



**THE SURPLUS LINE ASSOCIATION
OF CALIFORNIA**

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BULLETIN #1230

RE: NRRA Definition of Commercial Purchaser Exemption from Diligent Search Requirements

This notice is informational in nature only and is not a substitute for tax or legal advice. Members may want to consult a private attorney or tax advisor as is necessary. The Nonadmitted & Reinsurance Reform Act (NRRA) is set to take effect on July 21, 2011. The Department of Insurance and the Surplus Line Association are working to get conforming California legislation to implement the surplus line portions of the NRRA, but such legislation has not yet been enacted. Therefore, until July 21, 2011, brokers are advised to continue to comply with the current California diligent search requirements and those of other applicable states when placing surplus lines insurance for all insureds, including those who currently meet the definition of exempt commercial purchaser.

When it takes effect on July 21, 2011, the Nonadmitted & Reinsurance Reform Act (NRRA) will exempt surplus line brokers from any state diligent search requirements when procuring surplus line insurance for exempt commercial purchasers. To qualify for the exemption, the surplus line broker placing the surplus line insurance must: (1) disclose to the exempt commercial purchaser that such insurance may or may not be available from the admitted market that may provide greater protection with more regulatory oversight; and (2) obtain in writing, the exempt commercial purchaser's subsequent request for the broker to procure or place such insurance from a nonadmitted insurer.

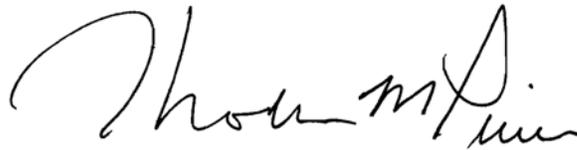
The NRRA defines "exempt commercial purchaser" as any person purchasing commercial insurance that, at the time of placement, meets all of the following requirements:

1. Employs or retains a qualified risk manager (as defined under the NRRA) to negotiate insurance coverage;
2. Has paid aggregate nationwide commercial property and casualty insurance premiums in excess of \$100,000 in the immediately preceding 12 months; and
3. Meets one of the following requirements:
 - a. Possesses a net worth in excess of \$20,000,000;
 - b. Generates annual revenues in excess of \$50,000,000;

- c. Employs more than 500 full-time or full-time equivalent employees per individual insured or is a member of an affiliated group employing more than 1,000 employees in the aggregate;
- d. Is a not-for-profit organization or public entity that generates annual budgeted expenditures of at least \$30,000,000; or
- e. Is a municipality with a population in excess of 50,000 persons.

The exemption from the diligent search requirement does not take effect until July 21, 2011, the effective date of the NRRA, which means current California law and regulations (and those of other applicable states) regarding diligent search requirements govern. Therefore, until July 21, 2011, brokers are advised to continue to comply with the current California diligent search requirements and those of other applicable states when placing surplus lines insurance for all insureds, including those who currently meet the definition of exempt commercial purchaser.

Sincerely,

A handwritten signature in black ink, appearing to read "Theodore M. Pierce". The signature is fluid and cursive, with a large initial "T" and a distinct "P" at the end.

Theodore M. Pierce
Executive Director