

PSLA News

January 2008

Newsletter for the Pennsylvania Surplus Lines Association

2008 Annual Meeting

The PSLA is pleased to announce the following speakers have accepted the invitation to speak at the 2008 Annual meeting at the Pittsburgh Marriott City Center on April 9-10, 2008:

- Joel Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania. Commissioner Ario will speak at the General Business Meeting on April 10th.
- Jack Bogut is one of Pittsburgh's all-time favorite and highest rated radio personalities. Jack hosts the 1320 WJAS "Bogut In The Morning" radio show. Jack's humorous presentation at the April 9th dinner will focus on the five major things in life that get us into trouble (words, actions, inactions, assumptions and anger). And each of these things is like firing a gun once the bullet is gone—it's gone! We can't bring it back. All we can do is seek to repair the damage, or apologize, or both.
- Emily Huling is nationally recognized as a speaker and consultant who helps clients achieve results. Emily has the gift to move people to action. Her articles appear nationally in publications including Independent Agent magazine and Rough Notes. Emily's presentation will focus on Multi-Generational Selling. She will focus on what it takes to successfully communicate with all ages during this high content program. Emily will speak on April 10th.

The meeting brochure and registration materials will be distributed in the following weeks.

Surplus Lines Agent Gross Premium Tax Report – RCT-123 As of December 31, 2007

Each year at this time, all surplus lines licensees (resident and non-resident) who are licensed in the Commonwealth of Pennsylvania, are reminded to file and remit the collected gross premium surplus lines tax for the calendar year ending December 31, 2007. The surplus lines tax levied by the Commonwealth of Pennsylvania is three percent (3%) of taxable gross premiums less any return premiums for insurance placed with either an eligible surplus lines insurer or other non-admitted insurer. A Gross Premium Tax Report (RCT-123), along with your tax payment, must be filed with the PENNSYLVANIA DEPARTMENT OF REVENUE on or before January 31, 2008, whether or not any surplus lines business was written during the calendar year 2007.

NOTE: A COMPLETE COPY (all pages) of the original Gross Premium Tax Report RCT-123 is required to be filed with PSLA, NOT the Pennsylvania Insurance Department.

To download the latest version of the RCT-123 report and/or directions for its completion, please visit the "Forms & Publications" section of the Pennsylvania Department of Revenue website and click on Corporation Tax.

Alternatively, click on the link below and it will take you directly to the RCT- 123 for 2007.

<http://www.revenue.state.pa.us/revenue/cwp/view.asp?A=190&Q=280045> .

The process for completion of the Gross Premium Tax Report (RCT-123), as well as the process for remittance and/or return of premium tax funds is controlled exclusively by the Pennsylvania Department of Revenue. PSLA cannot assist with or answer any questions regarding the tax remittance process. These types of questions should be directed to the Pennsylvania Department of Revenue http://www.revenue.state.pa.us/revenue/lib/revenue/2007_rct-123-i.pdf

NEW FOR 2007: Attach a schedule listing all branch offices. Include the address, EIN and 4 digit Customer ID number assigned by the Pennsylvania Surplus Lines Association. (PSLA)

Should you have any questions regarding the handling of the copy of the RCT-123 tax form and supporting documentation please do not hesitate to contact Anna Bowers at 610.594.1340 x107 or abowers@pasla.org.

Electronic Filing XML Import Function

In an effort to improve efficiency and service to our Licensee community, the PSLA Stamping Office has implemented a XML (Extensible Markup Language) Import function for the Electronic Filing System.

The XML Import function is targeted at agencies where filing information is stored in the agency's computer system and the computer system prints out filings that are mailed to PSLA. Instead of mailing a paper filing, agencies are able to email an XML file to a PSLA email address and EFS will automatically import the attached XML file into the Electronic Filing System.

We believe this new additional feature to the Electronic Filing System will of particular interest to those surplus lines agencies with higher filing numbers.

The initial release of XML Import supports submitting new/renewal filings. It does not support revisions, endorsements, 1620 reports, or RCT reports.

