FEBRUARY 2009

PSLA News

NEWSLETTER FOR THE PENNSYLVANIA SURPLUS LINES ASSOCIATION

Electronic Filing Process Became Mandatory January 1, 2009

All surplus lines filings and endorsements, monthly reports and copies of annual surplus lines tax returns must be filed electronically on and after January 1, 2009.

For further information and a complete description of this process, visit the PSLA web site section devoted exclusively to the Electronic Filing System by clicking here.

Filing of Gross Premium Tax Report

Reminder to all surplus lines licensees - your Gross Premium Tax Report (RCT- 123) along with your tax payment must be filed with the Pennsylvania Department of Revenue on or before February 2, 2009, for calendar year 2008 whether or not any surplus lines business was produced during said calendar year. The surplus lines gross premium tax in the Commonwealth of Pennsylvania is three percent (3%) of taxable gross premiums charged less return premium for insurance placed with all surplus lines insurers.

Should you have any questions regarding the completion and filing of the RCT-123 please contact the Pennsylvania Department of Revenue or call 717-783-603, as PSLA does not provide tax information.

Market Analysis

No Hard Market Yet - Property-casualty insurance rates for January declined 9 percent, the same level seen in the prior two months, the MarketScout electronic insurance exchange reported on February 5th.

Advisen Ltd., a firm that analyzes market data for the commercial insurance industry, said that the soft insurance market cycle is nearing an end and that insurance prices could start increasing by the fourth quarter of this year or the first quarter of 2010.

Bernie Madoff Fallout

• Stephen Mildenhall, head of Aon Benfield's Actuarial and Enterprise Risk Management practice, said that Aon developed a $1.8 billon best estimate of direct insurance losses that could be paid out on behalf of asset management firms, banks and other firms being sued in the aftermath of the Madoff scandal.

• At Aon Benfield, Mr. Mildenhall noted that the maximum potential insurance limits exposed to the Madoff scandal are estimated at more than $6 billion, but he said the range of direct insured losses will be a far smaller number—most likely somewhere between $760 million and $3.8 billion, with a best estimate of $1.8 billion.

• With the looming prospect of nearly $2 billion in professional liability claim payments, fallout of an alleged Ponzi scheme orchestrated by Bernard Madoff, insurers will likely embark on more careful underwriting of financial firms, he said.

Save the Date!

2009 Annual Meeting

April 8-9, 2009
Wyndham Gettysburg Hotel, Gettysburg, PA

Highlights of this year's meeting will include:

- Thursday Keynote Speaker - Vince Lombardi, Jr.
  Mr. Lombardi's presentation will reveal how to put people ahead of the organization, and how to allow each individual to do what they do best without losing sight of team goals.
- Wednesday Presentation-Management Lessons Learned From the Battle of Gettysburg
- Three CE sessions
- Golf
- Opportunity to tour the battlefield where one of the most important events in our Country's history took place.

PSLA Workshops

PSLA offers two workshops to help Resident and Non-Resident Licensees understand Pennsylvania Surplus Lines Law and filing procedures and to educate licensees about how to make electronic filings.

Each Workshop is held monthly via WebEx from 1:00pm-3:00pm. Registration details and dates can be found by clicking here.

Federal Update

›› The Consumer Protection and Regulatory Modernization Act.

Reps. Melissa Bean, D-Ill., and Ed Royce, R-Calif. have announced they will be introducing The Consumer Protection and Regulatory Modernization Act.

This bill provides for an optional federal charter for insurers and insurance producers, despite the fact that its sponsors are no longer calling it by that name. It would set up a dual regulatory system at the federal and state levels. One new element in this year's version of the bill is that it provides authorization for the formation of a separate guaranty fund for federally regulated insurers, along with a requirement that federal insurance offices be set up in all 50 states.

The bill also creates a federal office of insurance regulation. This office would work in concert with the proposed "systemic regulator" proposed by Rep. Barney Frank.

The systemic regulator would have the authority to oversee the activities of any financial services firm, regardless of its products, if the activities presented a potential risk to the financial system, according to Frank.

Bean and Royce's OIR would have the power to oversee all the units of any insurance company that was federally regulated, not just the insurance units, Bean and Royce said.

›› The Nonadmitted and Reinsurance Reform Act of 2007 ("NRRA")

Rep. Dennis Moore (D-KS) and Rep. Scott Garrett (R-NJ will be introducing the NRRA in the next week. We understand the bill will be identical to the bill was passed by the House in the 11oth Congress.

State Update

›› New York

Insurance brokers and agents operating in New York would have to disclose to clients all compensation received when placing business with an insurer, as well as any business relationships the producer has with the insurer, under a regulation proposed by the New York Insurance Department.

The regulation would not apply to an insurance producer that has no contact with the purchaser, which may include wholesale brokers or managing general agents.

›› Pennsylvania Insurance Department Field Investigations

Investigation #1
October 2008

Facts: Respondent held a non resident surplus lines license. Respondent procured a surplus lines policy through an affiliate. The insured paid the surplus lines premium as an independently procured policy although declaration page showed the producer was Respondent's affiliate. Respondent failed to report transaction. Surplus lines tax was $228.00.

Order: Civil Penalty - $5,000.

Investigation #2
October 2008

Respondent was a licensed insurance producer and a surplus lines licensee. Respondent self reported that it had failed to remit surplus lines premium taxes to the Insurance Department.

Order: $50,000 civil penalty; Respondent shall pay unremitted premium taxes and 3 year license supervision.

Investigation #3
November 2008

Respondent did not have a surplus lines license. During 2007 Respondent procured 4 surplus lines policies. Filings and taxes were submitted through another surplus lines licensee as an accommodation filing.

Order: $4,000 civil penalty and five-year license supervision

Investigation #4
December 2008

Respondent made 27 filings on surplus lines policies sold by producers who were not licensed in surplus lines. Order: $4,000 penalty; 3 year license supervision.

›› NAIC and Surplus Lines / NAIC Multi-State Surplus Lines Premium Tax Working Group

• NAIC has formed the Multi-State Surplus Lines Premium Tax Working Group of the Property and Casualty Insurance Committee.

• The working group had its first meeting in January 2009 and will make recommendations to the NAIC about ways to (i) simplify the administrative burdens currently faced by surplus lines brokers and (ii) address the issues of allocation and payment of premium tax which arise in multi-state surplus lines placements.

Continuing Education

We are in the process of setting up a continuing education class in March. Specific details will be available soon. Watch your e-mail for more information.

Classes will be presented in May, September and November.