



Newsletter

The Surplus Line Association of California

October 1997

Report from the Chairman

I am very pleased to report that your Association is running very smoothly under our Stamping Office Director Deanna Zanoni, the departmental managers, and the excellent back-up staff.

The search committee for a new executive director, chaired by Dave Anderson, is hard at work. A number of candidates already have their resumes in and professional advertisements have been placed in the appropriate periodicals. Should you know of any suitable candidates, please contact Dave and give him the relevant information. It is the Executive Committee's goal to have a new executive director on board by January 1, 1998.

A number of our members have complained to me about the "compliance examinations." Specifically, the issues have centered around the following:

Not giving the surplus line broker enough notice that D.O.I. personnel will be visiting their office.

D.O.I. personnel taking too much time for apparently menial functions.

Excessive fees being charged for examinations.

Your Executive Committee has been working hard with D.O.I. staff, as has our legal counsel, LeBoeuf, Lamb, Greene & MacRae. In addition, I have personally met with David Knowles, the recently appointed Chief Deputy of the D.O.I., and his comments regarding these examinations appear separately in this newsletter.

In some cases, fees have been reduced substantially, and I am pleased to report that the number of complaints has fallen dramatically. However, if you feel that you are being unfairly treated by the D.O.I., please do not hesitate to contact me. I will be happy to take up the issues with D.O.I. personnel, if appropriate.

Regarding the D.O.I., I feel that your Association's rapport with this administration is as good as it has ever been, and I think it most important that we all work hard to keep it this way.

The task force meetings started by Jerry Sullivan and Hank Haldeman continue on a regular basis and constructive dialogue takes place with department heads. Again, if there are any specific issues that you feel need to be raised, kindly contact me. In addition to these meetings, the "Agents and Brokers Advisory Committee" meets on a quarterly basis. I am privileged to sit on this committee and you may rest assured that you are also very ably represented by Jack McGraw (committee chairman), Jerry Sullivan, and Dave Anderson.

I was flattered to be elected as your Chairman for 1997-98, and I also feel honored to be the first chairman to be elected from the great San Joaquin Valley! I would also like to thank your Vice-Chairman, Bill Newton, for his tremendous back up and support. My thanks are also due to Kathy Nelson, Stamping Office Chair, whose assistance has been invaluable.

Yours Sincerely,

Michael J. Hall
Chairman

Report from the Stamping Office Director

Mark your Calendar - November 5, 1997, there will be a hearing on the Export List in San Francisco. Please refer to our Bulletin No. 807 for the time and location of the hearing.

Mark your Calendar ...



1998 Annual Meeting

January 13, 1998
Park Hyatt Hotel
San Francisco

January 15, 1998
Beverly Hills Hotel
Beverly Hills

Western States Conf.

June 7-10, 1998
Wigwam Resort
Arizona

July 21-24, 1999
Sunriver Resort
Oregon

Our Annual meetings will be held this next January 13th in San Francisco at the Park Hyatt Hotel and January 15th in Beverly Hills at the Beverly Hills Hotel.

This coming year the Western States Conference is at the Wigwam Resort in Arizona. The dates are June 7 through June 10, 1998 to be followed by Oregon in 1999 at the Sunriver Resort. The dates are July 21 through July 24, 1999.

We have undergone some management staff changes this year. I am happy to report that things are running very smoothly. I have to give credit to my wonderful management team, David Koon, Manager of Data Services, Linda Cheng, Manager of Financial Dept., Judith Flowers, Manager of Data Processing, Nadine Watso, Manager of Education and Bill Kelly, Manager of Human Resources. Without their cooperation and help we would not be an effective team. I thank each of them for their devotion and support.

In closing, please join me in congratulating Linda LeSueur of Data Services on her new baby daughter, Tina Farrar of Data Processing on her new baby son and John Voltz of the Financial Department for his recent marriage.

Sincerely,

Deanna M. Zannoni
Director, Stamping Office

Report from the Manager of Data Services

As noted in many of the other sections of this newsletter, it has been a busy year for the Association. This translates into the participation on many SLA projects by the Data Services Unit (the SLA's Information Systems Department). Some of the projects in which the DSU participated were adding enhancements/ functionality to our insurance company database, modification of software to accommodate the recording of Lloyd's syndicates individually and modification of the database structure to record policies utilizing export codes.

