

SLA CONNECTION

Surplus Lines News from the Golden State

The Surplus Line Association of California
Promoting a Fair, Healthy, and Competitive Market

Fall 2013

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California Surplus Lines Market Sees Upward Trends Heading Into 2014

By Cliston Brown
SLA Communications Manager

The market appears to be trending upward for California surplus lines brokers as 2013 comes to a close and 2014 beckons.

Statistics compiled by the Surplus Line Association of California (SLA), as of the end of the third quarter of 2013, showed increases in both premium and item counts over the first nine months of 2013, as compared to last year. During the first three quarters of 2013, SLA processed slightly more than \$4 billion in premiums, an increase of 16.6 percent (\$570 million) over the first three quarters of 2012. It also processed 364,569 items during the same time period, an increase of slightly more than 2 percent over the corresponding timeframe in the previous year.

Additionally, trend lines compiled over the last 10 years by SLA show that premium filings appear to be on an upward trend in the last few years in most of the leading surplus property casualty lines. Looking only at written premiums, new and renewal premiums totals in General Liability, Errors and Omissions, Directors and Officers, and All Risk Property went up from 2011 to 2012, while Difference-in-Conditions and Special Multi-Peril were slightly down. But SLA Data Process-

ing Manager Pat McAuley noted that, due to late filings, those 2012 numbers are all but certain to end up higher when all filings are in for that year. A recent internal SLA analysis of filings showed that significant numbers of these reports are filed as many as 18 months after they are written, so the trends from 2012 will not be fully apparent until 2014.

While the raw numbers compiled by SLA would appear to be pointing upward, a veteran California wholesaler cautions that past performance is not always predictive of future events, particularly in surplus lines, where there are numerous variables.

"I'm in my seventh cycle in the business," said Jerry Sullivan, chairman of Gerald J. Sullivan and Associates. "Every (cycle) is different, because there are all kinds of factors that give rise to it. Being able to figure out what are the brilliant things I want to look at, to figure out what is going to happen tomorrow, is not an easy exercise, to say the least."

That disclaimer noted, Sullivan did mention that one key trend he has seen in the market lately is in reinsurance.

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State of the Market

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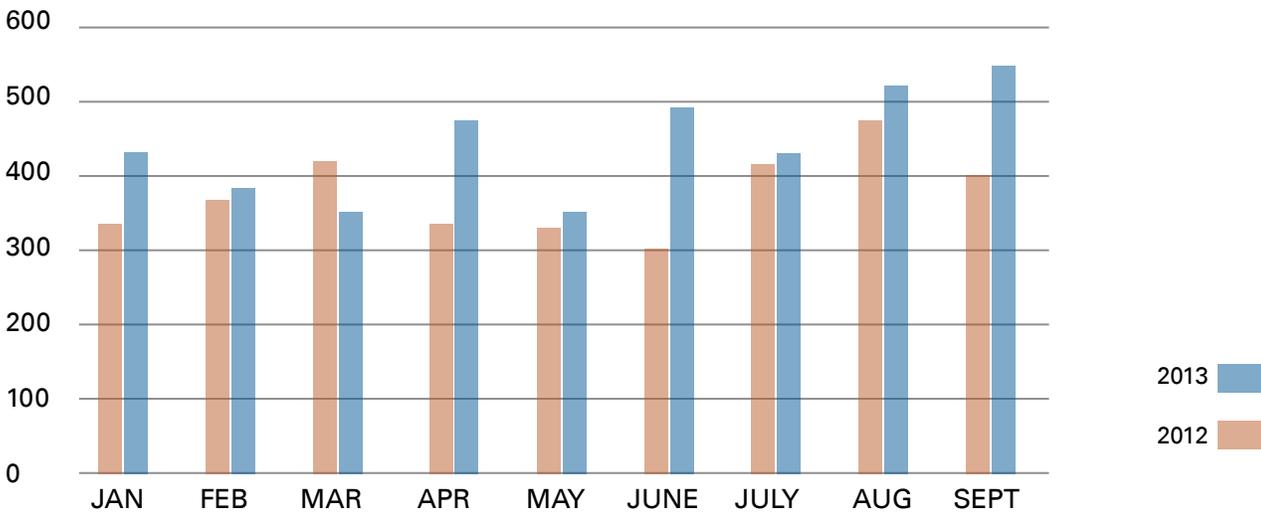
“Right now, an item which is not being seen closely within the surplus lines industry is that there have been enormous amounts of capital moving into the reinsurance industry, largely in the form of catastrophe bonds,”

