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H.164

Introduced by Representatives Keenan of St. Albans City, Acinapura of  
Brandon, Botzow of Pownal, Kitzmiller of Montpelier and  
Marcotte of Coventry  
Referred to Committee on  
Date:  
Subject: Insurance; nonadmitted insurers; surplus lines; multi-state compact  
Statement of purpose: This bill proposes to require Vermont to enter into the  
surplus lines insurance multi-state compliance compact.

An act relating to the surplus lines insurance multi-state compliance  
compact

It is hereby enacted by the General Assembly of the state of Vermont:

Sec. 1. 8 V.S.A. chapter 138a is added to read:

CHAPTER 138A. SURPLUS LINES INSURANCE MULTI-STATE

COMPLIANCE COMPACT

§ 5051. FINDINGS

The general assembly makes the following findings of fact:

(1) The Dodd-Frank Wall Street Reform and Consumer Protection Act,

Pub.L. 111-203, was signed into law on July 21, 2010. Title V, Subtitle B of

1 that act is known as the Non-Admitted and Reinsurance Reform Act of 2010  
2 (NRRA). NRRA states that:

3 (A) the placement of non-admitted insurance shall be subject to the  
4 statutory and regulatory requirements solely of the insured's home state; and

5 (B) any law, regulation, provision, or action of any state that applies  
6 or purports to apply to non-admitted insurance sold to, solicited by, or  
7 negotiated with an insured whose home state is another state shall be  
8 preempted with respect to such application; except that any state law, rule, or  
9 regulation that restricts the placement of workers' compensation insurance or  
10 excess insurance for self-funded workers' compensation plans with a  
11 non-admitted insurer shall not be preempted.

12 (2) In compliance with NRRA, no state other than the home state of an  
13 insured may require any premium tax payment for non-admitted insurance; and  
14 no state other than an insured's home state may require a surplus lines broker  
15 to be licensed in order to sell, solicit, or negotiate non-admitted insurance with  
16 respect to such insured.

17 (3) NRRA intends that the states may enter into a compact or otherwise  
18 establish procedures to allocate among the states the premium taxes paid to an  
19 insured's home state; and that each state adopt nationwide uniform  
20 requirements, forms, and procedures, such as an interstate compact, that

1 provides for the reporting, payment, collection, and allocation of premium  
2 taxes for non-admitted insurance.

3 (4) After the expiration of the two-year period beginning on the date of  
4 the enactment of NRRA, a state may not collect any fees relating to licensing  
5 of an individual or entity as a surplus lines licensee in the state unless the state  
6 has in effect at such time laws or regulations that provide for participation by  
7 the state in the national insurance producer database of the National  
8 Association of Insurance Commissioners (NAIC), or any other equivalent  
9 uniform national database, for the licensure of surplus lines licensees and the  
10 renewal of such licenses.

11 (5) A need exists for a system of regulation that will provide for surplus  
12 lines insurance to be placed with reputable and financially sound non-admitted  
13 insurers, and that will permit orderly access to surplus lines insurance in this  
14 state and encourage insurers to make new and innovative types of insurance  
15 available to consumers in this state.

16 (6) Protecting the revenue of this state and other compacting states may  
17 be accomplished by facilitating the payment and collection of premium tax on  
18 non-admitted insurance and providing for allocation of premium tax for  
19 non-admitted insurance of multi-state risks among the states in accordance  
20 with uniform allocation formulas.

1           (7) The efficiency of the surplus lines market may be improved by  
2           eliminating duplicative and inconsistent tax and regulatory requirements  
3           among the states, and by promoting and protecting the interests of surplus lines  
4           licensees who assist such insureds and non-admitted insurers, thereby ensuring  
5           the continued availability of non-admitted insurance to consumers.

6           (8) Regulatory compliance with respect to non-admitted insurance  
7           placements may be streamlined by providing for exclusive single-state  
8           regulatory compliance for non-admitted insurance of multi-state risks, thereby  
9           providing certainty regarding such compliance to all persons who have an  
10           interest in such transactions, including insureds, regulators, surplus lines  
11           licensees, other insurance producers, and surplus lines insurers.

12           (9) Coordination of regulatory resources and expertise between state  
13           insurance departments and other state agencies, as well as state surplus lines  
14           stamping offices, with respect to non-admitted insurance will be improved  
15           under the surplus lines insurance multi-state compliance compact.

16           § 5052. PURPOSES

17           The purposes of this compact are to:

18           (1) implement the express provisions of NRRA;

19           (2) protect the premium tax revenues of the compacting states through  
20           facilitating the payment and collection of premium tax on non-admitted  
21           insurance; protect the interests of the compacting states by supporting the

1 continued availability of such insurance to consumers; and provide for  
2 allocation of premium tax for non-admitted insurance of multi-state risks  
3 among the states in accordance with uniform allocation formulas to be  
4 developed, adopted, and implemented by the commission;

5 (3) streamline and improve the efficiency of the surplus lines market by  
6 eliminating duplicative and inconsistent tax and regulatory requirements  
7 among the states; and promote and protect the interest of surplus lines  
8 licensees who assist such insureds and surplus lines insurers, thereby ensuring  
9 the continued availability of surplus lines insurance to consumers;

10 (4) streamline regulatory compliance with respect to non-admitted  
11 insurance placements by providing for exclusive single-state regulatory  
12 compliance for non-admitted insurance of multi-state risks, in accordance with  
13 rules to be adopted by the commission, thereby providing certainty regarding  
14 such compliance to all persons who have an interest in such transactions,  
15 including insureds, regulators, surplus lines licensees, other insurance  
16 producers, and surplus lines insurers;

17 (5) establish a clearinghouse for receipt and dissemination of premium  
18 tax and clearinghouse transaction data related to non-admitted insurance of  
19 multi-state risks, in accordance with rules adopted by the commission;

1           (6) improve coordination of regulatory resources and expertise between  
2           state insurance departments and other state agencies, as well as state surplus  
3           lines stamping offices, with respect to non-admitted insurance;

4           (7) adopt uniform rules to provide for premium tax payment, reporting,  
5           allocation, data collection and dissemination for non-admitted insurance of  
6           multi-state risks and single-state risks, in accordance with rules adopted by the  
7           commission, thereby promoting the overall efficiency of the non-admitted  
8           insurance market;

9           (8) adopt uniform mandatory rules with respect to regulatory  
10          compliance requirements for;

11                   (A) foreign insurer eligibility requirements; and

12                   (B) surplus lines policyholder notices;

13          (9) establish the surplus lines insurance multi-state compliance compact  
14          commission;

15          (10) coordinate reporting of clearinghouse transaction data on non-  
16          admitted insurance of multi-state risks among compacting states and  
17          contracting states; and

18          (11) perform these and such other related functions as may be consistent  
19          with the purposes of the compact.

20          § 5053. DEFINITIONS

21          For purposes of this chapter:

1           (1) “Admitted insurer” means an insurer that is licensed, or authorized,  
2 to transact the business of insurance under the laws of the home state. It shall  
3 not include a domestic surplus lines insurer as may be defined by applicable  
4 state law.

5           (2) “Affiliate” means with respect to an insured, any entity that controls,  
6 is controlled by, or is under common control with the insured.

7           (3) “Allocation formula” means the uniform methods adopted by the  
8 commission by which insured risk exposures will be apportioned to each state  
9 for the purpose of calculating premium taxes due.

10           (4) “Bylaws” means the bylaws established by the commission for its  
11 governance, or for directing or controlling the commission’s actions or  
12 conduct.

13           (5) “Clearinghouse” means the commission’s operations involving the  
14 acceptance, processing, and dissemination, among the compacting states,  
15 contracting states, surplus lines licensees, insureds and other persons, of  
16 premium tax and clearinghouse transaction data for non-admitted insurance of  
17 multi-state risks, in accordance with this compact and rules adopted by the  
18 commission.

19           (6) “Clearinghouse transaction data” means the information regarding  
20 non-admitted insurance of multi-state risks required to be reported, accepted,  
21 collected, processed, and disseminated by surplus lines licensees for surplus

1 lines insurance and insureds for independently procured insurance under this  
2 compact and rules adopted by the commission. Clearinghouse transaction data  
3 includes information related to single-state risks if a state elects to have the  
4 clearinghouse collect taxes on single-state risks for such state.

5 (7) “Commission” means the surplus lines insurance multi-state  
6 compliance compact commission established by this compact.

7 (8) “Commissioner” means the chief insurance regulatory official of a  
8 state including, commissioner, superintendent, director, or administrator, or  
9 their designees.

10 (9) “Compact” means the surplus lines insurance multi-state compliance  
11 compact established under this chapter.

12 (10) “Compacting state” means any state which has enacted this  
13 compact legislation and which has not withdrawn pursuant to subsection  
14 5065(a), or been terminated pursuant to subsection 5065(b), of this chapter.

15 (11) “Contracting state” means any state which has not enacted this  
16 compact legislation but has entered into a written contract with the commission  
17 to use the services of and fully participate in the clearinghouse.

