Volume 12
July - September 2006

www.slsot.org

Lone Star Lines

The Quarterly Publication of the Surplus Lines Stamping Office of Texas

INSIDE:

Multi-State Risk Compliance

Has the Time Come for a Fix?

The first surplus lines laws were passed by the State of New York in 1890; these became the model used by other states when drafting their own surplus lines statutes. In those days, surplus lines insurance was a purely local transaction, one that rarely traversed the boundaries of one state. The compliance scheme was simple -- one state regulated and taxed the transaction. The original laws never contemplated that a single policy could insure exposures in multiple states, yet that is precisely the case today, as insureds having operations in many states increasingly obtain their insurance coverage in the surplus lines market. Agents issuing these policies have come to understand how difficult it is to comply with the various, often conflicting, regulations and tax laws of each of the states where there is an insured exposure. The only real modernization of the surplus lines laws has been in nonresident surplus lines agent licensing. This innovation appears to have a downside, however, as some states increasingly assert regulatory jurisdiction over a policy transacted outside of their boundaries.

In the mid 1990s, an attempt was made through the NAIC to solve the tax payment problems by creating a National Insurance Tax Clearing House (NITCH). Ultimately, this effort failed, although much of the concept had merit. Today, the agents issuing multi-state risk policies have become so vocal about their compliance problems, new attempts to resolve the issues are underway. NAPSLO is exploring the concept of an interstate tax compact. A subgroup of the stamping offices (Arizona, California, New York, Pennsylvania, Texas, and Washington) has been working since May to provide recommendations to the NAIC's Surplus Lines Task Force. The stamping offices will host a meeting of brokers, attorneys, regulators, and state tax officials in St. Louis on September 8 to fully evaluate various options.

In Washington, the House Financial Services Committee held hearings in June on the Nonadmitted and Reinsurance Reform Act of 2006 (HR 5637). This bill would set uniform standards nationally for the regulation and taxation of multi-state risk surplus lines policies, but preserve the regulation of these procurements by the states. The provisions of HR 5637 include the following topics:

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SLSOT Web Seminar

Annual Seminar Information Coming Soon!

SLSOT's seminar on "How to File" will be presented electronically (on-line) this year. By using your internet browser, anyone can attend. The seminar will be held in mid-October, with details to follow as soon as they are available. We're excited about the opportunity to reach a much larger audience than previously possible. This multimedia presentation will also be recorded and later made available to anyone for on-demand access.

How will you register for the web seminar?

The Stamping Office will send out instructions on how to register and access the presentation.

What will you need to attend?

a. A computer
b. A telephone
c. Internet access
d. Computer speakers

Georgiou Appointed to SLSOT Board

In June, Commissioner of Insurance Mike Geeslin appointed Banos Georgiou to the Stamping Office Board of Directors. Mr. Georgiou is Executive Vice President of Burnett & Company in Houston, a surplus lines agency specializing in marine and energy risks. He will serve as one of the Board's five industry members, with his term expiring at the end of 2008. ★

MULTI-STATE RISK, continued from page 1

Premium Taxes

All taxes are paid to the "home state" (defined as the state where the insured maintains its principal place of business or principal residence).

States may enter into a "compact" for allocation of taxes from the home state to other states having incidental insured exposures.

Allocation of taxes is based on an annual report filed by the surplus lines broker with the insured's home state. Independently procured insurance is included in this reporting requirement. The IP report may be made by a person authorized by the insured to act as its agent.

Regulation by Home State

Nonadmitted insurance transactions are subject solely to the laws and regulations of the home state (meaning compliance in the home state is deemed in compliance in all states having incidental exposures).

No state but the home state can require a broker to be licensed.

National Producer Database

After two years, no state may collect any fees related to licensing of a nonresident broker (individual or entity) unless the state participates in the national insurance producer database of the NAIC or a similar uniform national database.

Insurer Eligibility

After two years, no state may impose eligibility requirements for US-domiciled insurers, except in conformance with the NAIC Nonadmitted Insurance Model Act's capital and surplus provisions.

After two years, no state may prohibit a broker from placing insurance with an insurer appearing on the International Insurers Department Quarterly Listing of Alien Insurers.

Commercial Purchasers

Automatic export provision: a surplus lines broker procuring nonadmitted insurance for an "exempt commercial purchaser" (as defined) is not subject to state "due diligence search" (diligent effort) requirements.

Since any real solution requires the 50 states to reach agreement on complex problems, it may be that standards defined federally will be the only way to get there. There is clearly a growing consensus that solutions are essential. ★

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QUICK TIPS

■ For a quicker response, please email your questions to efshelp@slsot.org instead of an individual's email address.

■ If you are unsure of a coverage and/or class code, please contact the Help Desk for assistance. For your convenience, coverage and class code mapping is available.

■ Please change your password as soon as possible when you are notified of an upcoming password expiration. To reset your password once it expires, we require a request signed by an agency principal.