Sullivan said. “Now, a lot of people in surplus lines will say that doesn’t affect us, but it does affect us to the extent that there is significantly more capital in the reinsurance industry and pricing is forced down. That

will have a similar impact on surplus lines (eventually). It is an area worth watching. It doesn’t happen immediately in the surplus lines industry, but it will have an impact eventually.”

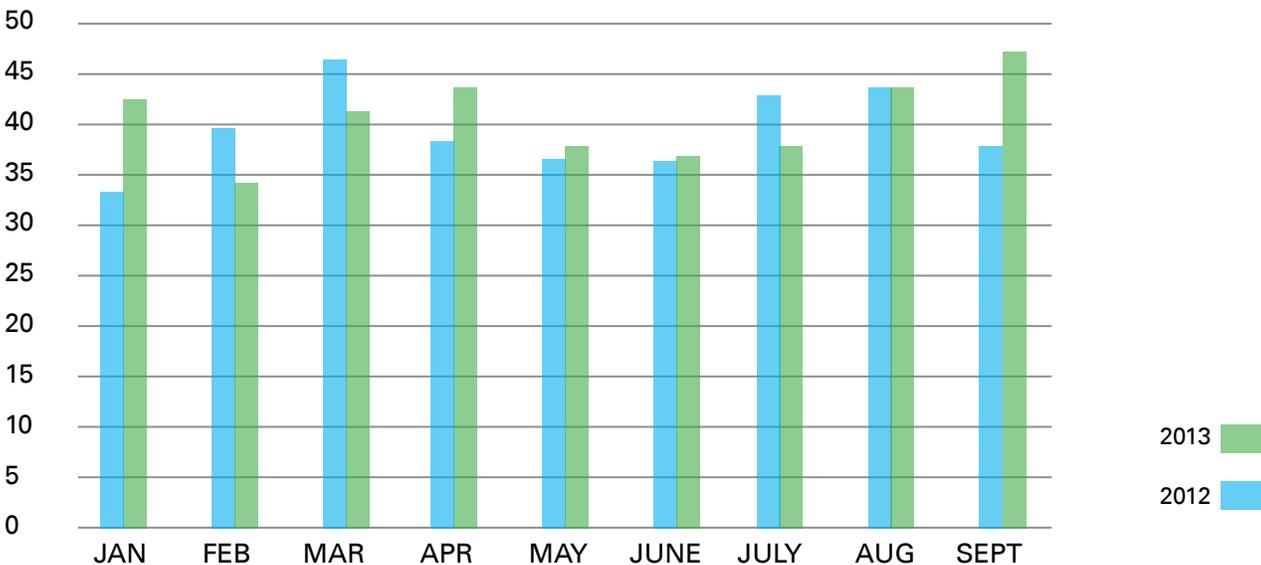
Comparison of Premium Processed Through 3rd Quarter of 2013 vs. Premium Processed Through 3rd Quarter of 2012

All values represented in Millions of Dollars



Comparison of Items Processed Through 3rd Quarter of 2013 vs. Items Processed Through 3rd Quarter of 2012

All values represented in Thousands of Items



IT Corner: SLA Rolls Out SLIP 2.0; Brokers Enthusiastic About Ease of Filing, Greater Functionality



By Michael Caturegli
SLA IT Manager

SLA released the newly redesigned SLIP Broker Portal (SLIP 2.0) for online filing of batches, tag processing, and viewing account information on August 26, with overwhelming success. The better-streamlined, easier-to-use system also contains more reports, more detailed account information, and better tag management, providing a better overall broker experience.