The Association continues to hear positive feedback about its web site (<http://www.sla-cal.org>). The web site averages about 5,000 hits per month. As it is our policy to maintain the last three years of pertinent bulletins on the web site, it can be a good library resource for those bulletins that become lost or misplaced. The SLA is interested in hearing from its members regarding any ideas on how to make the web site more useful. These ideas can be e-mailed to our webmaster at mark.uyeda@internetmci.com.

- David Koon, Manager, Data Services

Report from the Manager of the Financial Department

To date, there are 290 nonadmitted insurers on the California List of Eligible Surplus Line Insurers ("LESLI") consisting of: 90 foreign (U.S. domiciled) insurers, 41 alien insurers, and 159 Lloyd's syndicates. From January 1, 1997 to the date of this publication, nine new nonadmitted insurers were approved to operate as eligible surplus line carriers in California and added to the LESLI. These insurers are:

Foreign:

Aetna Excess and Surplus Lines Company (CT)
 First Mercury Insurance Company (IL)
 Hermitage Insurance Company (NY)
 Mount Vernon Fire Insurance Company (PA)
 Philadelphia Insurance Company (PA)

Alien:

Lloyd's of London Syndicate #575
 Lloyd's of London Syndicate #1415
 Skandia Marine Insurance Co. (U.K.) Ltd.*
 WASA International (UK) Insurance Co. Ltd.

During the same period, the following nonadmitted insurers were deleted from the LESLI for various reasons (such as voluntarily withdrawal from California or becoming an admitted insurer in California):

Britamco Underwriters, Inc.
 Frontier Insurance Company
 Lloyd's of London Syndicate #386
 Lloyd's of London Syndicate #1175
 Skandia Marine Insurance Co. (U.K.) Ltd.*
 Transguard Insurance Company of America, Inc.

* Skandia Marine Insurance Co. (U.K.) Ltd. was added to the LESLI on January 9, 1997 and removed from the LESLI effective October 15, 1997, following its decision to voluntarily withdraw from the California market.

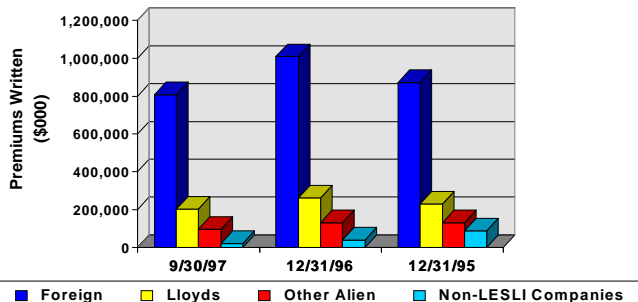
Although not shown in the latest LESLI published on October 17, 1997 (SLA Bulletin #808), please note that Zurich Re (UK) Limited changed its name to Zurich Reinsurance (London) Limited effective August 15, 1997. This new name will be reflected in the next LESLI publication.

The top five largest LESLI companies (excluding Underwriters at Lloyd's) by premium processed as of September 30, 1997:

1. American International Specialty Lines Insurance Co.
2. Lexington Insurance Company
3. Scottsdale Insurance Company
4. Pacific Insurance Company Ltd.
5. General Star Indemnity Company

Comparison of Premium Processed By the SLA

Premium Totals by Company Type



Company Type	9/30/97 \$ (000)	12/31/96 \$ (000)	12/31/95 \$ (000)
Foreign	807,470	1,009,137	871,052
Lloyd's	203,050	260,892	230,488
Other Alien	94,813	131,093	131,275
Non-LESLI Comp.*	20,053	39,588	87,521
TOTAL Processed	1,125,386	1,440,710	1,320,336

* Includes premiums filed for GAP placements, admitted insurers, and insurers who are not in compliance with current surplus line eligibility requirements of California

- Linda Cheng, Manager, Financial Department

Report from the Manager of Human Resources

People (SLA Employees)...

Marriages –

Joanie and Chad Harris
November 23, 1996, Concord, CA

Jimiann (*Janet Toy's* daughter) and Jeffrey Wong
August 23, 1997, San Francisco, CA

John and Cynthia Voltz
October 18, 1997, San Francisco, CA

Births –

Madie to *Linda* and Michael LeSueur
September 4, 1997, San Francisco, CA

Elias to *Tina* and Joseph Farrar
June 29, 1997, San Francisco, CA

In Memoriam –

Reo Dillard, October 10, 1997

Profiles...