The Help Desk hours are 8 am to 5 pm CST
Call Toll Free:
(800) 681-5848

■ In order to prevent potential suspension of your EFS access, please make any requested changes in a timely manner. ★

SLSOT Employee News

The Stamping Office welcomes Brooks DeGhetto to our staff. Brooks joins the Administration Department as Mail Clerk. ★

Helpful Hints

Paper filing of policies

■ The policy number must be the same on all endorsements, cancellations, etc., as it was shown on the policy. Endorsements with additional numbers or letters not shown on the original policy will be returned to you for correction. Please refer to TAC28, Sec.15.15 (a) for clarification.

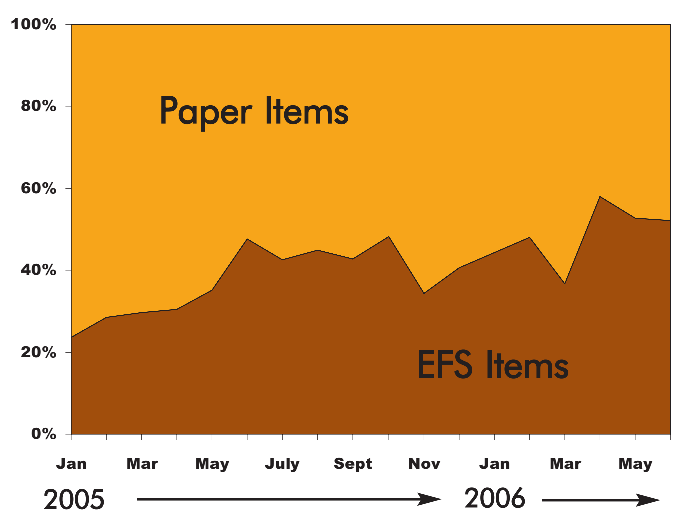
■ When submitting endorsements, cancellations, etc. which show a dba for the named insured, be sure this same information was shown on the policy. If it was not included in the original policy, determine if there was a name change. If so, it must also be filed with the Stamping Office. ★

Do WE Have Your CURRENT Info?

Because information is now delivered in various forms, we sometimes forget to update the address we use to receive mail through the U.S. Postal Service. Texas insurance regulations require you to keep the Texas Department of Insurance informed of your current mailing and business address. Please notify the Stamping Office as well about your change of addresses in addition to any other contact change such as a new e-mail address, contact person, phone and fax numbers. This will help us correctly deliver the information needed to comply with the Texas surplus lines laws. ★

MIS / EFS COMPARISON

The number of paper filings received by the Stamping Office continues to decline as agents migrate to the Electronic Filing System (EFS). Filers can choose either web-based or programmatic filing, or a combination of both. ★



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Return Service Requested

Comparison of SLSOT Premium Processed by Line of Business

Annual Statement Line of Business	Premium through 6/06	Premium through 6/05	Percent Change
1 Fire (incl. allied lines)	$355,735,913	$353,147,350	0.73%
2 Allied lines	$15,986,566	$10,264,655	55.74%
3 Farmowners multiple peril	$799,260	$1,089,376	-26.63%
4 Homeowners multiple peril	$44,727,552	$55,280,017	-19.09%
5 Commercial multiple peril	$47,126,718	$37,205,207	26.67%
8 Ocean marine	$2,824,948	$3,116,217	-9.35%
9 Inland marine	$36,508,063	$31,687,784	15.21%
11 Medical malpractice	$27,584,191	$42,039,487	-34.39%
12 Earthquake	$93,093	$8,816	955.97%
13 Group accident & health	$44,239,858	$42,275,890	4.65%
15 All other A&H	$1,028,415	$608,924	68.89%
17 Other liability	$793,665,888	$773,451,690	2.61%
18 Products liability	$19,598,710	$18,872,457	3.85%
19.2 Other priv pass auto lia	$3,454	$12,354	-72.04%
19.4 Other comm. auto liab	$68,438,570	$66,724,204	2.57%
21.1 Priv pass auto physical	$783,548	$655,352	19.56%
21.2 Comm auto phys.damage	$31,540,554	$30,217,227	4.38%
22 Aircraft (all perils)	$8,222,647	$5,892,949	39.53%
23 Fidelity	$528,314	$834,413	-36.68%
24 Surety	$0	$3,418,300	-100.00%
26 Burglary & theft	$988,401	$550,374	79.59%
27 Boiler & machinery	($62,326)	$10,944	-669.50%
28 Credit	$78,494,390	$46,202,403	69.89%
31 Aggregate/other business	$219,366	$242,004	-9.35%
TOTAL	$1,579,076,093	$1,523,808,394	3.63%

Note: Due to rounding figures may not total

Updated monthly premium totals can be found on-line at www.slsot.org/premium.htm

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The "Lone Star Lines" is published quarterly by the Surplus Lines Stamping Office of Texas for surplus lines agents, companies, and others involved in the surplus lines industry.

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We invite readers to suggest topics for articles that may be of interest to others. Any submissions or inquiries should be sent to the following address:

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www.slsot.org/LoneStarLines.htm