This new version of the SLIP Broker Portal resulted from broker feedback and reevaluation of the original SLIP system flow. In addition, the SLA streamlined some of its processes, such as eliminating detailed data entry associated with multiple insurer policies, and no longer requiring broker signatures on SLA payment invoices.

SLA also consulted with other surplus line associations to better understand where it could create some uniformity across its SLIP systems.

To complement its launch of SLIP 2.0, SLA provided online training webinars in September and conducted four classroom-based training sessions in San Francisco, Sacramento and Irvine. In almost all cases, the classes filled immediately, and attendees were able to use SLIP 2.0 on a classroom computer as part of the instruction. Many of the attendees had never used SLIP before and some only for filing in other states.

The instructors consisted of SLA managers provided from various departments, and SLA's lead instructor from Infinity Software, who assisted in the creation of the new SLIP system. This provided a collaborative forum for attendees to ask questions directly and make useful, real-time suggestions for improvements.

The positive response from attendees has encouraged SLA to provide more of these hands-on SLIP training courses in 2014, and on an ongoing basis.

In addition to the new SLIP, SLA continues to innovate ways to make it easier for brokers to file required paperwork with the association, and to get all the latest information and assistance online. To that end, in October, the SLA Executive Committee and IT Committee discussed the association's technology needs for the upcoming year.

From these discussions, several projects arose that are designed to improve the overall quality of ser-

vice and communication to the SLA membership. Some of these projects include the redesign of the SLA website, a mobile version of the website, and SLIP Mobile.

The new and improved website will incorporate a more user-friendly interface, as well as much easier navigation and information retrieval, and it will provide a much improved search function. In addition, it will provide added functions and tools for all SLA members, as well as enhanced industry charts and reports.

The mobile version of the website will display the same information contained on the website, but in a format that is better suited to mobile devices. SLIP Mobile will entail the SLIP 2.0 software, but will be pared down to provide for basic account functions and broker-specific information for logged-in users.

There also will be a strong emphasis on member training and continuing education (CE) credit classes, which will be made available throughout the year either via web conferencing or live seminars and classes.

SLA's Information Technology department is available to assist users with any questions or concerns about its website and software. Please call 415-434-4900 and ask for the IT Department, or send an e-mail to support@slacal.org to get help on website or software issues.

SLA New Filer Program Will Help First-Time Filers Navigate Potential Pitfalls, Avoid Tags

By Cliston Brown
SLA Communications Manager

The Surplus Line Association of California (SLA) is formalizing its New Filer Program, free of charge, to help first-time filers avoid some of the common errors and issues that befall brokerage employees who are unfamiliar with the procedure.

Filers who have filed batches previously are also encouraged to sign up if they need a refresher course.

SLA Executive Director Benjamin McKay said the association already had the ability to assist new filers and had been doing so upon request. He felt that SLA needed to do a better, more proactive job of publicizing its capabilities for helping novice filers, so that more brokers and their filing staff would take advantage of the assistance SLA could offer.

“We have been giving a lot of thought to how we can best help our brokers and their employees enhance compliance,” McKay said. “In all of our internal discussions, we talked about how we could make the filing process less stressful and more productive for new filers. We had already been offering new filer assistance informally, and we realized that it would be helpful for us to formalize the program and make it better known to our brokers and their employees who file forms with SLA. It will give them an opportunity to get the guidance and the answers they need and make them less apprehen-

sive about the process. Ultimately, we hope this will lead to fewer tags, more on-time filings and greater compliance, which will create greater efficiencies for filers and SLA staff.”

The program will give new filers a three-month grace period in which SLA Data Processing staff will review the submitted packets and work with the new filer to improve compliance. Although late filings will continue to receive tags regardless of the filer’s status—as an estimated 60 percent of filings come in late—SLA will go over other errors with the filer during the grace period to correct those errors before the actual filing.