Juli Hara

LAN Administrator, Data Services

When the system goes down, or the computer freezes, or a computer program produces gibberish, or another weekend is necessary to back up data or upgrade the system - who gets the call? You bet – most of the time it's Juli!

Not only does Juli bring technical know-how and capability to the job, but she also adds sparkle and a "can do" attitude toward everything she does. We count on it – when help is needed, call Juli!

Believe it or not, Juli does have other interests and activities. Besides the two most important "people" in her life - Jessie and Zack (her 3 and 5 year old Golden Retrievers), Juli loves music (opera) and the theater though she doesn't have much time to enjoy them. When she isn't running her dogs on the beach or in her San Francisco neighborhood, she bikes, runs, plays volleyball and tennis. It's a wonder she has time for anything else, but those of us who know Juli's energy and enthusiasm, only wonder what she will take on next. Good luck, Juli!!!

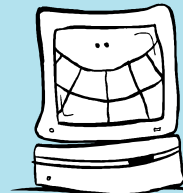
HR Notes...

On September 9, 1997, Governor Wilson vetoed Senate Bill (SB) 680, which provided for daily overtime for many California workers. SB 680 had been introduced in response to the decision by the California Industrial Welfare Commission (IWC) to amend certain California wage orders to eliminate daily overtime provisions. California currently is one of only four states that require employers to pay overtime for more than eight hours worked in a day.

The new IWC overtime provisions are scheduled to go into effect January 1, 1998. California employers are being advised to revise their employee handbooks before the new year to provide that overtime will be paid only for hours worked in excess of 40 in one week. Without such a revision, employers could be vulnerable to lawsuits for unpaid daily overtime based on the terms identified in their handbook.

(Excerpts reprinted from the California Employment Law Monitor, Littler, Mendelson, Fastiff, Tichy & Mathiason, Vol. 7, No. 14, September 29, 1997.)

- Bill Kelly, Manager, Human Resources



Have you checked out the SLA web site?

**On the SLA of California
web site, you'll find
information on...**

Filing Requirements

SLA Bulletins

Upcoming SLA Events

Up-to-Date LESLI List ... and more!

<http://www.sla-cal.org>

Report from the Manager of Data Processing

The Data Processing Department (D/P) handles the reviewing and recording of all policy files submitted by surplus line brokers. There have been new laws and regulations passed, and changes in procedures that have significantly impacted the workflow of the D/P Dept., creating a backlog. Two examples are: the classification of every insured that utilizes the surplus line market with the Standard Industrial Classification (SIC) codes and the implementation of SB1906 (which involves the tracking of the Lloyd's syndicates).

The SIC coding went into effect on 1/1/96 and involves identifying every risk or establishment by the type of activity they are primarily engaged in. This became a time consuming process for the D/P Dept.; some insureds require additional research, such as referring to reference materials, contacting the broker and/or the businesses themselves, in order to determine the type of entity it is.

Currently, most of the brokers have been cooperative in providing more detailed descriptions of risks on the SL forms, which in most cases, allows us to more easily identify the SIC code.

Effective 1/1/97, with the implementation of SB1906 (which involves the tracking of Lloyd's syndicates), a surplus line broker can only place business with syndicates at Lloyd's if the specific syndicates are on the List of Eligible Surplus Line Insurers (LESLI) list. This new requirement had a dramatic impact on the processing of policy filings as this involved entering all the syndicate numbers and their respective percentage of participation for every Lloyd's placement. One placement could have as many as 75 syndicates and if a batch contained 25 policies with 75 syndicates, the processor would have to enter the 75 syndicates and their percentage of participation 25 times

The recent installation of the Lloyd's default screen in our database to accommodate Lloyd's syndicate entries has made the processing easier. Now when a batch contains policies with the same syndicate list, this information need only be entered once in the default screen.

I am happy to report we are finally seeing 'the light at the end of the tunnel' because of the hard work by staff, the cooperation of the brokers in providing us with fully completed forms, including detailed descriptions (for SIC purposes), and the database changes to accommodate the syndicate tracking.

