



**THE SURPLUS LINE ASSOCIATION
OF CALIFORNIA**

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February 1, 2013

PLAN OF OPERATION

**FOR PERFORMANCE OF DUTIES AS
SURPLUS LINE ADVISORY ORGANIZATION
PURSUANT TO CALIFORNIA INSURANCE
CODE SECTION 1780.50 ET SEQ.**

**Approved by California Insurance
Commissioner on May 24, 2013**

CONTENTS

Page

INTRODUCTION

I.	DUTIES UNDER SECTION 1780.56(a)(1) RECEIPT, REVIEW AND RECORDING OF REQUIRED DOCUMENT FILINGS	1
II.	DUTIES UNDER SECTION 1780.56(a)(2) CONDUCTING SECURITY REVIEW	4
III.	DUTIES UNDER SECTION 1780.56(a)(3) CONFIDENTIAL RECOMMENDATIONS	7
IV.	DUTIES UNDER SECTION 1780.56(a)(4) INSURANCE FRAUD REPORTING	8
V.	DUTIES UNDER SECTION 1780.56(a)(5) PREMIUM TAX INFORMATION COLLECTION AND REPORTING	8
VI.	DUTIES UNDER SECTION 1780.56(a)(6) COMMENTING ON PROPOSED LEGISLATION OR REGULATIONS	9
VII.	DUTIES UNDER SECTION 1780.56(a)(7) EDUCATIONAL AND INFORMATION DISSEMINATION ACTIVITIES	9
VIII.	DUTIES UNDER SECTION 1780.56(a)(8) COMMUNICATING WITH ORGANIZATIONS OF ADMITTED INSURERS	9
IX.	DUTIES UNDER SECTION 1780.56(a)(9) ADDITIONAL FUNCTIONS AGREED BETWEEN THE COMMISSIONER AND THE SLA	10
X.	EXAMINATION UNDER SECTION 1780.58	10
XI.	CONFIDENTIALITY AGREEMENT	10

EXHIBITS

- I SUMMARY OF REQUIRED POLICY INFORMATION
- II DESCRIPTIONS OF STANDARD AND PRIORITY TAGS
- III OUTLINE OF SECURITY SUMMARY REVIEW

INTRODUCTION

This Plan of Operation¹ (the “Plan”) identifies the duties that The Surplus Line Association of California (the “SLA”) proposes to perform as a surplus line advisory organization pursuant to Division 1, Part 2, Chapter 6.1 (commencing with § 1780.50) of the California Insurance Code² and describes the manner in which the SLA will perform those duties.

I. DUTIES UNDER SECTION 1780.56(a)(1)³ - RECEIPT, REVIEW AND RECORDING OF REQUIRED DOCUMENT FILINGS

The SLA shall serve as the designee of the Insurance Commissioner (the “Commissioner”) for receiving, reviewing and recording documents that surplus line brokers are required by law to file with the Commissioner,⁴ including the following filings:

- Confidential Report of Placement - Form SL-1, including a copy of the declarations page of the policy or the surplus line broker's certificate or binder, and any other pertinent information reasonably required by the Commissioner (§ 1763(a)),
- Diligent Search Report - Form SL-2 (§ 1763(a)), unless the type of coverage or risk meets the Export List requirements (§ 1763.1), or the insured qualifies as an Commercial Insured (§ 1760.1(b)), and
- California Automobile Assigned Risk Plan (“CAARP”) Determination of Ineligibility - private passenger automobile liability only (§ 1763.5),

¹ California Insurance Code Section 1780.54(b)(5) provides that a surplus line advisory organization must file with the Insurance Commissioner a “plan of operation identifying the duties set forth in Section 1780.56 that the organization proposes to perform and describing how the organization will perform those duties.” This Plan is intended to satisfy that requirement.

² Hereinafter all statutory references are to the California Insurance Code unless otherwise indicated.

³ Section 1780.56(a)(1) provides: “To receive, review, and record all documents required by law, regulation, or order to be filed with the commissioner or his or her designee with respect to foreign and alien nonadmitted insurers and any insurance placed with nonadmitted insurers, except that the advisory organization shall not receive documents submitted pursuant to subdivision (c) of Section 1763. The review under this subdivision shall be for completeness, accuracy, and any other matters the commissioner reasonably may direct the advisory organization to review. The advisory organization shall notify the filing surplus line broker in writing of any filing that the advisory organization determines to be incomplete or inaccurate, and shall request the filing broker to correct the problem. The advisory organization may, or as directed by the commissioner shall, notify the commissioner of incomplete or inaccurate filings.”

