

FROM: Director, Worldwide Markets
LOCATION: G12
EXTENSION: 5998
DATE: 17 January 2003
REFERENCE: Y2974
SUBJECT: ILLINOIS: CHANGES TO PROCESSING OF
SURPLUS LINES BUSINESS BY THE AIF OFFICE
SUBJECT AREA(S):
ATTACHMENTS:
ACTION POINTS: **To note changes in processing surplus lines
documents by the AIF Office**
DEADLINE:

1. Purpose of bulletin

To inform the market that Lloyd's Attorney in Fact's Office ("AIF Office") in Illinois has changed its procedures for handling surplus lines business.

The bulletin will be of interest to brokers and underwriters dealing with Illinois surplus lines business. The changes affect the AIF Office's review of surplus lines documentation, so the bulletin is relevant to anyone who deals directly with the AIF Office in relation to such documentation.

2. Background

The changes do not affect Illinois licensed business and apply to documentation received by the AIF Office after 16th December 2002. Illinois correspondents have been advised of these changes.

Illinois is the only US state in which Lloyd's underwriters can write direct insurance on either a licensed or a surplus lines basis. Generally speaking, Lloyd's syndicates can write Illinois business on a surplus lines basis only where the coverage wording does not comply with Illinois regulatory requirements. Syndicates can write surplus lines business only if it is

handled via a surplus lines broker licensed in Illinois. The AIF Office must countersign all documentation evidencing a surplus lines insurance contract.

3. Changes to procedures

The procedures for processing surplus lines documentation after 16th December 2002 are set out in the attached appendix. The main changes are:

- The AIF Office no longer carries out a full compliance review of documentation. It continues to review surplus lines documentation to ensure that it can be written as surplus lines and not under Lloyd's licence. It also continues to record premium, countersign documents and maintain copies of the documents.

Reason for change: Procedures have been streamlined to avoid duplication of the checks carried out by the Surplus Lines Association of Illinois ("SLA of Illinois").

- The AIF Office is no longer able to act as an Illinois licensed surplus lines broker on behalf of non-resident intermediaries who do not possess an Illinois surplus lines licence. Intermediaries not resident in Illinois and placing business with Lloyd's must therefore secure their own Illinois surplus lines producer in order to file with the SLA of Illinois.

The Illinois Surplus Lines Law was amended with effect from 1 January 2002.

Consequently, a non-resident intermediary can obtain a non-resident surplus lines licence if:

- (1) the non-resident is licensed in good standing in his/her home state,
- (2) the non-resident submits the proper request together with the required fee,
- (3) the non-resident submits his/her home state application or the Uniform Application, and
- (4) his/her home state awards non-resident licences to Illinois producers on the same basis.

Reason for change: Changes in the AIF Office mean that it no longer has a licensed surplus lines producer on staff.

4. Further information

If you have any queries regarding the AIF Office procedures, please contact Tom Oberwetter, Tel: 001 312 443 0387, Email: toberwet@lordbissell.com

For any other queries, please contact Lloyd's Worldwide Market Services, box 190b, Tel: 020 7327 6677, Email: market.services@lloyds.com

This market bulletin has been sent to active underwriters and to the compliance officers of Lloyd's Brokers and Managing Agents.

Appendix 1

Summary of the AIF Office's revised surplus lines documentation procedures

a) Countersigning insuring documents

Lloyd's Illinois AIF must countersign all insuring documents evidencing Illinois surplus lines risks.

When an Illinois surplus lines producer submits insuring documents for countersigning, they should include a completed Illinois Surplus Lines Verification Slip ("ISLVS") identifying the licensed surplus lines producer involved, including the correct producer member number and a listing of the documents submitted. If a risk can legitimately be written on a surplus lines basis, the AIF Office countersigns the insuring documents by affixing a blue Lloyd's Registrar stamp. Subsequent action is as follows:

- *If the ISLVS is included* – the AIF Office forwards the documentation to the SLA of Illinois without further review.
- *If the ISLVS is not included* – the AIF Office returns the documents to the Illinois correspondent or Lloyd's broker with the attached notice (see appendix 2). It states, amongst other matters: **"Be aware that failure to file these documents with the Surplus Lines Association could result in fines, penalties or licence revocation"**. Again, the AIF Office will not further review the documents.