Pat McAuley

SLA Data Processing Manager Pat McAuley said it can be daunting for new filers, who are overwhelmed already with learning the procedure for filing batches, to then receive numerous tags at the end of the process.

The batches, which include a cover sheet, SL-1 and SL-2 forms, a declarations page, any endorsements and

information on Lloyd’s syndicates where necessary, are complex documentation, and it is understandable that filers who are new to the process would need expert assistance and a sufficient amount of time to accommodate their learning curve.

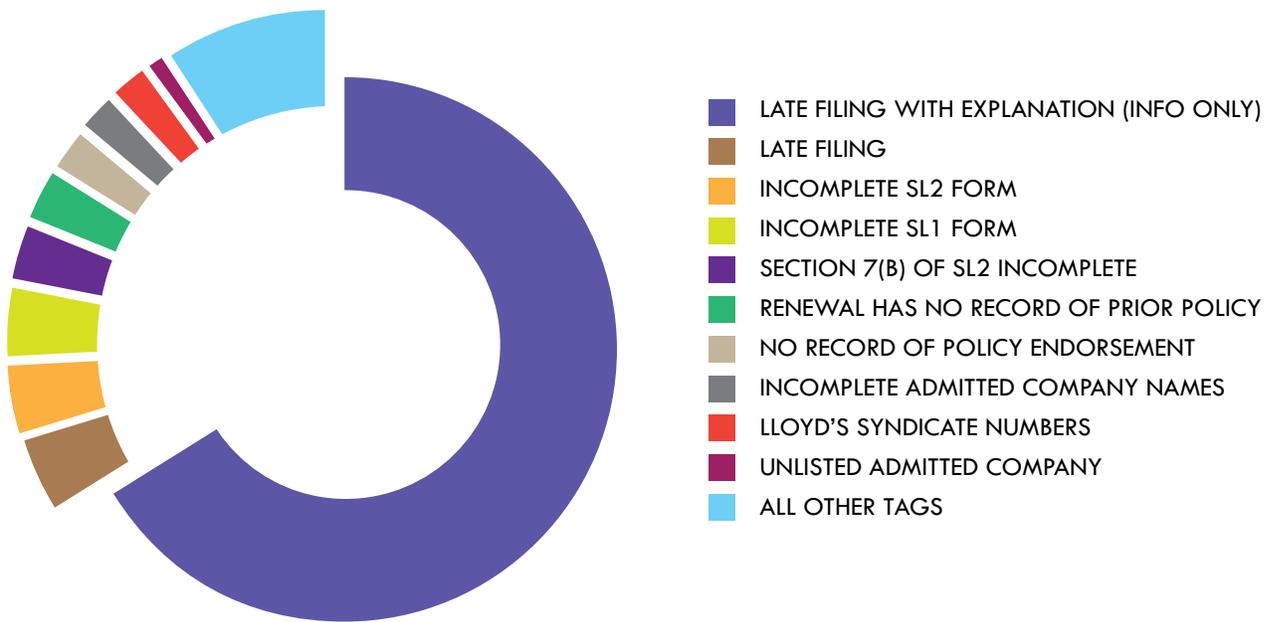
“If they call us and don’t really know anything about the process, we will work with them,” McAuley said. “They can submit batches to us, and we will review the documents first, correspond with them and tell them the things that are missing or incomplete.”

McAuley said the New Filer Program will serve not only the specific new filer and the company he or she represents, but the entire broker community. In short, it is in everyone’s best interest to do the filing correctly and to have fewer tags submitted to the California Department of Insurance (CDI).

McAuley also said that it was important that filers should understand the purpose behind all this complex documentation. Ultimately, she noted, the filings provide a service that protects and benefits California’s surplus lines insurance consumers by ensuring that all laws and regulations are followed.

In order to take advantage of SLA’s New Filer Program, please sign up by calling Pat McAuley at (415) 434-4900, extension 111, or via e-mail at pmcauley@slacal.org.