18 (12) “Control.” An entity has “control” over another entity if:

19 (A) the entity directly or indirectly or acting through one or more  
20 other persons own, controls, or has the power to vote 25 percent or more of any  
21 class of voting securities of the other entity; or



1           (B) the entity controls in any manner the election of a majority of the  
2 directors or trustees of the other entity.

3           (13)(A) “Home state” means, with respect to an insured:

4                   (i) the state in which an insured maintains its principal place of  
5 business or, in the case of an individual, the individual’s principal residence; or

6                   (ii) if 100 percent of the insured risk is located out of the state  
7 referred to in subdivision (A)(i) of this subsection, the state to which the  
8 greatest percentage of the insured’s taxable premium for that insurance  
9 contract is allocated.

10           (B) If more than one insured from an affiliated group are named  
11 insureds on a single non-admitted insurance contract, the term “home state”  
12 means the home state, as determined pursuant to subdivision (A) of this  
13 subsection, of the member of the affiliated group that has the largest  
14 percentage of premium attributed to it under such insurance contract.

15           (14) “Independently procured insurance” means insurance procured by  
16 an insured directly from a surplus lines insurer or other non-admitted insurer as  
17 permitted by the laws of the home state.

18           (15) “Insurer eligibility requirements” means the criteria, forms, and  
19 procedures established to qualify as a surplus lines insurer under the law of the  
20 home state provided that such criteria, forms, and procedures are consistent  
21 with the express provisions of NRRA on and after July 21, 2011.

1           (16) “Member” means the person or persons chosen by a compacting  
2           state as its representative or representatives to the commission provided that  
3           each compacting state shall be limited to one vote.

4           (17) “Multi-state risk” means a risk with insured exposures in more than  
5           one state.

6           (18) “Non-admitted insurance” means surplus lines insurance and  
7           independently procured insurance.

8           (19) “Non-admitted insurer” means an insurer that is not authorized or  
9           admitted to transact the business of insurance under the law of the home state.

10           (20) “Noncompacting state” means any state which has not adopted this  
11           compact.

12           (21) “NRRA” means the Non-Admitted and Reinsurance Reform Act of  
13           2010 which is Title V, Subtitle B of the Dodd-Frank Wall Street Reform and  
14           Consumer Protection Act, Pub.L. 111-203.

15           (22) “Policyholder notice” means the disclosure notice or stamp that is  
16           required to be furnished to the applicant or policyholder in connection with a  
17           surplus lines insurance placement.

18           (23) “Premium tax” means with respect to non-admitted insurance, any  
19           tax, fee, assessment, or other charge imposed by a government entity directly  
20           or indirectly based on any payment made as consideration for such insurance,

1 including premium deposits, assessments, registration fees, and any other  
2 compensation given in consideration for a contract of insurance.

3 (24) “Principal place of business” means with respect to determining the  
4 home state of the insured, the state where the insured maintains its  
5 headquarters and where the insured’s high-level officers direct, control and  
6 coordinate the business activities of the insured.

7 (25) “Purchasing group” means any group formed pursuant to the  
8 Liability Risk Retention Act of 1986, Pub.L. 99-63, which has as one of its  
9 purposes the purchase of liability insurance on a group basis, purchases such  
10 insurance only for its group members and only to cover their similar or related  
11 liability exposure and is composed of members whose businesses or activities  
12 are similar or related with respect to the liability to which members are  
13 exposed by virtue of any related, similar, or common business, trade, product,  
14 services, premises or operations and is domiciled in any state.

15 (26) “Rule” means a statement of general or particular applicability and  
16 future effect adopted by the commission designed to implement, interpret, or  
17 prescribe law or policy or describing the organization, procedure, or practice  
18 requirements of the commission which shall have the force and effect of law in  
19 the compacting states.

20 (27) “Single-state risk” means a risk with insured exposures in only one  
21 state.

1           (28) “State” means any state, district, or territory of the United States of  
2           America.

3           (29) “State transaction documentation” means the information required  
4           under the laws of the home state to be filed by surplus lines licensees in order  
5           to report surplus lines insurance and verify compliance with surplus lines laws,  
6           and by insureds in order to report independently procured insurance.

7           (30) “Surplus lines insurance” means insurance procured by a surplus  
8           lines licensee from a surplus lines insurer or other non-admitted insurer as  
9           permitted under the law of the home state. It shall also mean excess lines  
10          insurance as may be defined by applicable state law.

11          (31) “Surplus lines insurer” means a non-admitted insurer eligible under  
12          the law of the home state to accept business from a surplus lines licensee. It  
13          shall also mean an insurer which is permitted to write surplus lines insurance  
14          under the laws of the state where such insurer is domiciled.

15          (32) “Surplus lines licensee” means an individual, firm, or corporation  
16          licensed under the law of the home state to place surplus lines insurance.

17          § 5054. ESTABLISHMENT OF THE COMMISSION; VENUE

18          (a) The compacting states hereby create and establish a joint public agency  
19          known as the surplus lines insurance multi-state compliance compact  
20          commission.

1       (b) Pursuant to section 5055 of this chapter, the commission shall have the  
2       power to adopt mandatory rules which establish exclusive home state authority  
3       regarding non-admitted insurance of multi-state risks, allocation formulas,  
4       clearinghouse transaction data, a clearinghouse for receipt and distribution of  
5       allocated premium tax and clearinghouse transaction data, and uniform  
6       rulemaking procedures and rules for the purpose of financing, administering,  
7       operating, and enforcing compliance with the provisions of this compact, its  
8       bylaws, and rules.

9       (c) Pursuant to section 5055 of this chapter, the commission shall have the  
10       power to adopt mandatory rules establishing foreign insurer eligibility  
11       requirements and a concise and objective policyholder notice regarding the  
12       nature of a surplus lines placement.

13       (d) The commission is a body corporate and politic, and an instrumentality  
14       of the compacting states.

15       (e) The commission is solely responsible for its liabilities except as  
16       otherwise specifically provided in this compact.

17       (f) Venue is proper and judicial proceedings by or against the commission  
18       shall be brought solely and exclusively in a court of competent jurisdiction  
19       where the principal office of the commission is located. The commission may  
20       waive venue and jurisdictional defenses to the extent it adopts or consents to  
21       participate in alternative dispute resolution proceedings.

1     § 5055. AUTHORITY TO ESTABLISH MANDATORY RULES

2         The commission shall adopt mandatory rules establishing:

3             (1) allocation formulas for each type of non-admitted insurance  
4             coverage, which allocation formulas must be used by each compacting state  
5             and contracting state in acquiring premium tax and clearinghouse transaction  
6             data from surplus lines licensees and insureds for reporting to the  
7             clearinghouse created by the compact commission. Such allocation formulas  
8             will be established with input from surplus lines licensees and be based upon  
9             readily available data with simplicity and uniformity for the surplus line  
10            licensee as a material consideration.

11            (2) Uniform clearinghouse transaction data reporting requirements for  
12            all information reported to the clearinghouse.

13            (3) Methods by which compacting states and contracting states require  
14            surplus lines licensees and insureds to pay premium tax and to report  
15            clearinghouse transaction data to the clearinghouse, including processing  
16            clearinghouse transaction data through state stamping and service offices, state  
17            insurance departments, or other state designated agencies or entities.

18            (4)(A) That non-admitted insurance of multi-state risks shall be subject  
19            to all of the regulatory compliance requirements of the home state exclusively.  
20            Home state regulatory compliance requirements applicable to surplus lines  
21            insurance shall include but not be limited to:

1           (i) persons required to be licensed to sell, solicit, or negotiate  
2 surplus lines insurance;

3           (ii) insurer eligibility requirements or other approved  
4 non-admitted insurer requirements;

5           (iii) diligent search; and

6           (iv) state transaction documentation and clearinghouse transaction  
7 data regarding the payment of premium tax as set forth in this compact and  
8 rules to be adopted by the commission.

9           (B) Home state regulatory compliance requirements applicable to  
10 independently procured insurance placements shall include but not be limited  
11 to providing state transaction documentation and clearinghouse transaction  
12 data regarding the payment of premium tax as set forth in this compact and  
13 rules adopted by the commission.

14           (5) That each compacting state and contracting state may charge its own  
15 rate of taxation on the premium allocated to such state based on the applicable  
16 allocation formula provided that the state establishes one single rate of taxation  
17 applicable to all non-admitted insurance transactions and no other tax, fee  
18 assessment, or other charge by any governmental or quasi-governmental  
19 agency be permitted. Notwithstanding the foregoing, stamping office fees may  
20 be charged as a separate, additional cost unless such fees are incorporated into  
21 a state's single rate of taxation.

1           (6) That any change in the rate of taxation by any compacting state or  
2           contracting state be restricted to changes made prospectively on not less than  
3           90 days' advance notice to the compact commission.

4           (7) That each compacting state and contracting state shall require  
5           premium tax payments either annually, semiannually, or quarterly using one or  
6           more of the following dates only: March 1, June 1, September 1, and  
7           December 1.

