

SURPLUS LINES INSURANCE MULTISTATE COMPLIANCE COMPACT
(SLIMPACT)

EXECUTIVE SUMMARY

The interstate compact, known as SLIMPACT, was drafted with input from over 60 insurance professionals representing various state regulators, tax officials, legislators, stamping offices, brokers and trade associations.

I. PURPOSES OF SLIMPACT

The most fundamental provisions of SLIMPACT are designed to:

- 1) clarify the law and ease the regulatory burdens on E&S brokers when placing multistate risks,
- 2) allow each compacting state to collect taxes on all nonadmitted risks where risk exposures are present in the compacting state(s), and
- 3) save E&S brokers, over time, hundreds of millions of dollars in frictional costs associated with current efforts to comply and pay taxes state by state on each multistate risk the broker places.

E&S brokers will be required to comply and file E&S transactions and data only in the home state of the insured on any one multistate risk. An E&S broker needs to be licensed only in the insured's home state when placing a multistate risk.

SLIMPACT also provides authority for compacting states to agree on Uniform Standards to make compliance requirements more uniform among the compacting states when two thirds of the compacting states agree on a particular uniform standard.

II. THE COMPACT COMMISSION AND ITS AUTHORITY

- A. Each compacting state is entitled to have a "member" on the commission. A "member" can consist of more than one representative, however, the "member" gets one single vote. Each compacting state, therefore, gets an equal vote.
- B. The commission is empowered to accomplish a number of tasks. Some of the most meaningful undertakings include:
 1. Creating a clearinghouse to receive transaction and tax data which will be used to report, periodically, what each state is owed by each broker and what each broker owes each state,

2. adopting uniform tax allocation formulas to be used by each compact state. Each state will be able to charge its own tax rate to the portion of the risk located in such state,
3. adopting Uniform Standards to create more uniform regulation across participating compact states when 2/3 of the member states agree to such standards,
4. other general authority to budget, hire staff, charge fees necessary to operate the compact and clearinghouse,
5. electing a management committee to implement the policies adopted by the commission and run the day-to-day affairs of the clearinghouse. The management committee's selection criteria is weighted in favor of compacting states with large E&S premium volume and favors the selection of stamping office executives who deal day to day with data collection and tax reporting laws.

III. BROKER IMPLICATIONS

- A. E&S brokers will only have to be licensed in the state which is the home state of the insured when placing any given multistate risk. [Ex: An E&S broker has 60 multistate risks, however, all are Texas home stated risks based on the compact definition of home state. The E&S broker would need to be licensed only in Texas. If 4 of those 60 multistate risks were home stated in California and the rest in Texas, the E&S broker would need an E&S license in California for the four risks home stated there.]
- B. An E&S broker will report each transaction to the home state of the insured. A web based spreadsheet and calculator will be available by which the broker can report each state's allocation (payroll by state for instance) and obtain a tax billing sheet by which it can bill the insured. The data is transferred through the state, stamping office or state agency to the clearinghouse.
- C. Though the E&S broker needs to be licensed only in the home state of any given insured, the E&S brokers are legally responsible for paying the surplus line taxes due to each compacting state.
- D. Compacting states will be required to set tax payment dates annually, semiannually or quarterly using only the following dates March 1, June 1, September 1 and December 1.

IV. INDEPENDENT PROCUREMENT

Compacting states will require insureds, who acquire coverage without a placing broker, to complete the tax allocation schedule, report and pay taxes state by state. Allocation data will be reported by the state to the clearinghouse.

V. CLEARINGHOUSE EFFECTIVE DATE

The compact commission becomes effective upon the earlier of the compact's adoption by ten states or states representing 40% of the surplus lines U.S. marketshare. The clearinghouse and tax allocation implementation occurs on the first January 1 or July 1 following the first anniversary of the date the compact commission becomes effective.

VI. FLOWCHARTS