⁴ § 1780.56(a)(1).

The following filing may not be filed with the SLA:

- Lower Premium filings under Section 1763(c), which must be filed directly with the Commissioner.⁵

If requested to do so by the Commissioner, the SLA shall also receive, review, and record other documents that the Commissioner by law may require surplus line brokers to file.

Any documents received by the SLA pursuant to Section 1780.56(a)(1) shall be maintained in files plainly marked as containing property of the Commissioner.

A. Processing of Filings

1. Surplus Line Brokers Filing Procedures

The SLA shall advise all surplus line brokers to submit SL-1 and SL-2 filings and accompanying documents in the manner prescribed by current statutes, regulations, and bulletins. From time to time, the SLA shall advise all surplus line brokers of the filing procedures and requirements.

2. Receipt, Review and Recording of Filings

The SLA shall be the Commissioner's designated recipient of all SL-1 and SL-2 filings and required accompanying documents, including a mandatory coversheet. The coversheet must include the premium amount, confirmation of a "commercial insured", and for multi-state risks, the percentage of premium allocated to California. For each batch of filings received, the SLA shall record the postmarked date, the broker's licensed name or DBA name, assigned SLA broker number, date received, assigned batch number, premium total and item count. Each batch shall be reviewed by the SLA staff, who shall record all pertinent information, as required by the Commissioner, in the SLA's computer database. Exhibit I describes the required information which may be amended from time to time as directed by the Commissioner.

During the review, the SLA shall determine whether the SL-1 and SL-2 and all documents required by the Commissioner have been fully completed by the filing surplus line broker in accordance with the Commissioner's instructions and existing statutes and regulations and whether the insurer is on the List of Approved Surplus Line Insurers ("LASLI"). The SLA shall forward to the Commissioner copies of all filings upon request by the Commissioner. Printouts of the information recorded in the SLA's database pursuant to this section shall be available to the Commissioner on request.

⁵ § 1780.56(a)(1).

The SLA shall notify the filing surplus line broker of any errors, inaccuracies, or other problems in the filed documents and shall follow up on responses as it deems appropriate or as requested by the Commissioner. This notification may be issued in writing in the form of a “tag.” Exhibit II is a summary of the tags and the procedures for processing unresolved tags. The tags and procedures may be amended from time to time by agreement between the Commissioner and the SLA. On request or as otherwise set forth herein, the Commissioner shall be provided with periodic reports regarding any unresolved or unanswered tags noted in the submitted documents or with copies of any related documentation.

The SLA shall mail a monthly report and stamping fee invoice to each surplus line broker showing detail of filings processed in the preceding month for that surplus line broker. The SLA shall collect payment of any stamping fee due.

B. Processing of Security Filings and Supporting Documents

The Commissioner shall receive security filings, supporting documents, and fees and may forward the documentation to the SLA for processing as discussed in Part II below. The Commissioner may direct that surplus line brokers and others file the items directly with the SLA instead of with the Commissioner. In that event, the SLA may receive the filings and fees as directed by the Commissioner.

C. Availability of Filed Documents and Records

Documents maintained by the SLA pursuant to Section 1780.56(a)(1), and information contained in those documents, shall be made immediately available, on request, to the Commissioner. Such documents are the property of the Commissioner, and the Commissioner shall be the sole designated custodian of those records.

The SLA is not authorized to accept service of subpoenas that require production of the Commissioner’s records. If a subpoena requests both records belonging to the Commissioner and records not belonging to the Commissioner (i.e. those which are not maintained pursuant to Section 1780.56(a)(1)) in the custody of the SLA, acceptance of the subpoena and response thereto by the SLA with respect to records not belonging to the Commissioner shall not be deemed or construed to be acceptance with the respect to the Commissioner’s records.

A sign shall appear in the SLA office prominently stating:

Documents maintained by the SLA pursuant to Section 1780.56(a)(1) are the property of the California Department of Insurance (the “Department”). The Department is the sole designated custodian of

those records. The SLA is not authorized to accept service of subpoenas that require production of the Department's records.