8           (8) That each compacting state and contracting state prohibit any other  
9           state agency or political subdivision from requiring surplus lines licensees to  
10           provide clearinghouse transaction data and state transaction documentation  
11           other than to the insurance department or tax officials of the home state or one  
12           single designated agent thereof.

13           (9) The obligation of the home state by itself, through a designated  
14           agent, surplus lines stamping or service office, to collect clearinghouse  
15           transaction data from surplus line licensee and from insureds for independently  
16           procured insurance, where applicable, for reporting to the clearinghouse.

17           (10) A method for the clearinghouse to periodically report to  
18           compacting states, contracting states, surplus lines licensees and insureds who  
19           independently procure insurance, all premium taxes owed to each of the  
20           compacting states and contracting states, the dates upon which payment of



1 such premium taxes are due and a method to pay them through the  
2 clearinghouse.

3 (11) That each surplus line licensee is required to be licensed only in the  
4 home state of each insured for whom surplus lines insurance has been  
5 procured.

6 (12) That a policy considered to be surplus lines insurance in the  
7 insured's home state shall be considered surplus lines insurance in all  
8 compacting states and contracting states, and taxed as a surplus lines  
9 transaction in all states to which a portion of the risk is allocated. Each  
10 compacting state and contracting state shall require each surplus lines licensee  
11 to pay to every other compacting state and contracting state premium taxes on  
12 each multi-state risk through the clearinghouse at such tax rate charged on  
13 surplus lines transactions in such other compacting states and contracting states  
14 on the portion of the risk in each such compacting state and contracting state as  
15 determined by the applicable uniform allocation formula adopted by the  
16 commission. A policy considered to be independently procured insurance in  
17 the insured's home state shall be considered independently procured insurance  
18 in all compacting states and contracting states. Each compacting state and  
19 contracting state shall require the insured to pay every other compacting state  
20 and contracting state the independently procured insurance premium tax on

1 each multi-state risk through the clearinghouse pursuant to the uniform  
2 allocation formula adopted by the commission.

3 (13) Uniform foreign insurer eligibility requirements as authorized by  
4 NRRA.

5 (14) A uniform policyholder notice.

6 (15) Uniform treatment of purchasing group surplus lines insurance  
7 placements.

8 § 5056. POWERS OF THE COMMISSION

9 The commission shall have the powers to:

10 (1) adopt rules and operating procedures, pursuant to section 5059 of  
11 this chapter, which shall have the force and effect of law and shall be binding  
12 in the compacting states to the extent and in the manner provided in this  
13 compact;

14 (2) bring and prosecute legal proceedings or actions in the name of the  
15 commission, provided that the standing of any state insurance department to  
16 sue or be sued under applicable law shall not be affected;

17 (3) issue subpoenas requiring the attendance and testimony of witnesses  
18 and the production of evidence, provided however, the commission is not  
19 empowered to demand or subpoena records or data from non-admitted  
20 insurers;

1           (4) establish and maintain offices including the creation of a  
2           clearinghouse for the receipt of premium tax and clearinghouse transaction  
3           data regarding non-admitted insurance of multi-state risks, single-state risks  
4           for states which elect to require surplus lines licensees to pay premium tax on  
5           single state risks through the clearinghouse and tax reporting forms;

6           (5) purchase and maintain insurance and bonds;

7           (6) borrow, accept or contract for services of personnel, including, but  
8           not limited to, employees of a compacting state or stamping office, pursuant to  
9           an open, transparent, objective, competitive process and procedure adopted by  
10          the commission;

11          (7) hire employees, professionals or specialists, and elect or appoint  
12          officers, and to fix their compensation, define their duties and give them  
13          appropriate authority to carry out the purposes of the compact, and determine  
14          their qualifications, pursuant to an open, transparent, objective competitive  
15          process and procedure adopted by the commission; and to establish the  
16          commission's personnel policies and programs relating to conflicts of interest,  
17          rates of compensation and qualifications of personnel, and other related  
18          personnel matters;

19          (8) accept any and all appropriate donations and grants of money,  
20          equipment, supplies, materials and services, and to receive, use and dispose of

1 the same; provided that at all times the commission shall avoid any appearance  
2 of impropriety and/or conflict of interest;

3 (9) lease, purchase, accept appropriate gifts or donations of, or otherwise  
4 to own, hold, improve, or use any property, real, personal, or mixed; provided  
5 that at all times the commission shall avoid any appearance of impropriety or  
6 conflict of interest;

7 (10) sell convey, mortgage, pledge, lease, exchange, abandon, or  
8 otherwise dispose of any property real, personal, or mixed;

9 (11) provide for tax audit rules and procedures for the compacting states  
10 with respect to the allocation of premium taxes, including:

11 (A) Minimum audit standards, including sampling methods.

12 (B) Review of internal controls.

13 (C) Cooperation and sharing of audit responsibilities between  
14 compacting states.

15 (D) Handling of refunds or credits due to overpayments or improper  
16 allocation of premium taxes.

17 (E) Taxpayer records to be reviewed including a minimum retention  
18 period.

19 (F) Authority of compacting states to review, challenge, or re-audit  
20 taxpayer records.

1           (12) enforce compliance by compacting states and contracting states  
2 with rules, and bylaws pursuant to the authority set forth in section 5065 of this  
3 chapter;

4           (13) provide for dispute resolution among compacting states and  
5 contracting states;

6           (14) advise compacting states and contracting states on tax-related  
7 issues relating to insurers, insureds, surplus lines licensees, agents or brokers  
8 domiciled or doing business in non-compacting states, consistent with the  
9 purposes of this compact;

10           (15) make available advice and training to those personnel in state  
11 stamping offices, state insurance departments or other state departments for  
12 record keeping, tax compliance, and tax allocations; and to be a resource for  
13 state insurance departments and other state departments;

14           (16) establish a budget and make expenditures;

15           (17) borrow money;

16           (18) appoint and oversee committees, including advisory committees  
17 comprised of members, state insurance regulators, state legislators or their  
18 representatives, insurance industry and consumer representatives, and such  
19 other interested persons as may be designated in this compact and the bylaws;

20           (19) establish an executive committee of not less than seven nor more  
21 than 15 representatives, which shall include officers elected by the commission

1 and such other representatives as provided for herein and determined by the  
2 bylaws. Representatives of the executive committee shall serve a one year  
3 term. Representatives of the executive committee shall be entitled to one vote  
4 each. The executive committee shall have the power to act on behalf of the  
5 commission, with the exception of rulemaking, during periods when the  
6 commission is not in session. The executive committee shall oversee the day  
7 to day activities of the administration of the compact, including the activities of  
8 the operations committee created under this section and compliance and  
9 enforcement of the provisions of the compact, its bylaws and rules, and such  
10 other duties as provided herein and as deemed necessary.

11 (20) establish an operations committee of not less than seven and not  
12 more than 15 representatives to provide analysis, advice, determinations, and  
13 recommendations regarding technology, software, and systems integration to  
14 be acquired by the commission and to provide analysis, advice, determinations  
15 and recommendations regarding the establishment of mandatory rules to be  
16 adopted to be by the commission.

17 (21) enter into contracts with contracting states so that contracting states  
18 can use the services of and fully participate in the clearinghouse subject to the  
19 terms and conditions set forth in such contracts;

20 (22) adopt and use a corporate seal; and

1           (23) perform such other functions as may be necessary or appropriate to  
2           achieve the purposes of this compact consistent with the state regulation of the  
3           business of insurance.

4           § 5057. ORGANIZATION OF THE COMMISSION

5           (a)(1) Membership, voting, and bylaws. Each compacting state shall have  
6           and be limited to one member. Each state shall determine the qualifications  
7           and the method by which it selects a member and set forth the selection  
8           process in the enabling provision of the legislation which enacts this compact.  
9           In the absence of such a provision the member shall be appointed by the  
10           governor of such compacting state. Any member may be removed or  
11           suspended from office as provided by the law of the state from which he or she  
12           shall be appointed. Any vacancy occurring in the commission shall be filled in  
13           accordance with the laws of the compacting state wherein the vacancy exists.

14           (2) Each member shall be entitled to one vote and shall otherwise have  
15           an opportunity to participate in the governance of the commission in  
16           accordance with the bylaws.

