TO       Surplus Lines Licensees
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DATE      March 31, 2010 
RE        Surplus Lines Law Amendments 

Senate Bill 237, P.N. 1688 was signed by the Governor on March 22, 2010 (“Act 14 of 2010” or “Act”). The Act contains a number of Insurance Department initiatives including updates to Article XVI (surplus lines) of The Insurance Company Law (40 P.S. §§991.1601 – 991.1625). Attached is a copy of S.B. 237 which becomes effective on September 20, 2010. (The surplus lines amendments begin on page 17 of the bill. Language being deleted is within brackets, and language being added is underlined.) Addressed below are several of the amendments.

IMPORTANT: As this notice only addresses certain of the amendments to Article XVI, you should review and familiarize yourself with all amendments.

1. Changes in terminology to make the Surplus Lines Law consistent with terminology used in the Producer Licensing Modernization Act (“PLMA”) (i.e. “agent” and “broker” to “producer” and “producing broker” to “writing producer”). (See Section 1602.)

2. A change to reduce the minimum requirement for official publication of the eligible list from semiannually to annually due to the availability of current information on the Department’s website. (See Section 1605.)

3. Changes to eliminate the concept of Advisory Organization membership. “Membership” typically implies that one has an option to join. All surplus lines licensees are required to submit surplus lines placement filings to PSLA as the Advisory Organization. Separate from the Advisory Organization, PSLA operates a trade organization with voluntary membership. A provision has been added to allow the Department to order a surplus lines licensee to participate in educational seminars as a condition to continued licensure. (See Section 1611.)
4. A change to eliminate the requirement for mandatory examination of the Advisory Organization. (See Section 1611.)

5. Changes to the licensing process for the surplus lines producer to be consistent with the licensing processes of the PLMA in the following areas: (See Section 1615.)

   a. Current law provides for the issuance of a “Certificate of Eligibility” to those officers and employees of a business entity where the business entity holds a surplus lines license. The certificate holders currently have to meet certain requirements (i.e. pass the surplus lines examination) but are not responsible for tax and production filing requirements placed on the business entity as the surplus lines licensee. The amendment eliminates the “certificate of eligibility” and places a business entity and an individual on equal footing. The amendment further provides for the business entity licensee to maintain on file with the Department a list of associated individuals for which they will be filing production and tax reports.

   b. Language has been added to provide for reciprocity for nonresident licensing.

   c. Current law provides for an annual license renewal with a common (March 1) renewal date. The license term switches from a one-year license to two-year license, doubles the renewal fee to account for the two-year license, and provides for a license expiration date at the end of birth month similar to the insurance producer license. Additional information on the conversion of existing surplus lines licenses to the new two year cycle will be distributed from the Bureau of Licensing and Enforcement in the very near future and posted on the Department website.

6. The fine and penalty amounts have been increased to a level that the Department believes will encourage compliance with the law. (See Section 1625.)