

# SLA CONNECTION

Surplus Lines News from the Golden State

The Surplus Line Association of California

Fall/Winter 2014-15

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## Regulation: A Key Issue

Lines Between State, Federal, International Impact Brokers

**By Clifton Brown**  
Editor-in-Chief

The predominant topic of conversation regarding the future of insurance regulation in the United States continues to be whether the federal government and the international community will wrest away the prerogatives of the state regulators, and if so, to what degree?

With the advent of a **Federal Insurance Office (FIO)** and a **Financial Stability Oversight Council (FSOC)**, the involvement of the **Federal Reserve** in insurance, and continuing discussions between Washington, D.C., the states and international supervisors, uncertainty abounds as to where the lines eventually will be drawn—and what impact these eventual delineations will have on various sectors of the insurance marketplace, including surplus lines.

Although there remains a widespread misperception that surplus lines are “unregulated,” brokers know that the industry is well and diligently regulated via a system of broker responsibility. It is up to the individual broker, licensed by California, to ensure that the policies he/she places are in accordance with all laws and regulations in California. Additionally, the market to which the business is placed is regulated by a different regulator. As a result, the question of whether federal, state or international regulators and supervisors will have primacy is by no means an irrelevant issue within the surplus lines community.

“In thinking about whether you as an individual insurance professional prefer state or federal regulation, imagine that you are getting a call from your regulator in regards to your

license,” said **Benjamin J. McKay**, JD, MPA, the SLA's Executive Director. “Now imagine that call is coming from the U.S. Department of the Treasury in Washington, D.C. Would you prefer to deal with the U.S. Department of the Treasury, or with the California Department of Insurance?”

“Regardless of our desire to be state regulated, there is no question that the federal government will continue to seek a greater role, particularly when it comes to representing U.S. regulators in discussions with international supervisory entities,” McKay added. “What remains constant in this amorphous regulatory environment is the need for the industry to work collaboratively on shaping these policies to ensure they protect the consumer while reflecting the realities in the marketplace.”

McKay suggests that the notion of state vs. federal regulation, and which system is better, is a false choice; that, in fact, we already have both state and federal regulation.

The regulatory balance in insurance is weighted toward the states but this is not typical. Insurance has been the outlier. Since the business of insurance was deemed to be interstate commerce by the Supreme Court in 1944, the federal government has had a legitimate claim to regulate it. Only through the power of a strong, unified industry; the many structures it created like the National Association of Insurance Commissioners (NAIC); and resolute legislative action, has the industry able to fend off attempts at direct federal regulation. Yet, the pull is palpable; you can feel it. Whenever

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# SLA 2015 Annual Meeting Highlights Winter Schedule

Registration open now for San Francisco and Los Angeles sessions in February

By **Cliston Brown**

Editor-in-Chief

If you have not already done so, please register for one of SLA's upcoming Annual Meeting sessions, which are taking place **Tuesday, February 3, 2015**, in San Francisco and **Thursday, February 5, 2015**, in Los Angeles.

Each segment of the Annual Meeting offers attendees the opportunities to network with brokers, markets, regulators and SLA staff. The knowledge and relationships you can gain at this event could be invaluable to your business endeavors.

The meeting also features the election of the 2015 SLA Board of Directors, who will determine the SLA's course and policies in the coming year. All resident licensed brokers are eligible to vote, so please take advantage of this opportunity to help guide the course of your association.

## Regulation: A Key Issue

the federal government is not consumed with other matters, it tilts its head toward the insurance industry and the gravitational pull intensifies. In fact, it feels inevitable that insurance will be more heavily regulated by the federal government than the states, like the banking industry.

The industry rightly argues that insurance is different from banking. However, to federal regulators and many policymakers, insurance looks more similar than different to banking. If for no other reason than they understand banking better and it would be more convenient if insurance was like banking. The federal gravitational pull is inescapable for three reasons: 1) insurance is interstate commerce and therefore the regulatory province of the federal government, if it wants it; 2) the federal government feeds on justifying its existence to voters and increasing its regulatory footprint is always on the menu; and 3) globalization of the insurance industry and insurance markets necessitates federal involvement due to the inter-country agreements necessary to ensure fair, healthy and competitive global markets.

## SLA Annual Meeting 2015

**San Francisco:** Tuesday, February 3, 2015, 3:00 p.m.

**Los Angeles:** Thursday, February 5, 2015, 10:00 a.m.

**Registration:** <http://www.slacal.org/annualmeeting2015.html>

### Venue, Time Change in San Francisco

It is important to note that the SLA has changed the format of the San Francisco segment of the meeting this year. In response to suggestions from members, this segment of the meeting will take place in the afternoon, starting at **3:00 p.m.** and ending with a networking reception. The event will take place in the historic **Julia Morgan Ballroom at the Merchants Exchange**, in the heart of the Financial District. At **465 California Street**, it is easily reachable by public transit.