SLA Identifies Top Tags Through Third Quarter of 2013, Offers Suggestions For Reducing Them



Late filings made up 71 percent of all tags issued by the Surplus Line Association of California (SLA) through the third quarter of 2013, with 67 percent providing an explanation and the remaining 4 percent unexplained.

Among other tags, incomplete SL-1 and SL-2 forms each accounted for 4 percent of tags issued through the third quarter.

SLA suggests several ways to avoid receiving tags, including:

- Make a notation on the filing if the previous policy was written with an admitted carrier or the responsibility of another broker.
- If an admitted carrier's name begins with a common name (such as Travelers), enter the NAIC

number of the exact admitted company contacted.

- If a policy contains a consortium, provide the syndicate numbers and percentage of participation that comprises the group.

TAG DESCRIPTION	%	COUNT
LATE FILING WITH EXPLANATION (INFO ONLY)	67	68,165
LATE FILING	4	4,166
INCOMPLETE SL2 FORM	4	4,057
INCOMPLETE SL1 FORM	4	3,679
SECTION 7(B) OF SL2 INCOMPLETE	3	3,092
RENEWAL HAS NO RECORD OF PRIOR POLICY	3	2,882
NO RECORD OF POLICY ENDORSEMENT	2	2,301
INCOMPLETE ADMITTED COMPANY NAMES	2	1,999
LLOYD'S SYNDICATE NUMBERS	2	1,860
UNLISTED ADMITTED COMPANY	1	1,328
ALL OTHER TAGS	9	8,693
TOTAL	100	102,222

SLA Goes To Bat For Brokers on Legislative, Regulatory Fronts In 2013



By Benjamin J. McKay
SLA Executive Director

This has been an active year on the legislative and regulatory fronts, as SLA has worked with both the state legislature and administrative agencies on several key issues of interest to California surplus lines brokers.

In its recently completed session, the legislature passed AB 1236, which SLA supported. This law eliminates the requirement that limited liability corporations with contractor licenses obtain their general liability insurance from an admitted carrier. It is SLA's understanding that the requirement stemmed from the misconception that surplus lines are not regulated. As SLA explained to the legislature, forcing LLCs to utilize only admitted carriers is not helpful if there are no available admitted carriers to write the insurance they need. Also, the surplus line market is, in fact, regulated by law. Governor Jerry Brown has signed the legislation into law, and it will become effective Jan. 1, 2014.

Also passed by the legislature and signed into law this year was SB 251, which would allow policy renewal notices and disclosures to be sent electronically. Workers' compensation, auto, specified property insurance and the mandatory offering of earthquake coverage with residential property may now be made electronically. This will enable consumers to use computers or mobile devices to receive these notifications, potentially cutting down significantly on the use of paper.

Additionally, SLA had supported legislation that would modify Section 1775.4(a) of the state's insurance code to allow brokers not to file zero premium tax filings with CDI. This type of filing has risen dramatically after 2008, when the law changed to require all persons transacting business to be licensed. This law was part of an effort to make California's licensing regime uniform with a majority of other states. In 2012, only 823 of the state's 5,077 licensed surplus lines brokers had transacted business, which required 4,254 licensees to file zero premium tax filings. SLA made the case that this process is inefficient both for the CDI and the broker community. After SLA initially pursued legislation to solve this issue, its discussions with the CDI and other stakeholders led to an agreement in which the insurance department decided to eliminate the requirement administratively.

Finally, SLA has been working

to modify a proposed Department of Motor Vehicles (DMV) regulation on autonomous vehicles, which is due January 2015. The regulation provides that liability policies and surety bonds must be issued by admitted insurers. It is very possible that the admitted market may not have the capacity to handle these policies, so SLA is pursuing a fix to that language with the DMV.

SLA will continue working with CDI and the DMV in 2014, as well as actively monitoring new legislative and regulatory issues that will affect California's surplus lines brokers. The association will also take steps toward building productive working relationships with legislators and regulators in order to promote a healthy, fair and competitive market for brokers and insurance consumers.



