

SURPLUS LINES INSURANCE

Insuring the Uninsurable

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Marie Parks lives in a **home**, built on the **beach** overlooking the Gulf of Mexico.



JoAnn Decker operates a home **childcare business** in Orlando.

Hector Sanchez owns a **\$200,000 sports car** in Tampa.



What do all of these Florida residents have in common? They all have insurance needs that may be uninsurable in the standard insurance market. That is where surplus lines insurers can help. Surplus lines insurers write policies for unique high-risk situations that other insurance companies will not cover.

Whether someone needs homeowners insurance for a dangerously exposed home, coverage for an expensive vehicle or boat, or insurance coverage for a high-risk business, there is a purpose for surplus lines insurers in Florida.

What Is Insurance with a Surplus Lines Insurer?

It is insurance coverage for individuals or companies who cannot get coverage in the standard or "admitted" market. Standard companies may not write policies for unusual or high-risk situations. This could include extremely old homes, homes located in coastal areas, expensive boats and cars, day-care centers' liability needs, etc. Surplus lines insurers also provide coverage for very high risks, such as professional athletes who insure part or all of their bodies. They can also cover individuals who are responsible for a vacant home inherited from a recently deceased relative until probate or the will is finalized.

What Are the Benefits of Surplus Lines Insurance?

A surplus lines insurer is not required to file insurance forms or rates with the Office of Insurance Regulation. This freedom from this regulation allows surplus lines insurers the ability to tailor a policy to fit a specific need or situation, as opposed to the confined coverage found on a standard form. This tailor-made fit makes the surplus lines market a viable option for some consumers.

What Are Other Differences With Surplus Lines Insurance?

Surplus lines insurers are not "licensed" by the Office of Insurance Regulation (The Office). However, surplus lines insurers must approved through the Office in order to sell policies in Florida.

The Florida Insurance Guaranty Association (FIGA) does not guarantee the claims or premium refunds of surplus lines insurers. This means if a surplus lines insurer becomes insolvent, FIGA does not pay its policyholder's outstanding claims.

Most policies purchased through a surplus lines insurer have minimum earned premium requirements. This means if you cancel the policy early, you must pay at least the minimum premium. The minimum earned premium must be listed on the declarations page of your policy. The cost of insurance through a surplus lines carrier can be more expensive than insurance sold in the standard market. Also, some policies may include a service fee with the premium. And all insurance through a surplus lines carrier includes a premium tax.

Service Fees and Taxes

The service fees and taxes are collected by the Florida Surplus Lines Service Office (FSLSO). FSLSO is a, not-for-profit organization, created by the Florida Legislature to oversee the surplus lines industry in this state. The law requires the FSLSO to enhance insurance availability to consumers, provide advice and counsel for the benefit of consumers, agents, companies and government agencies, and to protect the revenues of Florida.

Currently, a service fee of 0.25 percent is applicable for all surplus lines policies with an effective date after April 1, 2004 collected by the agent when the policy is purchased. The service fee should be shown separately on the declaration page. The agent must send the fee to the surplus lines agent. The surplus lines agent is required to send all collected fees to the FSLSO at the end of the reporting period.

In addition to the service fee, a premium receipts tax of 5 percent is also assessed on the premium for surplus lines coverage. (If the premium were \$1,000, the receipts tax would be \$50.) Your agent is required to collect this amount, along with the premium. This tax must be shown as a separate charge on the declarations page of the policy and may not be waived or paid by your agent. This tax is paid to the Florida Department of Financial Services.

Most surplus lines policies also include a nonrefundable policy fee. This fee helps to cover the administrative cost of issuing the policy.

Applicable Assessments

In 2002, the Florida Legislature passed a law establishing the Citizens Property Insurance Corporation (Citizens). Citizens' provides insurance to homeowners and others who are unable to locate coverage in the voluntary insurance market. Citizens can impact the insurance industry by charging an assessment (fee) to recover from an operational deficit. This would impact both the admitted and nonadmitted insurance markets. FSLSO has the responsibility for collecting assessments, levied by Citizens, on policies issued by the surplus lines insurers.

Florida law also provides the Florida Hurricane Catastrophe (CAT) Fund with the ability to assess surplus lines policyholders to pay emergency assessments in the event the CAT Fund board determines a deficit exists. FSLSO is responsible for identifying surplus lines policies subject to the assessments, as well as verifying and collecting such assessments through the surplus lines agents.