17           (3) The commission shall, by a majority vote of the members, prescribe  
18           bylaws to govern its conduct as may be necessary or appropriate to carry out  
19           the purposes and exercise the powers of the compact including:

20                   (A) establishing the fiscal year of the commission;

1           (B) providing reasonable procedures for holding meetings of the  
2           commission, the executive committee, and the operations committee;

3           (C) providing reasonable standards and procedures for the  
4           establishment and meetings of committees, and for governing any general or  
5           specific delegation of any authority or function of the commission;

6           (D) providing reasonable procedures for calling and conducting  
7           meetings of the commission that consist of a majority of commission members,  
8           ensuring reasonable advance notice of each such meeting and providing for the  
9           right of citizens to attend each such meeting with enumerated exceptions  
10           designed to protect the public's interest, the privacy of individuals, and  
11           insurers' and surplus lines licensees' proprietary information, including trade  
12           secrets. The commission may meet in camera only after a majority of the  
13           entire membership votes to close a meeting in toto or in part. As soon as  
14           practicable, the commission must make public:

15                   (i) a copy of the vote to close the meeting revealing the vote of  
16                   each member with no proxy votes allowed, and

17                   (ii) votes taken during such meeting;

18           (E) establishing the titles, duties, and authority and reasonable  
19           procedures for the election of the officers of the commission;

20           (F) providing reasonable standards and procedures for the  
21           establishment of the personnel policies and programs of the commission.



1 Notwithstanding any civil service or other similar laws of any compacting  
2 state, the bylaws shall exclusively govern the personnel policies and programs  
3 of the commission;

4 (G) adopting a code of ethics to address permissible and prohibited  
5 activities of commission members and employees;

6 (H) providing a mechanism for winding up the operations of the  
7 commission and the equitable disposition of any surplus funds that may exist  
8 after the termination of the compact after the payment and reserving of all of  
9 its debts and obligations;

10 (4) The commission shall publish its bylaws in a convenient form and  
11 file a copy thereof and a copy of any amendment thereto, with the appropriate  
12 agency or officer in each of the compacting states.

13 (b)(1) Executive committee, personnel, and chairperson. An executive  
14 committee of the commission shall be established. All actions of the executive  
15 committee, including compliance and enforcement are subject to the review  
16 and ratification of the commission as provided in the bylaws.

17 (2) The executive committee shall have no more than 15 representatives,  
18 or one for each state if there are less than 15 compacting states, who shall serve  
19 for a term and be established in accordance with the bylaws.

20 (3) The executive committee shall have such authority and duties as may  
21 be set forth in the bylaws, including:

1           (A) managing the affairs of the commission in a manner consistent  
2 with the bylaws and purposes of the commission;

3           (B) establishing and overseeing an organizational structure within,  
4 and appropriate procedures for the commission to provide for the creation of  
5 rules and operating procedures.

6           (C) overseeing the offices of the commission; and

7           (D) planning, implementing, and coordinating communications and  
8 activities with other state, federal and local government organizations in order  
9 to advance the goals of the commission.

10           (4) The commission shall annually elect officers from the executive  
11 committee, with each having such authority and duties, as may be specified in  
12 the bylaws.

13           (5) The executive committee may, subject to the approval of the  
14 commission, appoint or retain an executive director for such period, upon such  
15 terms and conditions and for such compensation as the commission may deem  
16 appropriate. The executive director shall serve as secretary to the commission,  
17 but shall not be a member of the commission. The executive director shall hire  
18 and supervise such other persons as may be authorized by the commission.

19           (c)(1) Operations committee. An operations committee shall be  
20 established. All actions of the operations committee are subject to the review  
21 and oversight of the commission and the executive committee and must be

1 approved by the commission. The executive committee will accept the  
2 determinations and recommendations of the operations committee unless good  
3 cause is shown why such determinations and recommendations should not be  
4 approved. Any disputes as to whether good cause exists to reject any  
5 determination or recommendation of the operations committee shall be  
6 resolved by the majority vote of the commission.

7 (2) The operations committee shall have no more than 15  
8 representatives or one for each state if there are less than 15 compacting states,  
9 who shall serve for a term and shall be established as set forth in the bylaws.

10 (3) The operations committee shall have responsibility for:

11 (A) evaluating technology requirements for the clearinghouse,  
12 assessing existing systems used by state regulatory agencies and state stamping  
13 offices to maximize the efficiency and successful integration of the  
14 clearinghouse technology systems with state and state stamping office  
15 technology platforms and to minimize costs to the states, state stamping offices  
16 and the clearinghouse;

17 (B) making recommendations to the executive committee based on  
18 its analysis and determination of the clearinghouse technology requirements  
19 and compatibility with existing state and state stamping office systems;

20 (C) evaluating the most suitable proposals for adoption as mandatory  
21 rules, assessing such proposals for ease of integration by states, and likelihood

1 of successful implementation and to report to the executive committee its  
2 determinations and recommendations; and

3 (D) such other duties and responsibilities as are delegated to it by the  
4 bylaws, the executive committee, or the commission.

5 (4) All representatives of the operations committee shall be individuals  
6 who have extensive experience or employment in the surplus lines insurance  
7 business, including executives and attorneys employed by surplus line insurers,  
8 surplus line licensees, law firms, state insurance departments, or state stamping  
9 offices. Operations committee representatives from compacting states which  
10 use the services of a state stamping office must appoint the chief operating  
11 officer or a senior manager of the state stamping office to the operations  
12 committee.

13 (d)(1) Legislative and advisory committees. A legislative committee  
14 comprised of state legislators or their designees shall be established to monitor  
15 the operations of and make recommendations to, the commission, including the  
16 executive committee. The manner of selection and term of any legislative  
17 committee member shall be as set forth in the bylaws. Prior to the adoption by  
18 the commission of any uniform standard, revision to the bylaws, annual budget  
19 or other significant matter as may be provided in the bylaws, the executive  
20 committee shall consult with and report to the legislative committee.

1           (2) The commission may establish additional advisory committees as its  
2 bylaws may provide for the carrying out of its functions.

3           (e) Corporate records of the commission. The commission shall maintain  
4 its corporate books and records in accordance with the bylaws.

5           (f)(1) Qualified immunity, defense, and indemnification. The members,  
6 officers, executive director, employees, and representatives of the commission,  
7 the executive committee, and any other committee of the commission shall be  
8 immune from suit and liability, either personally or in their official capacity,  
9 for any claim for damage to or loss of property or personal injury or other civil  
10 liability caused by or arising out of any actual or alleged act, error, or omission  
11 that occurred, or that the person against whom the claim is made had a  
12 reasonable basis for believing occurred, within the scope of commission  
13 employment, duties, or responsibilities. Nothing in this subdivision shall be  
14 construed to protect any such person from suit or liability for any damage, loss,  
15 injury, or liability caused by the intentional or willful or wanton misconduct of  
16 that person.

17           (2) The commission shall defend any member, officer, executive  
18 director, employee, or representative of the commission, the executive  
19 committee, or any other committee of the commission in any civil action  
20 seeking to impose liability arising out of any actual or alleged act, error, or  
21 omission that occurred within the scope of commission employment, duties, or

1 responsibilities, or that the person against whom the claim is made had a  
2 reasonable basis for believing occurred within the scope of commission  
3 employment, duties, or responsibilities, provided that the actual or alleged act  
4 error or omission did not result from that person's intentional or willful or  
5 wanton misconduct. Nothing herein shall be construed to prohibit that person  
6 from retaining his or her own counsel.

7 (3) The commission shall indemnify and hold harmless any member,  
8 officer, executive director, employee, or representative of the commission,  
9 executive committee, or any other committee of the commission for the  
10 amount of any settlement or judgment obtained against that person arising out  
11 of any actual or alleged act, error, or omission that occurred within the scope  
12 of commission employment, duties, or responsibilities, or that such person had  
13 a reasonable basis for believing occurred within the scope of commission  
14 employment, duties, or responsibilities, provided that the actual or alleged act,  
15 error or omission did not result from the intentional or willful or wanton  
16 misconduct of that person.

17 § 5058. MEETINGS AND ACTS OF THE COMMISSION

18 (a) The commission shall meet and take such actions as are consistent with  
19 the provisions of this compact and the bylaws.

20 (b) Each member of the commission shall have the right and power to cast  
21 a vote to which that compacting state is entitled and to participate in the

1 business and affairs of the commission. A member shall vote in person or by  
2 such other means as provided in the bylaws. The bylaws may provide for  
3 members' participation in meetings by telephone or other means of  
4 communication.

5 (c) The commission shall meet at least once during each calendar year.  
6 Additional meetings shall be held as set forth in the bylaws.

7 (d) Public notice shall be given of all meetings and all meetings shall be  
8 open to the public, except as set forth in the rules or otherwise provided in the  
9 compact.

10 (e) The commission shall adopt rules concerning its meetings consistent  
11 with the principles contained in the "Government in the Sunshine Act," 5  
12 U.S.C. § 552b, as may be amended.

13 (f) The commission and its committees may close a meeting, or portion  
14 thereof, where it determines by majority vote that an open meeting would be  
15 likely to:

16 (1) relate solely to the commission's internal personnel practices and  
17 procedures;

18 (2) disclose matters specifically exempted from disclosure by federal  
19 and state statute;

20 (3) disclose trade secrets or commercial or financial information which  
21 is privileged or confidential;

1           (4) involve accusing a person of a crime, or formally censuring a person;

2           (5) disclose information of a personal nature where disclosure would

3 constitute a clearly unwarranted invasion of personal privacy;

4           (6) disclose investigative records compiled for law enforcement

5 purposes; or

6           (7) specifically relate to the commission's issuance of a subpoena, or its

7 participation in a civil action or other legal proceeding.