Documents maintained pursuant to Section 1780.56(a)(1) shall be made available by the SLA, on request, to the surplus line broker who filed them and to the insured or insurer on whose behalf the documents were filed. The SLA shall not release such documents to any other person, except that statements filed under Section 1763 which the Commissioner has determined in writing that the public interest or the welfare of the filing broker necessitates release, if maintained by the SLA, shall be made available by the SLA to any person for inspection on request made to the Commissioner if all costs of retrieval and/or copying are paid by the requesting party.

Aggregate statistics which do not contain confidential or proprietary information may be released, upon the Commissioner's approval, to the public or to the press. For purposes of this paragraph, confidential and proprietary information includes any information which identifies premium volume by both surplus line broker and by issuing insurer simultaneously.

The availability of documents and information maintained by the SLA pursuant to Section 1780.56(a)(1) shall be governed by Part C, Section I of the Plan regardless of when they were filed with or maintained by the SLA.

II. DUTIES UNDER SECTION 1780.56(a)(2)6- CONDUCTING SECURITY REVIEW

A. Security Review of Nonadmitted Insurers

LASLI-The SLA shall review and analyze financial documents, as directed by the Commissioner, with respect to nonadmitted insurers applying to be on the List of Approved Surplus Line Insurers ("LASLI") and those insurers that have been approved and are on the LASLI pursuant to Section 1765.2. Based on its review and analysis, the SLA shall prepare Security Summary Reports in the format agreed upon with the Commissioner. The SLA shall provide to the Commissioner, and if so directed, to the NAIC, a report on a nonadmitted insurer based on the SLA's financial analysis and review. The SLA shall also provide to the Commissioner, and if so directed, the NAIC, with updated reports on the nonadmitted insurer, as necessary or appropriate, based on its review of any new or updated information received. (See Exhibit III for an outline of the Security Summary Review. This outline may be amended from time to time by agreement between the Commissioner and the SLA.) The SLA

Section 1780.56(a)(2) provides: "To conduct a security review and analysis as directed by the commissioner, and to provide to the commissioner, and if directed by the commissioner, to the NAIC, a report on any nonadmitted insurer based on that review and analysis. The review and analysis under this subdivision shall take account of any matters the commissioner reasonably may direct the advisory organization to review and any other matters the advisory organization considers necessary or appropriate. "

may also act as expert witness or provide testimony in this area, as requested by the Commissioner.

The SLA shall review and analyze financial documents, as directed by the Commissioner, with respect to other nonadmitted insurers and particularly those that are used by California home state insureds.

The SLA may conduct a security review and analysis as directed by the Commissioner, and to provide the Commissioner, and if directed by the Commissioner, to the NAIC, a report on any nonadmitted insurer based on that review and analysis. The review and analysis under this subdivision shall take account of any matters the Commissioner reasonably may direct the advisory organization to review and any other matters the advisory organization considers necessary or appropriate. Section 1780.56(a)(2).

B. Review of Filings for Gap Companies

The SLA shall also review filing materials as requested by the Commissioner with respect to ineligible insurers providing coverage for risks pursuant to Section 1765.1(h) (“Gap provisions”). These filings are submitted to the Commissioner by the surplus line brokers who have relied upon them in determining that the financial stability, reputation, and integrity of the ineligible insurer are adequate to safeguard the insured’s interest. Based on its review of the filings and other readily available materials, the SLA shall provide the Commissioner with a brief overview of each ineligible insurer used for Gap placements and note if there is any information that would indicate the filing does not meet the standards for placement by insureds whose risks meet the qualifications of Section 1765.1(h)(1).

C. Confidential Reports

The Security Summary Reports, updates, and other reports prepared by the SLA pursuant to Sections 1780.56(a)(2) and 1780.56(a)(3) are confidential pursuant to Section 1780.66(b). The reports shall be based on the SLA's review and analysis of the documents received from the Department and on such additional information that may come to the SLA's attention or that the Commissioner reasonably requests the SLA to consider. The reports shall include a discussion of those issues and concerns that warrant the Commissioner's attention and questions about the insurer's integrity, reputation, financial stability, or potential risk of harm to the public.