Comparison of Lloyd's Entries

1/1/96 to 8/31/96	
Lloyd's Entries Processed	38,236
1/1/97 to 8/31/97	
Lloyd's Entries Processed	250,190
1996 to 1997	
Increase in Lloyd's Entries	211,254
1996 to 1997	
Percentage Increase	554%



- Judith Flowers, Manager, Data Processing

A Few Words from David Knowles

On the topic of the Department of Insurance conducting market conduct exams on Surplus Lines Brokers, this is an area in which we are still hearing from some of you to say that the exams have been carried out in ways that were somewhat less than ideal, from the perspective of the examined broker.

"...we all would also wish that, in the same way that professional standards of conduct are required of us as brokers, the very people who are conducting the examinations would likewise demonstrate the level of professionalism..."

We all know that a system of regulatory oversight and periodic examination is necessary to assure the ongoing high professional standards to which we adhere, and we know that it yields the fruit of our customer base having confidence in what we deliver to their benefit. But we all would also wish that, in the same way that professional standards of conduct are required of us as brokers, the very people who are conducting the examinations would likewise demonstrate the level of professionalism that their business suggests to be appropriate.

"...there is a "parallel track" of events that we can observe that is likely to predict some benefit for Surplus Lines Brokers. That "track" is a bill pending in the Legislature by the name of SB 272."

As reasonable as it may be to expect such a thing, some have complained that this is not always the case, however. I have spent considerable time bringing concerns to the attention of Department of Insurance personnel, including exams being conducted with little or no notice, brokers receiving bills that do not begin to match up with the actual hours spent at the broker's office, the level of technical expertise demonstrated by the examiner, and various related subjects. Overall, I can say that, even though some of these problems appear to remain and to crop up from time to time, I believe the prognosis to be good.

Not only is there a desire present among Department executive staff to see the adoption of a professional code of conduct for examiners, there is a "parallel track" of events that we can observe that is likely to predict some benefit for Surplus Lines Brokers. That "track" is a bill pending in the Legislature by the name of SB 272. While the bill does not reference exams on brokers per se, it deals directly with the issue of professional standards required of examiners when entering insurance companies. And while there remains some concern over the wisdom of actually writing into the law such standards as opposed to the

much more flexible route of Department management directives, the bill has nevertheless heightened the focus on the subject of examiners' professional conduct, by its attempt to codify an already-existing internal protocol in the Department.

The lesson and the immediate hope for us is that, regardless of the outcome of the bill, the result of this policy debate will shed light on just how we can best go about seeing similar standards for conduct enacted

for the examination of brokers, as well. This topic is now being seriously studied and framed up for debate by the combined focus of SB 272 and your input regarding examinations actually experienced, and we expect the issue to ripen for further SLA input at the conclusion of this year's legislative session.

- David Knowles

Deputy Commissioner
California Department of Insurance

Report from the Legislative Committee

This year has been an active one in following up on suggestions made by Dave Anderson at the end of his stint as Chairman of the Committee last year. We have been greatly assisted by Jim Woods and Rob Buechel of LeBoeuf, John Norwood of Norwood Pedrotti, and Perry Taft in the logistics and strategy of explaining our point of view and accomplishing our objective. Gray Scott has also attended some of the meetings in Sacramento for us. Here is a brief list covering the most important items:

AB 816 - Permits acceptance of facsimile signatures on disclosure forms (D1) for personal lines; exempts Special Surplus Line Brokers from the LESLI list. Signed on September 22, 1997, effective January 1, 1998.

AB 245 - Establishes the role of wholesale brokers in statute and permits reliance on disclosure forms (D1) provided by retail producers. Signed in July effective January 1, 1998.

SB 678 - Regarding Image Advertising - has been put over until next year in order to incorporate more favorable language.

SB 956 - Was a bill to move the Tax audit function from the DOI to the Board of Equalization because of the lack of funds. In concert with CIWA we were successful in passing SB512 to provide funding to keep this function with the DOI, and make SB956 redundant.

SLA Newsletter October 1997

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The most recent item has been the DOI's wish to restrict the exportation of mini earthquake policies and that matter is now under discussion with the Department to try and resolve it and keep the ability to export where appropriate. The SLA has not yet taken a position on this.

- **Hartley D. Cravens**
SLA Legislative Committee Chairman

Fax us your Questions or Comments...



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