8           (g) For a meeting, or a portion of a meeting, closed pursuant to this

9 provision, the commission's legal counsel or designee shall certify that the

10 meeting may be closed and shall reference each relevant exemptive provision.

11 The commission shall keep minutes which shall fully and clearly describe all

12 matters discussed in a meeting and shall provide a full and accurate summary

13 of actions taken, and the reasons therefore, including a description of the views

14 expressed and the record of a roll call vote. All documents considered in

15 connection with an action shall be identified in such minutes. All minutes and

16 documents of a closed meeting shall remain under seal, subject to release by a

17 majority vote of the commission.

18 § 5059. RULES AND OPERATING PROCEDURES; RULEMAKING

19           FUNCTIONS OF THE COMMISSION

20           (a) Rulemaking authority. The commission shall adopt reasonable rules in

21 order to effectively and efficiently achieve the purposes of this compact.



1 Notwithstanding the foregoing, in the event the commission exercises its  
2 rulemaking authority in a manner that is beyond the scope of the purposes of  
3 this compact, or the powers granted hereunder, then such an action by the  
4 commission shall be invalid and have no force or effect.

5 (b) Rulemaking procedure. Rules shall be made pursuant to a rulemaking  
6 process that substantially conforms to the Model State Administrative  
7 Procedure Act of 1981 Act, Uniform Laws Annotated, Vol. 15, p.1 (2000) as  
8 amended, as may be appropriate to the operations of the commission.

9 (c) Effective date. All rules and amendments, thereto, shall become  
10 effective as of the date specified in each rule, operating procedure, or  
11 amendment.

12 (d) Not later than 30 days after a rule is adopted, any person may file a  
13 petition for judicial review of the rule, provided that the filing of such a  
14 petition shall not stay or otherwise prevent the rule from becoming effective  
15 unless the court finds that the petitioner has a substantial likelihood of success.  
16 The court shall give deference to the actions of the commission consistent with  
17 applicable law and shall not find the rule to be unlawful if the rule represents a  
18 reasonable exercise of the commission's authority.

19 § 5060. COMMISSION RECORDS; ENFORCEMENT

20 (a) The commission shall adopt rules establishing conditions and  
21 procedures for public inspection and copying of its information and official

1 records, except such information and records involving the privacy of  
2 individuals, insurers, insureds, or surplus lines licensee trade secrets. State  
3 transaction documentation and clearinghouse transaction data collected by the  
4 clearinghouse shall be used for only those purposes expressed in or reasonably  
5 implied under the provisions of this compact and the commission shall afford  
6 this data the broadest protections as permitted by any applicable law for  
7 proprietary information, trade secrets, or personal data. The commission may  
8 adopt additional rules under which it may make available to federal and state  
9 agencies, including law enforcement agencies, records and information  
10 otherwise exempt from disclosure, and may enter into agreements with such  
11 agencies to receive or exchange information or records subject to  
12 nondisclosure and confidentiality provisions.

13 (b) Except as to privileged records, data, and information, the laws of any  
14 compacting state pertaining to confidentiality or nondisclosure shall not relieve  
15 any compacting state member of the duty to disclose any relevant records,  
16 data, or information to the commission, provided that disclosure to the  
17 commission shall not be deemed to waive or otherwise affect any  
18 confidentiality requirement, and further provided that, except as otherwise  
19 expressly provided in this compact, the commission shall not be subject to the  
20 compacting state's laws pertaining to confidentiality and nondisclosure with  
21 respect to records, data, and information in its possession. Confidential

1 information of the commission shall remain confidential after such information  
2 is provided to any member, and the commission shall maintain the  
3 confidentiality of any information provided by a member that is confidential  
4 under that member's state law.

5 (c) The commission shall monitor compacting states for compliance with  
6 duly adopted bylaws and rules. The commission shall notify any  
7 noncomplying compacting state in writing of its noncompliance with  
8 commission bylaws or rules. If a noncomplying compacting state fails to  
9 remedy its noncompliance within the time specified in the notice of  
10 noncompliance, the compacting state shall be deemed to be in default as set  
11 forth in section 5065 of this chapter.

12 § 5061. DISPUTE RESOLUTION

13 (a) Before a member may bring an action in a court of competent  
14 jurisdiction for violation of any provision, standard, or requirement of the  
15 compact, the commission shall attempt, upon the request of a member, to  
16 resolve any disputes or other issues that are subject to this compact and which  
17 may arise between two or more compacting states, contracting states or  
18 noncompacting states, and the commission shall adopt a rule providing  
19 alternative dispute resolution procedures for such disputes.

20 (b) The commission shall also provide alternative dispute resolution  
21 procedures to resolve any disputes between insureds or surplus lines licensees

1 concerning a tax calculation or allocation or related issues which are the  
2 subject of this compact.

3 (c) Any alternative dispute resolution procedures shall be used in  
4 circumstances where a dispute arises as to which state constitutes the home  
5 state.

6 § 5062. REVIEW OF COMMISSION DECISIONS

7 (a) Except as necessary for adopting rules to fulfill the purposes of this  
8 compact, the commission shall not have authority to otherwise regulate  
9 insurance in the compacting states.

10 (b) Not later than 30 days after the commission has given notice of any rule  
11 or allocation formula, any third party filer or compacting state may appeal the  
12 determination to a review panel appointed by the commission. The  
13 commission shall adopt rules to establish procedures for appointing such  
14 review panels and provide for notice and hearing. An allegation that the  
15 commission, in making compliance or tax determinations acted arbitrarily,  
16 capriciously, or in a manner that is an abuse of discretion or otherwise not in  
17 accordance with the law, is subject to judicial review in accordance with  
18 subsection 5054(f) of this chapter.

19 (c) The commission shall have authority to monitor, review and reconsider  
20 commission decisions upon a finding that the determinations or allocations do  
21 not meet the relevant rule. Where appropriate, the commission may withdraw

1 or modify its determination or allocation after proper notice and hearing,  
2 subject to the appeal process in subsection (b) of this section.

3 § 5063. FINANCE

4 (a) The commission shall pay or provide for the payment of the reasonable  
5 expenses of its establishment and organization. To fund the cost of its initial  
6 operations the commission may accept contributions, grants, and other forms  
7 of funding from the state stamping offices, compacting states, and other  
8 sources.

9 (b) The commission shall collect a fee payable by the insured directly or  
10 through a surplus lines licensee on each transaction processed through the  
11 compact clearinghouse, to cover the cost of the operations and activities of the  
12 commission and its staff in a total amount sufficient to cover the commission's  
13 annual budget.

14 (c) The commission's budget for a fiscal year shall not be approved until it  
15 has been subject to notice and comment as set forth in section 5059 of this  
16 chapter.

17 (d) The commission shall be regarded as performing essential  
18 governmental functions in exercising such powers and functions and in  
19 carrying out the provisions of this compact and of any law relating thereto, and  
20 shall not be required to pay any taxes or assessments of any character, levied  
21 by any state or political subdivision thereof, upon any of the property used by

1 it for such purposes, or any income or revenue therefrom, including any profit  
2 from a sale or exchange.

3 (e) The commission shall keep complete and accurate accounts of all its  
4 internal receipts, including grants and donations, and disbursements for all  
5 funds under its control. The internal financial accounts of the commission  
6 shall be subject to the accounting procedures established under its bylaws. The  
7 financial accounts and reports including the system of internal controls and  
8 procedures of the commission shall be audited annually by an independent  
9 certified public accountant. Upon the determination of the commission, but  
10 not less frequently than every three years, the review of the independent  
11 auditor shall include a management and performance audit of the commission.  
12 The commission shall make an annual report to the governor and legislature of  
13 the compacting states, which shall include a report of the independent audit.  
14 The commission's internal accounts shall not be confidential and such  
15 materials may be shared with the commissioner, the controller, or the stamping  
16 office of any compacting state upon request provided, however, that any work  
17 papers related to any internal or independent audit and any information  
18 regarding the privacy of individuals, and licensees' and insurers' proprietary  
19 information, including trade secrets, shall remain confidential.

1       (f) No compacting state shall have any claim to or ownership of any  
2       property held by or vested in the commission or to any commission funds held  
3       pursuant to the provisions of this compact.

4       (g) The commission shall not make any political contributions to  
5       candidates for elected office, elected officials, political parties, nor political  
6       action committees. The commission shall not engage in lobbying except with  
7       respect to changes to this compact.

8       § 5064. COMPACTING STATES, EFFECTIVE DATE AND

9               AMENDMENT

10       (a) Any state is eligible to become a compacting state.