D. Requesting Additional Information

As necessary, the SLA shall request any additional information needed for its analysis of the nonadmitted insurers applying to be an approved surplus line insurer and those insurers that have been approved as a surplus line carrier pursuant to Section 1765.2. These supplementary documents may be forwarded

directly to the SLA by the insurers when requested by the SLA. Pertinent information from these documents shall be incorporated in the SLA's Security Summary Reports or updates to those reports if, after the review of the documents, the SLA deems it appropriate or necessary.

As necessary, the SLA shall request , as requested by the Commissioner, any additional information of a broker on the eligible nonadmitted insurers being used for placements with California home state insureds or any nonadmitted insurer whom the licensee has dealt or proposes to deal in the transaction of insurance business with a California home state insured.(Section 1765.2(h)

E. Meeting with the Commissioner's Staff

The SLA shall make itself available to meet with the Commissioner or the Commissioner's staff to discuss ongoing considerations concerning any nonadmitted insurer operating in California either as an approved insurer, or as an eligible insurer, or as an ineligible insurer being used for Gap placements, and/or any other related surplus line matters.

F. Qualifications of Security Review Process

Based on the documents forwarded by the Commissioner, or obtained by the SLA pursuant to Section D above, the SLA shall perform its security review on those nonadmitted insurers that are on the LASLI or that are seeking placement on the LASLI in a sequence to be determined by the SLA unless otherwise directed by the Commissioner. The security review process is not intended to provide any type of warranty as to an insurer's financial stability and/or its ability to perform its contractual obligations.

G. Filing Compliance

LASLI-The SLA shall assist the Commissioner in monitoring whether all documents filed by a LASLI insurer are in full compliance with the requirements of Section 1765.2. On its own or in conjunction with the Commissioner, the SLA shall request that the nonadmitted insurer or the insurer's contact broker or US Representative to provide any documents that are missing or defective. The SLA shall forward an insurer's filing to the Commissioner as soon as the insurer's security review has been completed and the entire package is in conformity with all the requirements, or as requested by the Commissioner.

The SLA shall provide its members, nonadmitted insurers and/or other interested parties with guidance and/or assistance with regard to California surplus line regulatory compliance matters.

H. Records

The SLA shall, at the request of the Commissioner, record and maintain the LASLI documents filed by nonadmitted insurers, disseminate the documents when required. The SLA shall make the information available to the public upon the Commissioner's request. The SLA shall make the information available to the Commissioner upon request.

As regards agent for service of process information, the SLA shall keep records of the current LASLI carriers for the agent for service of process. The SLA shall make the agent for service of process information available to the public and to the Commissioner. The SLA shall also keep records on the last known agent for service of process for formerly listed LASLI carriers and make such information available to the Commissioner.

As regards principal place of business information, the SLA shall keep records of the currently LASLI carriers for the address of the principal place of business. The SLA shall make the address of the principal place of business information available to the public and to the Commissioner. The SLA shall also keep records on the last known address of the principal place of business for formerly listed LASLI earners.

I. Dissemination of the List of Approved Surplus Line Insurers ("LASLI")

The SLA shall distribute to its membership and interested parties the LASLI whenever the Commissioner issues a new or updated list. The SLA shall also make the most current LASLI available at all times on its web site.

III. DUTIES UNDER SECTION 1780.56(a)(3)⁷ - CONFIDENTIAL, RECOMMENDATIONS

The Security Summary Reports prepared by the SLA shall include a confidential financial recommendation to the Commissioner as to whether the nonadmitted insurers should be approved pursuant to Section 1765.2. The SLA's recommendation shall be presented for approval to the Commissioner's Financial Analysis Division ("FAD").

Section 1780.56(a)(3) provides: "To make confidential recommendations to the commissioner and, if directed by the commissioner, to the NAIC, as to the suitability of any foreign or alien nonadmitted insurer to insure property or risks located or persons residing in this state or whether any foreign or alien nonadmitted insurer should be eligible or ineligible or approved pursuant to Section 1765.2. The advisory organization's recommendations shall be based on any review and analysis that it performs under this chapter and on any additional information that may come to the advisory organization's attention or that the commissioner reasonably may request the advisory organization to consider."

