DISCUSSION DRAFT
FOR SURPLUS LINES IMPLEMENTATION (EX) TASK FORCE
AUGUST 30, 2010 CONFERENCE CALL

Guiding principles for surplus lines reform implementation

For premium tax allocation issues

1. States should change their laws to adopt the definition of "home state" in Part I of the Nonadmitted and Reinsurance Reform Act for purposes of nonadmitted insurance transactions.

2. States should change their laws to provide for the authority to tax 100% of the gross premium of a surplus lines policy for which that state is the home state.

3. States should change their laws to provide for the authority to allocate to other states willing to allocate on reciprocal basis a portion of the premium tax related to the percentage of the property or risk located in those other states.

4. States should agree on the rate at which premium taxes will be assessed (e.g., (a) defer to home state rate and allocate at that rate based on location of property or risk, or (b) authorize collection of taxes on a proportional basis based on allocation attributable to other states and the tax rate of the other states).

5. States should agree on a uniform method of reporting in conjunction with tax collection.

6. States should determine the method by which they will participate in a nationwide solution: interstate compact or something else. In the event there are states not desiring to compact, compacting states should determine if and how to allow participation by non-compacting states and non-compacting states should determine the authority required for their participation.

7. States should determine the method by which they will authorize collection of premium taxes and disbursement of allocated shares of premium taxes to other states (e.g., centralized collection mechanism or individual states agreeing to collect and disburse).

8. States should consider how to include independently-procured insurance into a nationwide solution.

9. States should consider the need for incorporating a method of dispute resolution into any nationwide solution, particularly if there is an absence of a centralized commission.

10. States should conduct outreach to those stamping offices and state agencies that will need to be part of implementing a nationwide solution.

11. States should consider whether it is necessary to implement a nationwide solution in two stages. For example, states should consider whether to: (1) adopt the minimum changes necessary to participate by June 16, 2011 (330 days from July 21, 2010) and pursue full implementation of an interstate compact at a later date, or (2) pursue implementation of an interstate compact by June 16, 2011 while providing a mechanism for non-compacting states to participate in some way and/or join later. States should consider the legal ramifications associated with any interim solution.

For general regulatory issues

1. States should take the necessary steps to join the national insurance producer database of the NAIC for licensure and renewal of surplus lines producers by July 21, 2012.

2. States should consider changing laws to incorporate what NRRA authorizes regarding carrier eligibility requirements and diligent searches for exempt commercial purchasers.