IICF Week of Giving 2013: SLA Employees Volunteer For Those In Need

By Clifton Brown

SLA Communications Manager

Employees of the Surplus Line Association of California (SLA) got into the spirit of giving the week of Oct. 12-19.

Approximately 70 percent of SLA's 55 employees spent half a day that week volunteering, either at the San Francisco Food Bank or at an Episcopal church. Those working at the food bank packed oatmeal into one-pound bags for distribution, and those volunteering at the church served lunch to low-income seniors and the homeless.

The volunteer efforts were part of the annual "Week of Giving" sponsored by the Insurance Industry Charitable Foundation (IICF), which that organization has been holding for the last 13 years. The IICF website describes the event as follows:

"Insurance Industry Charitable Foundation's Week of Giving (formerly Volunteer Week) is an eight-day industry-wide volunteer event where teams of insurance industry volunteers provide three or more hours of volunteer service at neighborhood and community nonprofit organizations through-out the week. Since 2001, the insurance industry, working together, has generated over 166,000 hours of volunteer service, engaging thousands of volunteers in 36 states ... and growing!"

SLA Executive Director Benjamin



SLA employees package oats into one-pound packs for distribution to the Bay Area's needy at the San Francisco Food Bank.

Photo by Thomas Liebold

McKay, who joined the IICF's Western Division Board of Directors last summer, is pleased with his staff's support of this event. He sees SLA's involvement in the annual Week of Giving as a chance to involve both the association and the industry in the community in a positive way.

"SLA strives to be a leader in our industry and our community, and one of the best ways to do this is to give back through participating in charitable and philanthropic efforts," McKay said. "We take our responsibility to our community very seriously, and we are glad to take part in IICF's national efforts to help those who are in need."

"I look forward to volunteering every year," said Isabel Archer, who works in SLA's Data Processing Department. "It is my favorite week and

I love it! Not only do I get to bond with my co-workers, but I get the opportunity to connect and give back to my community. Who could ask for anything more?"

"Volunteering is worth it, because it brings good things to good people that are in need," said Cathy Hankins, a member of SLA's Financial Department.



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Insurance Industry Charitable Foundation

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The Sullivan Group

California SLA is Now on Twitter

By Cliston Brown
SLA Communications Manager

The Surplus Line Association of California (SLA) has launched its brand-new Twitter account, @SLACALNews, as a means of pushing out vital information to California brokers.

SLA's new Twitter feed will enable followers to get useful updates about what is happening at SLA, as well as other important industry news retweeted from a diverse list of sources, such as trade journals and other insurance associations.

To "follow" someone on Twitter means to receive updates from that person or organization. Whatever a user posts is received in the news feed of all that user's followers and can also be accessed by non-followers who search out the user.

For brokers who already have Twitter accounts, following the SLA news feed is simple. Just look up @SLACALNews in the search bar at the top of the page and hit the "Follow" button below the information box that appears in the upper right-hand corner.

For those who are not already on Twitter but would like to sign up, this is also an easy process. Go to www.Twitter.com and fill out key pieces of information, such as name, username and password. It is not necessary to use one's actual name as a username, but doing so makes it easier for potential followers to locate a person's account.

Twitter's utility is that it is a way to get brief bits of information from numerous sources. Posts are limited to 140 characters, so those posting have to get to the point quickly. Many posts hyperlink to other items on the Internet, often news stories.

Twitter is rapidly becoming an increasingly important information aggregator. According to a study taken in September 2012 by the Pew Research Center for the People and the Press, about 11 percent of the public used Twitter as a source to find news, up from 6 percent in 2010.



SLA Director Erven Attends Conference For Women Leaders in Insurance

SLA Director Joy Erven (right) attended the Insurance Industry Charitable Foundation (IICF) "Women in Insurance Global Forum" in New York this summer. The forum served as an opportunity for key female insurance industry leaders to address gender diversity, a top priority for IICF and SLA.



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