If you feel your agency would benefit from using the XML Import function and would like to learn more about it please contact efshelp@pasla.org or contact Maureen Thomas, PSLA Training and Support Coordinator at 610.594.1340 x138 or mthomas@pasla.org



Tort Costs Down For First Time Since 1997

U.S. tort costs totaled \$247 billion in 2006, a 5.5% decline from the previous year, according to a report released by Towers Perrin this week. The decline is the first since 1997.

The report which was published by the Tillinghast Insurance Consulting Practice of Towers Perrin in Stamford, Conn., factors in settlements, reserves for future settlements, defense costs and administrative costs. Additionally, the report analyzes U.S. tort costs from 1950 through 2006, with projections through 2009.

Russ Sutter, author of the report said in a statement that despite a decline in tort costs in 2006, several factors, including the subprime loan crisis, will likely contribute to an upward swing for results in 2007 and beyond.

A full copy of the report is available at www.towersperrin.com/tillinghast.

TRIA Extension Becomes Law

President Bush signed on December 26, 2007 a seven-year extension of the Terrorism Risk Insurance Act, adding domestic terrorist events to the program but leaving out coverage for attacks using weapons of mass destruction.

The bill (H.R. 2761--The Terrorism Risk Insurance Program Reauthorization Act of 2007) extends the federal reinsurance backstop until the end of 2014.

Approved by the Senate on Nov. 16th, the bill was reluctantly passed by the House on Dec. 18th after an acrimonious floor debate during which the House Democratic leadership vowed to revisit the issue in 2008.

Specifically, during that debate, Rep. Gary Ackerman, D-N.Y., announced he was introducing legislation designed to increase terrorism risk insurance capacity for properties in urban areas seen as prime terrorism targets where there is currently a shortage of such capacity available, even with the current TRIA program in place, the so-called "reset" provision. That provision was in the bill

passed by the House but eliminated from the Senate version, and will be the subject of House Financial Services Committee hearings next year, according to Rep. Barney Frank, D-Mass., chairman of that committee.

The only other change to the current legislation adds a provision that would mandate that the Government Accountability Office conduct two studies and make recommendations to Congress. One study would examine the issue of risk posed by attacks from nuclear, biological, chemical and radiation (NBCR) attacks. The other study would examine capacity restraints in certain regions of the country such as lower Manhattan.

Developments Affecting Surplus Lines

Federal Legislation To Encourage Uniformity of State Surplus Lines Laws

Promoting the passage of federal legislation aimed at modernizing the regulation of the surplus lines market along with the Surplus Lines Insurance Multi-State Compliance Compact (SLIMPACT) will be the major focus of national surplus lines trade organizations in 2008. The major piece of federal legislation toward that goal, the Nonadmitted and Reinsurance Reform Act ("NRRRA"), was passed 417 – 0 by the House of Representatives in June 2007. The NRRRA was introduced in the Senate in 2007; however, the Senate did not take any action on the NRRRA in 2007.

Now that Senator Chris Dodd has announced that he has dropped out of the race for the Democratic Party Presidential nomination, it is hoped that he as Chairman of the Senate Committee on Banking, Housing and Urban Affairs, will schedule hearings on NRRRA in early 2008.

Surplus Lines Task Force Conference Call

On December 11th, the Surplus Lines Task Force held a conference call to discuss an NAIC response to the pending Federal surplus lines legislation – The Nonadmitted and Reinsurance Reform Act of 2007 ("NRRRA"). The conference call was chaired by Commissioner Jim Donelon of Louisiana.

The Big I said it supports state regulation of insurance and that it favors the NRRRA as a way to streamline state regulation. The Big I encouraged the NAIC not to oppose the federal legislation.

NAPSLO expressed the view that the NRRRA would not preempt state law in all respects and that the grounds for removal of a carrier set forth in the state removal statutes would continue to be grounds for removal after adoption of the NRRRA with the exception of the capital and surplus requirements established by the NRRRA. NAPSLO said that NRRRA clearly envisions that a regulator

could issue a "cease and desist" order to brokers or "no stamp" order to stamping offices regarding U.S. domestic insurers.