IV. DUTIES UNDER SECTION 1780.56(a)(4)⁸ - INSURANCE FRAUD REPORTING

The SLA shall report to the Commissioner and other appropriate authorities instances of actual fraudulent or illegal insurance activity in the surplus line market that come to the SLA's attention and any other facts that come to the SLA's attention that, in the reasonable judgment of the SLA, may indicate the presence of fraudulent or illegal insurance activity in the surplus line market or potential risk of harm to consumers of surplus line insurance.

The SLA shall cooperate with the Commissioner in any investigation of fraudulent or illegal activity as requested, and shall keep confidential any communications between the Commissioner and the SLA regarding such activity and shall not disclose such communications to anyone, including the person subject to the investigation, except as directed by the Commissioner.

V. DUTIES UNDER SECTION 1780.56(a)(5)⁹ - PREMIUM TAX INFORMATION COLLECTION AND REPORTING

The information received, reviewed, and recorded by the SLA under Part I above shall be available to the Commissioner for purposes of ensuring that surplus line taxes are fully and accurately reported and paid.

The SLA shall maintain a dialog with the Commissioner concerning additional ways in which the SLA might expand its services to the Commissioner in relation to premium tax return preparation, tax auditing, and tax collection.

⁸ Section 1780.56(a)(4) provides: "To report to the commissioner and other appropriate authorities instances of actual fraudulent or illegal insurance activity in the surplus line market that come to the advisory organization's attention and any facts that come to the advisory organization's attention that, in the reasonable judgment of the advisory organization, may indicate the presence of fraudulent or illegal insurance activity in the surplus line market or potential risk of harm to consumers of surplus line insurance."

⁹ Section 1780.56(a)(5) provides "To maintain and report information necessary or that reasonably may be requested by the commissioner for the calculation and collection of premium taxes on surplus line insurance premiums."

VI. DUTIES UNDER SECTION 1780.56(a)(6)¹⁰ - COMMENTING ON PROPOSED LEGISLATION OR REGULATIONS

The SLA, through its Legislative Committee, shall respond to any request by the Commissioner for comments on any proposed legislation or regulation affecting the placement of insurance pursuant to the surplus line law.

VII. DUTIES UNDER SECTION 1780.56(a)(7)¹¹ - EDUCATIONAL AND INFORMATION DISSEMINATION ACTIVITIES

The SLA shall continue to provide information and instruction to its membership and other interested persons concerned by broadening its communication capabilities, presenting seminars, educating the industry and consumers in surplus line laws and regulations, assisting with the regulatory compliance questions, and disseminating, in a timely matter, updated and current information relative to the surplus line industry.

The SLA shall continue disseminating information relative to surplus line issues through bulletins on topics of interest to its membership and through a quarterly newsletter. The SLA shall continue to offer its facilities and mailing list as a convenient and cost effective means of distributing documents and informational items relevant to the transaction of surplus line insurance at the Commissioner's request.

The SLA shall keep the Commissioner advised of all educational activities in which it engages and shall provide such other educational activities as may reasonably be requested by the Commissioner.

VIII. DUTIES UNDER SECTION 1780.56(a)(8)¹² - COMMUNICATING WITH ORGANIZATIONS OF ADMITTED INSURERS

The SLA shall, as necessary and appropriate in the furtherance of its duties as delegated and actively supervised by the Commissioner under Section 1780.50 et seq., communicate with and respond to questions or comments from organizations of admitted insurers regarding surplus line insurance.

¹⁰ Section 1780.56(a)(6) provides: "To respond to any request by the commissioner for comments on any proposed legislation or regulation affecting the placement of insurance pursuant to the surplus line law."

¹¹ Section 1780.56(a)(7) provides: "To receive and disseminate to its members information relating to surplus line insurance, to educate its members about the surplus line law and the regulations pertaining thereto, and to perform any specific educational activities that the commissioner reasonably may request."

¹² Section 1780.56(a)(8) provides: "To communicate with organizations of admitted insurers with respect to the proper use of the surplus line market."

IX. DUTIES UNDER SECTION 1780.56(a)(9)¹³ - ADDITIONAL FUNCTION AGREED BETWEEN THE COMMISSIONER AND THE SLA

The SLA welcomes suggestions by the Commissioner of additional functions that would assist the Commissioner in providing effective and cost-efficient surplus line regulation. The SLA shall meet periodically with the Commissioner and the Commissioner's staff on a schedule to be mutually agreed upon to consider modifications to this Plan. Through a verbal agreement with the Commissioner's staff, the SLA will maintain broker filings for a period of 10-years after they are received by the SLA. Records older than 10-years may be destroyed.