Penalty Fees

Surplus lines policies may vary from those of the standard market. Carefully read the terms and

conditions of your policy upon receipt. You are not provided a "free look period;" therefore, your policy is a legal contract at the time indicated on the application or the policy. If you cancel your policy (contract) before the expiration date, you could be charged a penalty of up to 25 percent of your premium.

How Do I Purchase Surplus Lines Insurance?

Insurance with surplus lines insurers is sold by licensed surplus lines agents. The Department of Financial Services issues licenses to general lines agents to become surplus lines agents after they have completed training and passed the required examination. You may call the Department's Consumer Helpline toll-free at 1-877-693-5236 to verify whether a particular agent is licensed to sell surplus lines insurance in Florida.

General lines insurance agents who become surplus lines agents automatically become members of the FSLSO. The general lines agent, who is not a surplus lines agent and cannot obtain coverage for a consumer in the standard market, can locate a Florida surplus lines agent to find the coverage the consumer needs. Once coverage has been purchased, the surplus lines agent will issue a receipt or a binder, beginning coverage immediately. Please note, however, before choosing a surplus lines company as an option, the law requires the agent to first receive three rejections from licensed insurers in the standard market.

After the sales transaction, the policy information is provided by surplus lines agents to the FSLSO, which then prepares activity reports for review by the Department of Financial Services.

Purchasing a Policy without a Florida Licensed Surplus Lines Agent

When there is no Florida agent involved in an insurance transaction, and the policyholders or their representatives purchase coverage from a surplus lines insurer, this is called Independently Procured Coverage, or IPC. With IPC transactions, the policyholder or their representative must report the premium to the FSLSO and pay the appropriate

premium receipt tax, as well as the service fee.

Each policyholder or their representative must report the premium via the Internet, by going to www.FSLSO.com and selecting the "IPC" link. They must submit their names and e-mail addresses. Once the submission is received, an e-mail containing a link to a secure web server is sent to the filer, enabling them to provide information pertaining to the policy and receive the proper amounts for tax and fees that must be paid to the Department of Financial Services and the FSLSO.

Policyholders whose information is not filed or filed incorrectly may be subject to civil action by the Florida Department of Financial Services and may be required to pay interest on any past due amounts.

How Do I File a Claim?

Make sure your agent is listed on the declarations page of your policy.

You may contact your agent directly to file a claim. If you are unable to contact your agent, contact your insurer. If you cannot contact either, call the FSLSO. It will assist you in contacting your surplus lines agent or your insurer.

If you have difficulty getting your claim resolved, contact the Florida Department of Financial Services Consumer Helpline toll-free at 1-800-342-2762 for assistance.

Your Rights and Responsibilities When Buying Insurance through Surplus Lines Insurers

When you buy surplus lines insurance you have certain rights and responsibilities. You are responsible for evaluating your needs and making sure the insurance company and policy you choose can meet those needs.

You are responsible for verifying licenses. To verify the license of a surplus lines agent, general lines agent or insurer, call the Florida Department of Financial Services Consumer Helpline at 1-877-693-5236.

You are responsible for ensuring the accuracy and completeness of information on your application. You should never sign any blank, incomplete or inaccurate forms. In addition, you should request

copies of all forms and applications signed by you or your agent.

You are responsible for obtaining a receipt for your payment or proof of coverage from the agent once you sign the application and pay the premium.

You have the right to a proper and timely investigation of your claim.

Termination of Coverage

There are various reasons why a company may refuse to renew or cancel a policy. There is also a process a company must follow if a property, casualty, or marine insurance policy is being canceled or nonrenewed. The provisions a company must follow are listed below:

Notice of Nonrenewal

Surplus lines insurers must notify the insured in writing at least 45 days before the policy described above expires if they decide not to continue the coverage. The nonrenewal notice must state the reason(s) why the policy is not being renewed.

Notice of Cancellation

If the insurer cancels or terminates a policy described above within the first 90 days the policy is in force, for any reason other than nonpayment of premium, the company must provide the consumer with 20 days written notice.

If the insured failed to pay their premium, the company must provide only 10 days written notice of cancellation for policies described above.

If incorrect information is provided on an application, or the consumer fails to comply with the company's underwriting requirements, notice of cancellation is not required. The policy can be canceled immediately.

If you have questions about a company or agent providing insurance with a surplus lines insurer, call the Florida DFS Consumer Helpline at 1-877-693-5236, or visit the FSLSO Web site at www.FSLSO.com.

Florida Surplus Lines Service Office

"Serving Florida's Surplus Lines Community"

