



**National Association of  
Professional Surplus Lines  
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**Testimony of  
The National Association of Professional Surplus Lines Offices**

**Before the  
House Financial Services Subcommittee on Insurance & Housing  
November 19, 2014**

The National Association of Professional Surplus Lines Offices (NAPSLO) is the professional trade association representing the surplus lines industry and the wholesale insurance distribution system. Since its formation in 1974, NAPSLO has become the authoritative voice of the surplus lines industry, advocating for the industry's vital role in the insurance marketplace and global economy. The surplus lines market plays an important role in providing insurance for hard-to-place, unique or high capacity (i.e., high limit) risks. Often called the "safety valve" of the insurance industry, surplus lines insurers fill the need for coverage in the marketplace by insuring those risks that are declined by the standard underwriting and pricing processes of standard/admitted insurance carriers. With the ability to accommodate a wide variety of risks, the surplus lines market acts as an effective supplement to the admitted market.

Surplus lines insurers are able to cover unique and hard-to-place risks because, as nonadmitted insurers, they are able to react to market changes and accommodate the unique needs of insureds that are unable to obtain coverage from admitted carriers. This results in cost-effective solutions for consumers that are not "one size fits all," but are instead skillfully tailored to meet specific needs for non-standard risks.

NAPSLO's membership consists of approximately 400 brokerage firms, 100 surplus lines insurers and 200 associate firms, all of whom operate over 1,500 offices representing approximately 15,000 to 20,000 individual brokers, insurance company professionals, underwriters and other insurance professionals

globally. NAPSLO is unique in that both surplus lines brokers and surplus lines companies are full members of the association; thus NAPSLO represents and speaks for the surplus lines wholesale marketplace. We appreciate the opportunity to submit testimony to today's hearing.

### **Increasing Private Market Solutions for Flood Insurance**

NAPSLO appreciates the Committee's continued efforts to expand the provision of flood insurance to the private market. To that end, NAPSLO strongly supports H.R. 4558, the *Flood Insurance Market Parity and Modernization Act of 2014*, introduced by Reps. Ross and Murphy. The updates and improvements made by Congress to the National Flood Insurance Program (NFIP) in recent years have demonstrated this body's desire to allow consumers to have the option of securing private flood insurance policies to fulfill their coverage obligations. This critical legislation is necessary to achieve this goal.

Although the recent changes addressing flood insurance intended to increase private market solutions, clarification to the definition of private flood insurance is needed to ensure the surplus lines market can provide solutions to consumers, which had long been accepted as appropriate coverage. Absent a clarification of the definition, we fear lenders may be hesitant to accept private flood insurance policies from surplus lines insurers. H.R. 4558 provides a simple, commonsense change that will fix this concern.

### **The Regulation of Surplus Lines**

To secure a nonadmitted insurance policy, an insured does not go directly to the nonadmitted market for coverage. In most instances, the risk must first be "declined" after a "diligent search" of the admitted market, which generally means that they must first seek coverage from companies licensed to write the risk in the admitted market. Once it has been determined that the admitted market cannot or will not accept the level of risk, the nonadmitted market may provide the coverage. This is why surplus lines is considered the "safety valve" for insureds unable to find coverage in the admitted market.

The financial and market regulation of a surplus lines insurer, like admitted insurers, is the purview of the surplus lines insurer's domiciliary state. In addition, the regulation and taxation of individual surplus lines transactions is also through the licensed surplus lines broker. Surplus lines brokers work directly with retail agents and brokers representing those insureds who are unable to obtain insurance through

the admitted market. The licensed surplus lines broker is responsible for (1) selecting an eligible surplus lines insurer; (2) reporting the surplus lines transaction to insurance regulators; (3) remitting the premium tax due on the transaction to state tax authorities; and (4) assuring compliance with all the requirements of the surplus lines regulations.

Although the surplus lines market is regulated differently than the admitted market, in order to provide the flexibility necessary to innovate and customize solutions for hard-to-place risks, it is important to understand that it is indeed subject to diligent regulation. Each U.S. based surplus lines company is licensed (admitted) in at least one of the 50 states or other U.S. jurisdictions and must fulfill the solvency and market regulatory requirements of that state or jurisdiction. Like admitted insurers, the surplus lines insurer's state of domicile is the regulator of that insurer's solvency and market practices, and the nonadmitted insurer submits to all the same rigorous rules and regulations as an admitted insurer. Where the markets differ is that nonadmitted policies are not subject to the rate and forms requirements applied to the admitted market, allowing the nonadmitted market the flexibility to innovate and underwrite customized solutions for unique risks in an actuarially sound fashion.

Nonadmitted insurance companies have a tremendous solvency record. In 2014, A.M. Best reported that for the tenth year in a row, the industry reported no financially impaired surplus lines companies. By comparison, there were 14 disclosed impairments by the admitted market during this period. Domestic professional surplus lines insurers continue to maintain a higher proportion of secure ratings than the overall property/casualty industry. Through midyear 2014, 100% of surplus lines companies maintained secure A.M. Best ratings. This exceptionally strong record of solvency speaks to the quality of products and security offered by the nonadmitted industry.

## **Conclusion**

NAPSLO strongly encourages you to support H.R. 4558, and make clear that the nonadmitted insurance industry is an eligible provider of flood insurance coverages that the National Flood Insurance Program and admitted market either cannot or will not underwrite. This will help ensure consumers have all the options necessary to find private market solutions to flood exposures. NAPSLO would be pleased to

answer any questions that the Committee, its Members or staff may have on this issue or related to the surplus lines industry. Thank you again for the opportunity to comment on this important issue.