The SLA of Illinois provides a second, SLA, countersignature. Illinois surplus line documents are not valid unless both stamps appear on the document.

Consequently, whilst the AIF will countersign documents that comply with Lloyd's market requirements even though they are not accompanied by a completed ISLVS, the Illinois correspondent or Lloyd's broker concerned must then file the documents with the SLA of Illinois themselves.

However, in the case of Illinois surplus lines documents produced or checked by Xchanging Ins-sure Services, the Lloyd's broker submitting the documents or instructing Xchanging Ins-sure Services must provide a completed ISLVS. Xchanging Ins-sure Services will reject the documents as **'incomplete'** and return them to the Lloyd's broker without further review if a completed ISLVS is not provided.

A copy of the Illinois Surplus Lines Verification Slip can be obtained from the SLA web site www.slai.org

b) AIF Office review of binding authority business

At the inception of the contract the AIF Office reviews new binding authorities including Illinois business, for compliance with Illinois regulatory requirements for licensed business. The AIF Office provides comments to Underwriters through the coverholder or Lloyd's broker.

The binding authority business can only be placed on a surplus lines basis if it does not meet Illinois regulatory requirements for licensed business and underwriters confirm that forms will not be amended to comply with these requirements.

The AIF Office treats all subsequent business under the binding authority as surplus lines, unless the lead underwriter changes or there is a change in the coverage wording requiring a review by underwriters.

The AIF Office countersigns insuring documents, records premiums and maintains copies of the insuring documents.

The AIF Office will provide Ins-sure with details of checked/approved surplus lines binding authority contracts on a monthly basis. It is important for Lloyd's brokers to include the Unique Market References (UMR) from the binding authority at the time they submit the binding authority information to the AIF Office.

c) Xchanging Ins-sure Services procedures for binding authority business

Xchanging Ins-sure Services checks the list of surplus lines binding authority contracts provided by the AIF Office.

If the particular contract is on the list, Xchanging Ins-sure Services has authority to settle premium for Illinois surplus lines business without requesting countersigned certificates/borderaux on a case by case basis.

d) AIF Office review of open market business

The documentation of an Illinois surplus lines open market contract may be prepared either by the Illinois correspondent under the Illinois Document of Insurance Scheme or as a standard Lloyd's policy by Xchanging Ins-sure Services or a Lloyd's broker.

In both cases the AIF Office:

- Reviews the document for compliance to ensure it is legitimately surplus lines. The risk can only be treated as surplus lines if licensed requirements are not met and underwriters confirm that forms will not be amended.
- Countersigns the document, records the premium and maintains a copy of the document.
- Treats renewal business as surplus lines unless the lead underwriter changes or there is a change in the coverage wording requiring a review by Underwriters.

In the case of document prepared under the Scheme, the AIF Office works with the correspondent and producer to ensure that the documents are consistent with the Lloyd's broker's cover note/placing slip.

Appendix 2

Notice

The attached insuring document has been countersigned and recorded by the Lloyd's Registrar in Illinois indicating that the risk has been processed as Illinois surplus line business on behalf of Lloyd's Underwriters.

The document must now be submitted to the Surplus Line Association of Illinois for countersignature to comply with Illinois Surplus Line Law. It is unlawful for an insurance producer to deliver any surplus line contract to the insured unless it is countersigned by the Surplus Line Association of Illinois. Failure to comply can subject you to fines, penalties and licence revocation.

Their address is:

[Surplus Line Association of Illinois](#)

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Chicago, Illinois 60606-4020

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In order to ensure that your Lloyd's surplus line documents comply with Surplus Line Association of Illinois requirements, you can access the Illinois Surplus Line Procedures Manual at the website listed above.