11       (b) The compact shall become effective and binding upon legislative  
12       enactment of the compact into law by two compacting states, provided the  
13       commission shall become effective for purposes of adopting rules, and creating  
14       the clearinghouse when there are a total of 10 compacting states and  
15       contracting states or, alternatively, when there are compacting states and  
16       contracting states representing greater than 40 percent of the surplus lines  
17       insurance premium volume based on records of the percentage of surplus lines  
18       insurance premium set forth in section 5069 of this chapter. Thereafter, it shall  
19       become effective and binding as to any other compacting state upon enactment  
20       of the compact into law by that state. Notwithstanding the foregoing, the  
21       clearinghouse operations and the duty to report clearinghouse transaction data

1 shall begin on the first January 1 or July 1 following the first anniversary of the  
2 commission effective date. For states which join the compact subsequent to  
3 the effective date, a start date for reporting clearinghouse transaction data shall  
4 be set by the commission provided surplus lines licensees and all other  
5 interested parties receive not less than 90 days advance notice.

6 (c) Amendments to the compact may be proposed by the commission for  
7 enactment by the compacting states. No amendment shall become effective  
8 and binding upon the commission and the compacting states unless and until  
9 all compacting states enact the amendment into law.

10 § 5065. WITHDRAWAL; DEFAULT; TERMINATION

11 (a)(1) Withdrawal. Once effective, the compact shall continue in force and  
12 remain binding upon each and every compacting state, provided that a  
13 compacting state may withdraw from the compact by enacting a statute  
14 specifically repealing the statute which enacted the compact into law.

15 (2) The effective date of withdrawal is the effective date of the repealing  
16 statute. However, the withdrawal shall not apply to any tax or compliance  
17 determinations approved on the date the repealing statute becomes effective,  
18 except by mutual agreement of the commission and the withdrawing state  
19 unless the approval is rescinded by the commission.



1           (3) The member of the withdrawing state shall immediately notify the  
2           executive committee of the commission in writing upon the introduction of  
3           legislation repealing this compact in the withdrawing state.

4           (4) The commission shall notify the other compacting states of the  
5           introduction of such legislation within 10 days after its receipt of notice  
6           thereof.

7           (5) The withdrawing state is responsible for all obligations, duties, and  
8           liabilities incurred through the effective date of withdrawal, including any  
9           obligations, the performance of which extend beyond the effective date of  
10          withdrawal. To the extent those obligations may have been released or  
11          relinquished by mutual agreement of the commission and the withdrawing  
12          state, the commission's determinations prior to the effective date of withdrawal  
13          shall continue to be effective and be given full force and effect in the  
14          withdrawing state, unless formally rescinded by the commission.

15          (6) Reinstatement following withdrawal of any compacting state shall  
16          occur upon the effective date of the withdrawing state reenacting the compact.

17          (b)(1) Default. If the commission determines that any compacting state has  
18          at any time defaulted in the performance of any of its obligations or  
19          responsibilities under this compact, the bylaws, or duly adopted rules then after  
20          notice and hearing as set forth in the bylaws, all rights, privileges, and benefits  
21          conferred by this compact on the defaulting state shall be suspended from the

1 effective date of default as fixed by the commission. The grounds for default  
2 include failure of a compacting state to perform its obligations or  
3 responsibilities, and any other grounds designated in commission rules. The  
4 commission shall immediately notify the defaulting state in writing of the  
5 defaulting state's suspension pending a cure of the default. The commission  
6 shall stipulate the conditions and the time period within which the defaulting  
7 state must cure its default. If the defaulting state fails to cure the default within  
8 the time period specified by the commission, the defaulting state shall be  
9 terminated from the compact and all rights, privileges, and benefits conferred  
10 by this compact shall be terminated from the effective date of termination.

11 (2) Decisions of the commission that are issued on the effective date of  
12 termination shall remain in force in the defaulting state in the same manner as  
13 if the defaulting state had withdrawn voluntarily pursuant to subdivision (1) of  
14 this subsection.

15 (3) Reinstatement following termination of any compacting state  
16 requires a reenactment of the compact.

17 (c)(1) Dissolution of compact. The compact dissolves effective upon the  
18 date of the withdrawal or default of the compacting state which reduces  
19 membership in the compact to one compacting state.

20 (2) Upon the dissolution of this compact, the compact becomes null and  
21 void and shall have no further force or effect, and the business and affairs of

1 the commission shall be wound up and any surplus funds shall be distributed in  
2 accordance with the rules and bylaws.

3 § 5066. SEVERABILITY AND CONSTRUCTION

4 (a) The provisions of this compact shall be severable and if any phrase,  
5 clause, sentence, or provision is deemed unenforceable, the remaining  
6 provisions of the compact shall be enforceable.

7 (b) The provisions of this compact shall be liberally construed to effectuate  
8 its purposes.

9 (c) Throughout this compact the use of the singular shall include the plural  
10 and vice-versa.

11 (d) The headings and captions of articles, sections, and subsections used in  
12 this compact are for convenience only and shall be ignored in construing the  
13 substantive provisions of this compact.

14 § 5067. BINDING EFFECT OF COMPACT AND OTHER LAWS

15 (a)(1) Other laws. Nothing herein prevents the enforcement of any other  
16 law of a compacting state except as provided in subdivision (2) of this  
17 subsection.

18 (2) Decisions of the commission, and any rules, and any other  
19 requirements of the commission shall constitute the exclusive rule or  
20 determination applicable to the compacting states. Any law or regulation

1 regarding non-admitted insurance of multi-state risks that is contrary to rules of  
2 the commission is preempted with respect to the following:

3 (A) clearinghouse transaction data reporting requirements;

4 (B) the allocation formula;

5 (C) clearinghouse transaction data collection requirements;

6 (D) premium tax payment time frames and rules concerning  
7 dissemination of data among the compacting states for non-admitted insurance  
8 of multi-state risks and single-state risks;

9 (E) exclusive compliance with surplus lines law of the home state of  
10 the insured;

11 (F) rules for reporting to a clearinghouse for receipt and distribution  
12 of clearinghouse transaction data related to non-admitted insurance of  
13 multi-state risks;

14 (G) uniform foreign insurers eligibility requirements;

15 (H) uniform policyholder notice; and

16 (I) uniform treatment of purchasing groups procuring non-admitted  
17 insurance.

18 (3) Except as stated in subdivision (2) of this subsection, any rule,  
19 uniform standard, or other requirement of the commission shall constitute the  
20 exclusive provision that a commissioner may apply to compliance or tax

1 determinations. Notwithstanding the foregoing, no action taken by the  
2 commission shall abrogate or restrict:

3 (A) the access of any person to state courts;

4 (B) the availability of alternative dispute resolution under section  
5 5061 of this chapter;

6 (C) the remedies available under state law related to breach of  
7 contract, tort, or other laws not specifically directed to compliance or tax  
8 determinations;

9 (D) state law relating to the construction of insurance contracts; or

10 (E) the authority of the attorney general of the state, including but not  
11 limited to maintaining any actions or proceedings, as authorized by law.

12 (b)(1) Binding effect of this compact. All lawful actions of the  
13 commission, including all rules adopted by the commission, are binding upon  
14 the compacting states, except as provided herein.

15 (2) All agreements between the commission and the compacting states  
16 are binding in accordance with their terms.

17 (3) Upon the request of a party to a conflict over the meaning or  
18 interpretation of commission actions, and upon a majority vote of the  
19 compacting states, the commission may issue advisory opinions regarding the  
20 meaning or interpretation in dispute. This provision may be implemented by  
21 rule at the discretion of the commission.

1           (4) In the event any provision of this compact exceeds the constitutional  
2 limits imposed on the legislature of any compacting state, the obligations,  
3 duties, powers, or jurisdiction sought to be conferred by that provision upon  
4 the commission shall be ineffective as to that state and those obligations duties,  
5 powers, or jurisdiction shall remain in the compacting state and shall be  
6 exercised by the agency thereof to which those obligations, duties, powers, or  
7 jurisdiction are delegated by law in effect at the time this compact becomes  
8 effective.

9           § 5068. VERMONT COMMISSION MEMBER; SELECTION

10           The Vermont member of the commission shall be selected jointly by the  
11 governor, the speaker of the house, and the committee on committees.