Insurance regulators from California and New York disagreed with NAPSLO's interpretation of NRRRA and expressed concern that state law would be preempted by NRRRA resulting in the states not having the ability to keep out companies and sanction agents/brokers who violate their respective state laws.

Bob Wake of the Maine Department of Insurance stated that NRRRA needs technical work to eliminate uncertainties in the legislation.

Commissioner Donelon asked the NAIC Washington office staff if the Nonadmitted and Reinsurance parts of NRRRA could be enacted in separate bills. The NAIC staff person replied that this action is not likely.

At the conclusion of the call Commissioner Donelon said state insurance departments must appreciate that regulatory reform is coming and that they will have to relinquish their right to regulate every aspect of every insurance transaction in order to demonstrate they can take action to streamline the insurance regulatory scheme. Commissioner Donelon said the NAIC will focus on distributing a survey which requests the Surplus Lines Task Force members' views of NRRRA and asks for their comments regarding problems with NRRRA.

SLIMPACT Drafting Meeting

The Surplus Lines Multi-State Insurance Compliance Compact ("SLIMPACT") is an interstate agreement which addresses important issues involved in multi-state surplus lines transactions. When SLIMPACT becomes effective, it will be the law of each state which has adopted it.

The SLIMPACT drafting group held a meeting in Houston Texas on December 1, 2007. Dan Maher from ELANY discussed



the few changes which the drafting committee had made subsequent to the prior meeting in Washington in September. The changes included a revision to the definition of "Home State", and a new definition for "Purchasing Group." Additionally, the Management Committee section of SLIMPACT was revised to clarify how representatives are appointed and a provision was added that no person could be on the SLIMPACT Commission and the Management Committee simultaneously.

Dan Maher informed the group that Mike Koziol of PCI had expressed several concerns about SLIMPACT. The first was that PCI believes the eligibility standards for surplus lines carriers should be specifically stated in SLIMPACT. PCI also believes clarification needs to be made as to the nature of the "surplus lines policyholder notices" referred to as a uniform standard. PCI expressed the view that the term "Policyholder Notice" should be precisely defined and not left to the SLIMPACT Commission at a later date.

Mr. Maher said that after the drafting committee addressed the PCI issues, he believed the SLIMPACT would be in a form which could be introduced into state legislatures.

The drafting committee is scheduled to hold another meeting on January 17th.

Enforcement Actions

Company A has been a licensed insurance producer from February 2004, and possessed a Pennsylvania non-resident surplus license.

With effective dates during 2005 and 2006, Company A procured approximately 24 surplus lines insurance policies from various insurers for Pennsylvania policyholders, although its producers primarily involved in the applicable transactions did not possess proper Pennsylvania insurance licenses.

Company A acknowledged the sales by producers from two branch offices. The surplus lines licensee for Company A, who made the filings to the Pennsylvania Insurance Department, represented himself as the producer of the 24 insurance policies. Copies of correspondence showed no notable participation in the procurement of the policies by said licensee.

Correspondence sent by Company A's producers did not contain disclosure to the retail producers and policyholders that surplus lines insurance was not protected by the Pennsylvania guarantee associations.

Company A acknowledged responsibility for not having its producers properly licensed for the procurement of surplus lines insurance in Pennsylvania.

Company A's activities constituted: issuing contracts of insurance absent the notification that the insurance was not covered by the Pennsylvania Insurance Guaranty Association, and transacting surplus lines insurance without being properly licensed.

Company A agreed to pay a civil penalty of \$25,000.00.

2008 ANNUAL MEETING

“Strategies For Success: New Ideas and Opportunities For The Insurance Marketplace”

SAVE THE DATE

April 9 - 10, 2008
at the Pittsburgh Marriott City Center
Pittsburgh, PA

Featuring

- Joel Ario, Acting Insurance Commissioner, Pennsylvania Insurance Department
- Keynote presentation about what you need to know to do business with multiple generations
- Professional Development through Continuing Education Classes
- Company Executive Panel Discussion
- Business Meeting & Networking Reception
- Dinner
- Golf Tournament

Registration Materials Coming Soon