### Los Angeles Venue Unchanged

The Los Angeles segment of the meet-

ing remains unchanged from previous years, taking place at the storied Jonathan Club, 545 South Figueroa Street. This legendary social club, an L.A. icon for more than a century, is worth seeing if you have not been there, and certainly worth revisiting for those who have. This segment of the meeting starts at 10:00 a.m. and concludes with a reception and luncheon.

Please add these meeting dates to your calendar and make plans to attend one of these sessions in February. The SLA is your association, and attending the Annual Meeting is an important way to participate.

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which surplus lines insurance is regulated, it is in our industry's interests to ensure that the licensing process remains a matter for the State of California and the other states. As an aside, multi-state licensing regimes such as the soon to be created National Association of Registered Agents and Brokers (NARAB) will streamline this process. (Interestingly, NARAB was created in federal law.)

McKay urges brokers to remain informed on discussions and developments that are taking place around the issue of state, federal and international regulation. Discussions are ongoing between the FIO, the NAIC and the **European Union (EU)**, as noted by NAIC CEO **Ben Nelson**, former Democratic U.S. Senator from Nebraska, at that organization's fall meeting in November in Washington, D.C. The outgoing chair of the NAIC's International Insurance Relations Committee, Commissioner **Michael Consedine** of Pennsylvania, said that that supervision remains one of three main areas of focus between the FIO, the NAIC and the EU, with the others being confidentiality and a reinsurance collateral covered agreement.

# SLA Makes Key Staff Changes In Education & Compliance, Data Analysis Departments

**By Cliston Brown**  
Editor-in-Chief

Effective November 3, 2014, the Surplus Line Association of California (SLA) promoted a longtime senior staff member to head another department, and three other staffers to key roles within their departments.

First, **Pat McAuley**, CPCU, AIM, AIS, ASLI, AINS, the longtime manager of the **Data Analysis Department**, agreed to serve as Senior Vice President of the Education Department, which has been renamed the **Education and Compliance Department**.



**McAuley**

"Pat exemplifies the ongoing dedication to continual learning and skill enhancement that we hope to foster at the SLA, particularly within our education department," said **Benjamin J. McKay**, JD, MPA, SLA's executive director.



**Danoff**

In her new role, McAuley was elevated

to Senior Vice President, which reflects both her level within the organization and the more than 20 years of service she has given to the SLA. She will have the responsibility of adapting the department's focus in line with a new vision of how the SLA can best serve its members, and its expanded role is reflected in the department's name change.

"We decided to rename this department to Education and Compliance because we intend to broaden its focus," McKay said. "Previously, the focus has largely been on broker education, but in recognition that we have other stakeholders, the department is going to expand its mission to providing educational opportunities and compliance training, in order to help improve compliance with all state laws and regulations."

Also within the Education and Compliance Department, **Laura Danoff**, who served as the acting department director for more than a year, has been promoted to Assistant Vice President.

"Laura performed admirably in her expanded role, and she has earned this well-deserved promotion," McKay said.

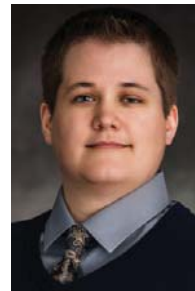
To lead the **Data Analysis Department**, SLA promoted **Rose Tocchini**, ASLI, to Vice

President. Tocchini, with more than 10 years of service to the SLA, previously had been the assistant department manager and recently completed her ASLI designation. **Adriane Harm**, who will have 10 years of service as of January, 2015, was promoted to supervisor within the division as well.



**Tocchini**

"The SLA is committed to promoting from within where possible and rewarding those employees who demonstrate ongoing growth and leadership," McKay said. "We want our staff to know that there is room for advancement as they continue to grow professionally. These personnel moves are in line with that commitment."



**Harm**

Additional changes at SLA this fall included renaming the Financial Department the **Financial Analysis Department** and the Information Technology Department the **Technology Department**.

## Eight Brokerages Complete 3rd Quarter With Tag Rates of Less Than 2 Percent Per Item Filed

Eight SLA member brokerages with a minimum of 300 items filed between July 1 and September 30, 2014, completed the third quarter with tag-per-item rates of less than 2 percent.

The brokerages who achieved this success rate for the quarter are listed in the gray box to the right. Five of them achieved rates of less than 1 percent.

SLA will be announcing a new award at its upcoming annual meeting, on Feb. 3 and Feb. 5 in San Francisco and Los Angeles, respectively, to the brokerage with the best tag-per-item rate over the course of the year 2014.

### TOP TAG PERFORMERS

3rd Quarter, 2014

Brokerages with the lowest ratio of tags per item (among brokerages with at least 300 items filed)

#### TOP TIER

(Tag Ratio Less Than 1%)

Beach & O'Neill Insurance Associates (#1892)

Brown & Brown of Missouri, Inc. (#6890)

Petersen International Undewriters (#390)

Seattle Specialty Insurance Services (#2672)

Sullivan Brokers Wholesale Insurance Solutions (#1057)

#### SECOND TIER

(Tag Ratio More Than 1%, Less Than 2%)

King Insurance Support Systems, Inc. (#1304)

New Life Agency, Inc. (#2172)

Proctor Financial, Inc. (#1609)