</tr>
<tr>
<td>#1225</td>
<td>40.00%</td>
</tr>
</tbody>
</table>

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).

**Multistate**

For policies that have risks in more than one state, the Nonadmitted and Reinsurance Reform Act (NRRA) 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.

**Why Tags Matter**

Tags are issued for any part of a filing that is not compliant with California surplus lines 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.
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, as of the publication of this manual, it is 0.2 percent of premium. 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. **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.org 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

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

- 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.