X. EXAMINATION UNDER SECTION 1780.58

The SLA shall undergo an examination of its organization once every three years. This triennial audit includes a review of the SLA's internal control, an assessment of the SLA's adherence to its Plan, and an assessment of the reasonableness of the stamping fee.

The examination may be made by independent auditors retained for that purpose by the Commissioner. The reasonable cost of the examination shall be paid to the Commissioner or, if the Commissioner retains independent auditors for that purpose, directly to the independent auditors, by the SLA upon presentation by the Commissioner, or by the independent auditors, of a detailed account of the cost.

XI. CONFIDENTIALITY AGREEMENT

All SLA employees shall sign a confidentiality agreement and shall commit to upholding the terms of this Plan.

[END]

¹³Section 1780.56(a)(9) provides: "To enter into written arrangements with the commissioner whereby the advisory organization will perform any other functions that, in the judgment of the commissioner and the advisory organization, will help the commissioner provide effective and cost-efficient supervision of the surplus line market."

SUMMARY OF REQUIRED POLICY INFORMATION

Information with respect to new and renewal policies:

1. Policy number
2. Name of insured
3. Type of coverage
4. Premium
5. Policy effective date and expiration date
6. Insurer code and each insurer's percentage of participation
7. Type of business and its respective SIC code
8. Zip code of the insured's address
9. Whether the policy is new or renewal
10. Invoice date
11. Single State or Multistate
12. California Home State Insured
13. Placed on or Before July 20, 2011
14. Exempt Commercial Purchaser

Information with respect to endorsements:

1. Policy number
2. Name of insured
3. Effective date of endorsement
4. Premium for the endorsement (if any)
5. Whether the endorsement is a policy cancellation
6. Invoice date
7. Single State or Multistate
8. California Home State Insured
9. Placed on or Before July 20, 2011
10. Exempt Commercial Purchaser

Information with respect to non-premium bearing endorsements concerning changes to any of the following:

1. Policy number
2. Name of insured
3. Type of coverage
4. Policy effective date and expiration date
5. Insurer code and each insurer's percentage of participation
6. Zip code of the insured's address
7. Single State or Multistate
8. California Home State Insured
9. Placed on or Before July 20, 2011
10. Exempt Commercial Purchaser

DESCRIPTIONS OF STANDARD AND PRIORITY TAGS

Under the guidance of the California Department of Insurance's Enforcement Division, the SLA is responsible for notifying the filing surplus line broker of any errors, discrepancies, missing information, or any other problems detected in the filed documents. These notifications are referred to as "tag" letters. There are two main categories of tags: Standard Tags and Priority Tags.

Standard Tags

Standard tags notify the broker of any errors, problems, discrepancies, or missing information in the filed documents. These deficiencies may be noted on the policy declaration page, cover note, binder, endorsements, or the SL-1 (Confidential Report of Placement) and SL-2 (Diligent Search Report) forms. The different types of standard tags are shown on the list below.

The SLA's procedures for follow-up on unresolved standard tags are as follows:

- Tags relating to deficiencies in the SL-1 and SL-2 forms remain outstanding in the SLA's system for only 30 days. If these tags are not resolved within the 30 day time period, the tag is automatically unsuspended, and a report listing all such unresolved violations by broker is sent to the Commissioner.
- For all non SL-1 and SL-2 standard tags that remain outstanding after 30 days, the SLA generates another tag letter which is accompanied by a cover letter and/or telephone call reminding the filing broker of the outstanding tags. If the tag is not resolved within 90 days, the SLA provides the Commissioner with a report of the unresolved items, listed by broker.

SL-1 and SL-2 Standard Tags (30 Day Response Time)

SI-1 Is Missing.
SL-1 Form Was Incomplete.
SL-2 Is Missing.
SL-2 Form Was Incomplete.
Section 6 Of The SL-2 Form Was Incomplete.
Section 7(B) Of The SL-2 Form Was Incomplete.
Admitted Company Names Are Incomplete On SL-2 Form.
Admitted Company Name On SL-2 Not Listed In Admitted Book.
Listed Admitted Insurers On SL-2 Not Licensed To Write Business.
SL-1/SL-2 Forms Required For Endorsements Extending The Policy Term.
SL-1/SL-2 Forms Are Not Legible.
Late Policy Filing Submitted With No Explanation.