12           § 5069. SURPLUS LINE INSURANCE PREMIUMS BY STATE

13 <u>State</u>	14 <u>Premiums based on</u>	15 <u>Share of Total</u>
	16 <u>taxes paid (\$)</u>	17 <u>Premiums (%)</u>
18 <u>Alabama</u>	19 <u>445,746,000</u>	20 <u>1.47</u>
21 <u>Alaska</u>	<u>89,453,519</u>	<u>0.29</u>
<u>Arizona</u>	<u>663,703,267</u>	<u>2.18</u>
<u>Arkansas</u>	<u>201,859,750</u>	<u>0.66</u>
<u>California</u>	<u>5,622,450,467</u>	<u>18.49</u>
<u>Colorado</u>	<u>543,781,333</u>	<u>1.79</u>
<u>Connecticut</u>	<u>329,358,800</u>	<u>1.08</u>

1	<u>Delaware</u>	<u>92,835,950</u>	<u>0.31</u>
2	<u>Florida</u>	<u>2,660,908,760</u>	<u>8.75</u>
3	<u>Georgia</u>	<u>895,643,150</u>	<u>2.95</u>
4	<u>Hawaii</u>	<u>232,951,489</u>	<u>0.77</u>
5	<u>Idaho</u>	<u>74,202,255</u>	<u>0.24</u>
6	<u>Illinois</u>	<u>1,016,504,629</u>	<u>3.34</u>
7	<u>Indiana</u>	<u>412,265,320</u>	<u>1.36</u>
8	<u>Iowa</u>	<u>135,130,933</u>	<u>0.44</u>
9	<u>Kansas</u>	<u>160,279,300</u>	<u>0.53</u>
10	<u>Kentucky</u>	<u>167,996,133</u>	<u>0.55</u>
11	<u>Louisiana</u>	<u>853,173,280</u>	<u>2.81</u>
12	<u>Maine</u>	<u>60,111,200</u>	<u>0.20</u>
13	<u>Maryland</u>	<u>434,887,600</u>	<u>1.43</u>
14	<u>Massachusetts</u>	<u>708,640,225</u>	<u>2.33</u>
15	<u>Michigan</u>	<u>703,357,040</u>	<u>2.31</u>
16	<u>Minnesota</u>	<u>393,128,400</u>	<u>1.29</u>
17	<u>Mississippi</u>	<u>263,313,175</u>	<u>0.87</u>
18	<u>Missouri</u>	<u>404,489,860</u>	<u>1.33</u>
19	<u>Montana</u>	<u>64,692,873</u>	<u>0.21</u>
20	<u>Nebraska</u>	<u>92,141,167</u>	<u>0.30</u>
21	<u>Nevada</u>	<u>354,271,514</u>	<u>1.17</u>

1	<u>New Hampshire</u>	<u>102,946,250</u>	<u>0.34</u>
2	<u>New Jersey</u>	<u>1,087,994,033</u>	<u>3.58</u>
3	<u>New Mexico</u>	<u>67,608,458</u>	<u>0.22</u>
4	<u>New York</u>	<u>2,768,618,083</u>	<u>9.11</u>
5	<u>North Carolina</u>	<u>514,965,060</u>	<u>1.69</u>
6	<u>North Dakota</u>	<u>36,223,943</u>	<u>0.12</u>
7	<u>Ohio</u>	<u>342,000,000</u>	<u>1.12</u>
8	<u>Oklahoma</u>	<u>319,526,400</u>	<u>1.05</u>
9	<u>Oregon</u>	<u>312,702,150</u>	<u>1.03</u>
10	<u>Pennsylvania</u>	<u>780,666,667</u>	<u>2.57</u>
11	<u>Rhode Island</u>	<u>71,794,067</u>	<u>0.24</u>
12	<u>South Carolina</u>	<u>412,489,825</u>	<u>1.36</u>
13	<u>South Dakota</u>	<u>38,702,120</u>	<u>0.13</u>
14	<u>Tennessee</u>	<u>451,775,240</u>	<u>1.49</u>
15	<u>Texas</u>	<u>3,059,170,454</u>	<u>10.06</u>
16	<u>Utah</u>	<u>142,593,412</u>	<u>0.47</u>
17	<u>Vermont</u>	<u>41,919,433</u>	<u>0.14</u>
18	<u>Virginia</u>	<u>611,530,667</u>	<u>2.01</u>
19	<u>Washington</u>	<u>739,932,050</u>	<u>2.43</u>
20	<u>West Virginia</u>	<u>130,476,250</u>	<u>0.43</u>



1	<u>Wisconsin</u>	<u>248,758,333</u>	<u>0.82</u>
2	<u>Wyoming</u>	<u>40,526,967</u>	<u>0.13</u>
3	<u>Total</u>	<u>30,400,197,251</u>	<u>100.00</u>

4                                   \* \* \* Amendments to Existing VT Laws \* \* \*

5       Sec. 2. 8 V.S.A. § 5022 is amended to read:

6       § 5022. DEFINITIONS

7           For the purposes of this chapter:

8           (1) ~~“Surplus lines insurance” means coverage not procurable from~~  
9       ~~admitted insurers.~~

10          (2) ~~“Surplus lines broker” means an individual licensed pursuant to this~~  
11       ~~chapter and chapter 131 of this title.~~

12          (3) ~~“Surplus lines insurer” means a non-admitted insurer with which~~  
13       ~~insurance coverage may be placed under this chapter.~~

14          (4) ~~“Domestic risk” means a subject of insurance which is resident,~~  
15       ~~located or to be performed in this state.~~

16          (5) ~~“To export” means to place surplus lines insurance with a non-~~  
17       ~~admitted insurer.~~

18          (6) ~~“Commissioner” means the commissioner of banking, insurance,~~  
19       ~~securities, and health care administration.~~

1           ~~(7) “Admitted insurer” means an insurer possessing a certificate of~~  
2 ~~authority to transact business in this state issued by the commissioner pursuant~~  
3 ~~to section 3361 of this title.~~

4           (a) Notwithstanding subsection (b) of this section, as used in this chapter,  
5 unless the context requires otherwise, words and phrases shall have the  
6 meaning given under Title V, Subtitle B of the Dodd-Frank Wall Street  
7 Reform and Consumer Protection Act, Pub.L. 111-203.

8           (b) For purposes of this chapter:

9           (1) “Admitted insurer” means an insurer possessing a certificate of  
10 authority to transact business in this state issued by the commissioner pursuant  
11 to section 3361 of this title.

12           (2) “Commissioner” means the commissioner of banking, insurance,  
13 securities, and health care administration.

14           (3) “Domestic risk” means a subject of insurance which is resident,  
15 located, or to be performed in this state.

16           (4) “To export” means to place surplus lines insurance with a  
17 non-admitted insurer.

18           (5) “Home state” means, with respect to an insured:

19                   (A)(i) the state in which an insured maintains its principal place of  
20 business or, in the case of an individual, the individual’s principal residence; or

1                   (ii) if 100 percent of the insured risk is located outside the state  
2 referred to in subdivision (A)(i) of this subsection, the state to which the  
3 greatest percentage of the insured's taxable premium for that insurance  
4 contract is allocated.

5                   (B) If more than one insured from an affiliated group are named  
6 insureds on a single non-admitted insurance contract, the term "home state"  
7 means the home state, as determined pursuant to subdivision (A) of this  
8 subdivision (5), of the member of the affiliated group that has the largest  
9 percentage of premium attributed to it under such insurance contract.

10                   (6) "NAIC" means the national association of insurance commissioners.

11                   (7) "Surplus lines broker" means an individual licensed under this  
12 chapter and chapter 131 of this title.

13                   (8) "Surplus lines insurance" means coverage not procurable from  
14 admitted insurers.

15                   (9) "Surplus lines insurer" means a non-admitted insurer with which  
16 insurance coverage may be placed under this chapter.

17 Sec. 3. 8 V.S.A. § 5024 is amended to read:

18 § 5024. CONDITIONS FOR PLACEMENT OF INSURANCE

19                   (a) Insurance coverage, except as described in section 5025 of this chapter,  
20 shall not be placed with a nonadmitted insurer unless the full amount of  
21 insurance required is not reasonably procurable from admitted insurers actually

1 transacting that kind and class of insurance in this state; and the amount of  
2 insurance exported shall be only the excess over the amount procurable from  
3 admitted insurers actually transacting and insuring that kind and class of  
4 insurance.

5 (b) Notwithstanding any other provision of this section, the commissioner  
6 may order eligible for export any class or classes of insurance coverage or risk  
7 for which he or she finds there to be an inadequate competitive market among  
8 admitted insurers either as to acceptance of the risk, contract terms or premium  
9 or premium rate.

10 (c) The due diligence search for reasonably procurable insurance coverage  
11 required under subsection (a) of this section is not required for an exempt  
12 commercial purchaser, provided:

13 (1) the surplus lines broker procuring or placing the surplus lines  
14 insurance has disclosed to the exempt commercial purchaser that such  
15 insurance may be available from an admitted insurer and may provide greater  
16 protection with more regulatory oversight; and

17 (2) the exempt commercial purchaser has subsequently requested in  
18 writing the surplus lines broker to procure or place such insurance from a  
19 nonadmitted insurer.

1 Sec. 4. 8 V.S.A. § 5025 is amended to read:

2 § 5025. EXCEPTIONS CONCERNING PLACEMENT OF INSURANCE  
3 WITH NONADMITTED INSURERS; RECORDS

4 The provisions of this chapter controlling the placement of insurance with  
5 nonadmitted insurers shall not apply to life insurance, health insurance,  
6 annuities, or reinsurance, nor to the following insurance when so placed by any  
7 licensed producer in this state:

8 (1) insurance on subjects ~~located, resident, or to be performed wholly~~  
9 ~~outside this state~~ whose home state is other than Vermont;

10 \* \* \*

11 Sec. 5. 8 V.S.A. § 5026 is amended to read:

12 § 5026. SOLVENT INSURERS REQUIRED

13 (a) ~~Surplus~~ Where Vermont is the home state of the insured, surplus lines  
14 brokers shall not knowingly place or continue surplus lines insurance with  
15 nonadmitted insurers who are insolvent or unsound financially, and in no event  
16 shall any surplus lines broker place any insurance with a nonadmitted insurer  
17 unless such insurer:

18 (1) has paid to the commissioner an initial fee of \$100.00 and an annual  
19 listing fee of \$300.00, payable before March 1 of each year;

20 (2) has furnished the commissioner with a certified copy of its current  
21 annual statement; ~~and~~

1           (3) has and maintains capital, ~~surplus or both to policyholders in an~~  
2 ~~amount not less than \$10,000,000.00; and~~ and surplus or its equivalent under  
3 the laws of its domiciliary jurisdiction which equals the greater of:

4                 (A) the minimum capital and surplus requirements under the law of  
5 this state; or

6                 (B) \$15,000,000.00; and

7           (4) if an alien insurer, ~~in addition to the requirements of subdivisions~~  
8 ~~(1), (2), and (3) of this subsection, has established a trust fund in a minimum~~  
9 ~~amount of \$2,500,000.00 within the United States maintained in and~~  
10 ~~administered by a bank that is a member of the Federal Reserve System and~~  
11 ~~held for the benefit of all of its insurer's policyholders and beneficiaries in the~~  
12 ~~United States. In the case of an association of insurers, which association~~  
13 ~~includes unincorporated individual insurers, they shall maintain in a bank that~~  
14 ~~is a member of the Federal Reserve System assets held in trust for all their~~  
15 ~~policyholders and beneficiaries in the United States of not less than~~  
16 ~~\$50,000,000.00 in lieu of the foregoing trust fund requirement. These trust~~  
17 ~~funds or assets held in trust shall consist of investments of substantially the~~  
18 ~~same character and quality as those which are eligible investments for the~~  
19 ~~capital and statutory reserves of admitted insurers authorized to write like~~  
20 ~~kinds of insurance~~ is listed on the quarterly listing of alien insurers maintained  
21 by the NAIC international insurers department.

1       (b) Notwithstanding the capital and surplus requirements of this section, a  
2 non-admitted insurer may receive approval upon an affirmative finding of  
3 acceptability by the commissioner. The finding shall be based upon such  
4 factors as quality of management, capital and surplus of any parent company,  
5 company underwriting profit and investment-income trends, market  
6 availability, and company record and reputation within the industry. In no  
7 event, however, shall the commissioner make an affirmative finding of  
8 acceptability when the surplus lines insurer's capital and surplus is less than  
9 \$4,500,000.00.

10       (c) The commissioner may from time to time publish a list of all  
11 nonadmitted insurers deemed by him or her to be currently eligible surplus  
12 lines insurers under the provisions of this section, and shall mail a copy of such  
13 list to each surplus lines broker. ~~The commissioner may satisfy this subsection~~  
14 ~~by adopting the list of approved surplus lines insurers published by the~~  
15 ~~Nonadmitted Insurers Information Office of the National Association of~~  
16 ~~Insurance Commissioners.~~ This subsection shall not be deemed to cast upon  
17 the commissioner the duty of determining the actual financial condition or  
18 claims practices of any nonadmitted insurer; and the status of eligibility, if  
19 granted by the commissioner, shall indicate only that the insurer appears to be  
20 sound financially and to have satisfactory claims practices, and that the  
21 commissioner has no credible evidence to the contrary. While any such list is

1 in effect, the surplus lines broker shall restrict to the insurers so listed all  
2 surplus lines insurance business placed by him or her. However, upon the  
3 request of a surplus lines broker or an insured, the commissioner may deem a  
4 nonadmitted insurer to be an eligible surplus lines insurer for purposes of this  
5 subsection prior to publication of the name of such surplus lines insurer on the  
6 list.

7 Sec. 6. 8 V.S.A. § 5027(a) is amended to read:

8 (a) ~~Upon~~ Where Vermont is the home state of the insured, the surplus lines  
9 broker, upon placing a domestic risk with a surplus lines insurer, ~~the surplus~~  
10 ~~lines broker~~ shall promptly deliver to the insured the policy issued by the  
11 surplus lines insurer, or if such policy is not then available, a certificate, cover  
12 note, or other confirmation of insurance, showing the description and location  
13 of the subject of the insurance, coverage, conditions and term of the insurance,  
14 the premium and rate charged and taxes collected from the insured, and the  
15 name and address of the insured and surplus lines insurer. If the risk is  
16 assumed by more than one insurer, the document or documents shall state the  
17 name and address and proportion of the entire risk assumed by each insurer.

18 Sec. 7. 8 V.S.A. § 5028 is amended to read:

19 § 5028. INFORMATION REQUIRED ON CONTRACT

20 ~~Each~~ Where Vermont is the home state of the insured, each surplus lines  
21 broker through whom a surplus lines insurance coverage is procured shall



1 endorse on the outside of the policy and on any confirmation of the insurance,  
2 his or her name, address and license number, and the name and address of the  
3 producer, if any, through whom the business originated. Where such coverage  
4 is placed with an eligible surplus lines insurer there shall be stamped or written  
5 conspicuously in no smaller than 10 point boldface type of a contrasting color  
6 upon the first page of the policy and the confirmation of insurance if any, "The  
7 company issuing this policy has not been licensed by the state of Vermont and  
8 the rates charged have not been approved by the commissioner of insurance.

9 Any default on the part of the insurer is not covered by the Vermont Insurance  
10 Guaranty Association."

11 Sec. 8. 8 V.S.A. § 5033(a) is amended to read:

12 (a) ~~Each~~ Where Vermont is the home state of the insured, each surplus  
13 lines broker shall keep in his or her office a full and true record of each surplus  
14 lines insurance contract covering a domestic risk placed by or through him or  
15 her with a surplus lines insurer, including a copy of the daily report, if any, and  
16 showing such of the following items as may be applicable:

17 \* \* \*

18 Sec. 9. 8 V.S.A. § 5035(a) is amended to read:

19 (a) ~~Gross~~ Where Vermont is the home state of the insured, gross premiums  
20 charged, less any return premiums, for surplus lines coverages placed with  
21 nonadmitted insurers are subject to a premium receipts tax of three percent,

1 which shall be collected from the insured by the surplus lines broker at the  
2 time of delivery of policy or other confirmation of insurance, in addition to the  
3 full amount of the gross premium charged by the insurer for the insurance.

4 The tax on any portion of the premium unearned at termination of insurance  
5 shall be returned to the policyholder by the surplus lines broker. Nothing  
6 contained in this section will preclude a surplus lines broker from charging a  
7 fee to the purchaser of the contract sufficient to recover the amount of this tax.

8 Sec. 10. 8 V.S.A. § 5036 is amended to read:

9 § 5036. DIRECT PLACEMENT OF INSURANCE

10 (a) Every insured and every self-insurer in this state for whom this is their  
11 home state, who procures or causes to be procured or continues or renews  
12 insurance from any non-admitted insurer, covering a subject located or to be  
13 performed within this state, other than insurance procured through a surplus  
14 lines broker pursuant to this chapter, shall, before March 1 of the year after the  
15 year in which the insurance was procured, continued or renewed, file a written  
16 report with the commissioner on forms prescribed and furnished by the  
17 commissioner. The report shall show:

18 \* \* \*

19 Sec. 11. 8 V.S.A. § 5037(7) is amended to read:

20 (7) ~~Violation~~ Material violation of any provision of this chapter; or

1 Sec. 12. 8 V.S.A. § 4807 is amended to read:

2 § 4807. SURPLUS LINES INSURANCE BROKER

3 (a) Every surplus lines insurance broker who solicits an application for  
4 insurance of any kind, in any controversy between the insured or his or her  
5 beneficiary and the insurer issuing any policy upon such application, shall be  
6 regarded as representing the insured and his or her beneficiary and not the  
7 insurer; except any insurer which directly or through its agents delivers in this  
8 state to any surplus lines insurance broker a policy or contract for insurance  
9 pursuant to the application or request of the surplus lines insurance broker,  
10 acting for an insured other than himself or herself, shall be deemed to have  
11 authorized the surplus lines insurance broker to receive on its behalf payment  
12 of any premium which is due on the policy or contract for insurance at the time  
13 of its issuance or delivery.

14 (b) [Repealed.]

15 (c) Notwithstanding any other provision of this title, a person licensed as a  
16 surplus lines insurance broker in his or her home state shall receive a  
17 nonresident surplus lines insurance broker license pursuant to section 4800 of  
18 this chapter.

19 (d) The commissioner shall participate in the national insurance producer  
20 database of the NAIC, or any other equivalent uniform national database, for  
21 the licensure of surplus lines brokers and the renewal of such licenses.

- 1       Sec. 13. EFFECTIVE DATE
- 2       This act shall take effect on passage.