Policy/Certificate/Binder/Endorsement – Standard Tags (90 Day Response Time)

Policy/Certificate Appears To Be Placed In An Admitted Company.
Policy/Certificate Number Is Missing.
Policy/Certificate Term Of Coverage Is Missing.
Incomplete Policy Or Binder.
Name Of Insured Is Not Shown Or Is Not Legible.
Non-Fileable Coverage.
Risk and Insured are Out of State.
Taxes Are Not Shown On Or In Policy/Certificate.
Premium Is Not Broken Down According To Coverage.
Renewal Has No Record Of Previous Policy Filed.
Risk Purchasing Group Name Is Not Shown.
Risk Purchasing Group Name Is Not On List Under Company.
Endorsement Has No Record Of Policy Being Filed.
Endorsement Date Does Not Fall Within Policy Term.
Cancellation Endorsement Effective Date Is Missing.
Endorsement Does Not Show Tax.
Duplicate Policy Filed By Same Broker. Duplicate
Policy Filed By Different Brokers. Duplicate
Endorsement Filed By Same Broker. Duplicate
Endorsement Filed By Different Brokers. No Specific
Tag Wording. Must Be Typed Manually. Revised
coversheet.

SL-1 And SL-2 Informational Tags – (No Response Required)

Incorrect SL-1 Form Submitted.
Incorrect SL-2 Form Submitted.
Incorrect SL-1 And SL-2 Forms Submitted.
SL-1 Form With Original Signature.
SL-2 Form With Original Signature.
Late Policy Filing Submitted With An Explanation.

Priority Tags

Priority tags notify the filing brokers of defects in their filings that the Commissioner considers more serious than standard tag items, such as the acceptability of the nonadmitted insurer with which the insurance was placed. These tags are issued because of a violation of a California statute or regulation.

The SLA's procedures for follow-up on unresolved priority tags are as follows:

- If a priority tag is not answered in 14 days, the broker is contacted by the SLA and sent a personalized letter along with another copy of the tag letter in an effort to obtain a resolution to the tag violation.
- If the priority tag remains unresolved by the 28th day, a report listing the types of unresolved violation(s) by the broker is submitted to the Commissioner's office.

Priority Tags (28 Day Response Time)

C.A.A.R.P. Declination is Missing.
Insurer Not In Compliance with GAP Provisions.
Company Not Approved for Use on LASLI List (for policies effective prior to 7/21/2011)
Alien Insurers Not on the IID List of Alien Insurers (for policies effective 7/21/2011 and onward)
Company Objected by California Dept. of Insurance.
Security Information is Not Provided.
Security List Does Not Show Group Breakdown.
Security Company Share of Risk Does Not Equal Share on Cover Note.
Security Agreement is Broken Down by Coverage, but Percentage of Participation Was Not Provided.
Lloyds Syndicate Numbers Not Shown.

OUTLINE OF SECURITY SUMMARY REVIEW

Under the directions of the California Department of Insurance - Financial Analysis Division, the SLA Financial Department shall prepare Security Summary Reports (SSRs) in a mutually agreed format. The SSRs will be based on financial documents forwarded by the Commissioner, or financial information accessed directly from the NAIC database, and/or additional information received by the SLA in accordance with the Plan of Operation. The SSRs will cover, but not limited to, the following areas pertaining to the company's operations and financial condition:

1. COMPANY BACKGROUND

A brief summary of the company's history including but not limited to the following:

- company's formation
- company's domicile
- company type (e.g. mutual or stock company)
- ownership (immediate and ultimate parents)
- company name change (if applicable)
- senior management changes (if applicable and significant)
- financial strength ratings (if any) from A.M. Best and Standard & Poor's
- solvency and capital adequacy (level of capital and surplus relative to its underwriting and investment risks exposures)
- dividend requirements
- Risk Based Capital (RBC) compliance (if applicable)
- any other major changes or factors that are relevant to the review and analysis of the company

2. COMPANY OPERATIONS

A brief overview of the company's operational structure and operational risks including but not limited to the following:

- business mix
- product concentration
- geographical spread/concentration
- substantial shift in the geographical area and/or product mix (if any)
- significant increase/decrease in business volume (if any)
- total premiums reported by the company as compared to total premiums processed by the SLA from broker filings in California
 - premiums for "commercial insured"

- premiums for multi-state risks
- premiums the single state risks
- percentage of premium allocated to California.
- underwriting leverage
- underwriting risk
- market risk
- any material changes or concerns relevant to the company's operations
- intercompany reinsurance arrangement (if applicable)
- market conduct issues
- strategic risk
- any apparent violations of California Insurance Code ("CIC") Section 703
- unusual affiliated transactions and agreements
- other factors that may raise concerns as to the integrity or stability of the company

3. EXTERNAL ENVIRONMENTAL CONSIDERATIONS

A brief discussion of the company's exposures including but not limited to the following:

- asbestos and environmental risk
- legal risk
- interest rate risk
- foreign exchange risk
- industry specialization risk
- any concentration of credit risk or other risks that may have an impact on the company's operations or solvency

4. ASSETS

An assessment of the quality and disposition of the company's assets including but not limited to the following:

- portfolio diversification and investment performance
- affiliated investment
- asset quality and concentration
- liquidity
- illiquid assets or assets that do not qualify under the asset standard requirements of CIC Section 1765.2(a)(2)(A) [e.g. low investment grade securities, not readily marketable investments]
- surplus notes (if any)
- pledged assets in excess of corresponding liabilities
- other non-admissible assets under ~~US Statutory Accounting Principles~~ NAIC Statement on Statutory Accounting Principles

5. LIABILITIES

A review and assessment of the company's aggregate loss reserves including but not limited to the following:

- qualification of the actuary and whether the actuary has any financial concerns and/or issued an adverse or qualified opinion
- reserving adequacy (noting any significant changes in the level of reserves in relation to premium volumes)
- loss reserve leverage
- reserve development
- exposure to catastrophic risks
- unusual values for the NAIC IRIS reserve ratios
- discounted loss reserves
- unearned premiums
- sizable payables to affiliates
- contingent liabilities
- any other large liability accounts

6. INCOME STATEMENT

A review and evaluation of the company's operating performance including but not limited to the following:

- underwriting results
- investment returns including capital gains/losses
- other large revenue and expenses
- profitability test ratios, if unusual
- loss ratio, expense ratio, and combined ratio
- unusual dividend policies
- one-time event effects on income or surplus
- earnings and financial performance

7. REINSURANCE

An analysis of the company's overall exposure to reinsurance credit risk including but not limited to the following:

- quality of the major reinsurers used, noting any reinsurers that may pose a risk to the company's solvency
- certain reinsurance contracts, noting items that may not be in compliance with the NAIC Accounting Practice and Procedures Manual
- size of the company's overall reinsurance recoverable amount relative to its capital and surplus
- significant reinsurance recoverable balances from individual reinsurers

- overdue reinsurance recoverable on paid losses/loss adjustment expenses (if any/available)
- unsecured reinsurance recoverable from unauthorized reinsurers (if applicable)
- recoverable from any reinsurer who is in run-off, receivership, liquidation, or subject to other regulatory action

8. U.S. TRUST ACCOUNT (for alien insurers only)

A review of the alien insurer's US Trust Account to ensure it meets California's trust fund requirements pursuant to CIC Section 1765.2(b)(1).

9. ADJUSTMENTS

A summary or list of the adjustments to be made to the company's policyholders' surplus as a result of inadmissible assets and/or increases to liabilities based on the analysis and review of the company's financial statements and other related information.

10. UPDATE

A summary of recent events affecting the company's solvency (if any) along with the company's most recent quarterly financial data (if available). Previous adjustments to surplus will be modified if necessary to reflect more recent financial information.

11. CONCLUSION

A recommendation made to the Commissioner regarding the suitability of the company to operate as an approved surplus line carrier in California and the rationale for the recommendation.

12. OTHER

The above analytical procedures involved in reviewing a surplus line carrier are not all-inclusive. The review may involve other procedures and methods not listed in the preceding paragraphs that may be applicable to a specific situation or occurrence.