

MARKET BULLETIN

REF: Y4934

Title	Lloyd's Illinois Surplus Lines Procedures
Purpose	This bulletin confirms a change to Lloyd's surplus lines procedures in Illinois with effect from 1 January 2016 following discussions with the Illinois Department of Insurance and the Surplus Line Association of Illinois.
Type	Event
From	Rosemary Beaver, Head of International Regulatory Affairs
Date	19 October 2015
Deadline	Effective date 1 January 2016
Related links	Lloyd's Market Bulletin Y2974 Lloyd's Market Bulletin Y4500 Link to the NAIC IID Quarterly Listing of Alien Insurers Illinois Department of Insurance: Licensed Surplus Lines Brokers

Purpose

This bulletin is addressed to all Lloyd's market stakeholders dealing with the placement and underwriting of surplus lines business from the state of Illinois. The bulletin confirms changes to Lloyd's Illinois surplus lines procedures and sets out key considerations for writing surplus lines business from Illinois (Appendix A). These changes are effective from 1 January 2016.

Background

Lloyd's maintains a dual status in Illinois, meaning that it can transact insurance on a licensed and surplus lines basis. Currently, this requires that all Lloyd's surplus lines transactions in Illinois are sent to the Lloyd's Illinois office to confirm that the underwriter intends to write the business on a surplus lines basis and for countersigning. Lloyd's Illinois then forwards the documentation to the Surplus Line Association of Illinois (Illinois SLA) for processing.

With effect from 1 January 2016, regardless of the effective date of the transaction, Lloyd's Illinois will no longer be required to process surplus lines policies and endorsements. Instead, surplus lines brokers will need to file surplus lines policies directly with the Illinois SLA. This brings the surplus lines procedure for Illinois in to line with Lloyd's operations in all other states, including Kentucky and the USVI, where Lloyd's also maintains a dual status.

It is important to note that Lloyd's licensed/admitted status and the related procedures in Illinois are unchanged. Underwriters at Lloyd's may continue to write business on a licensed basis in accordance with all existing licensed business regulatory requirements.

Illinois Surplus Lines Business

There are a number of compliance considerations for Lloyd's underwriters (see Appendix A) to ensure surplus lines risks from Illinois continue to be properly exported in accordance with surplus lines laws.

As with all US surplus lines business, Lloyd's syndicates writing surplus lines insurance in Illinois must appear on the IID List (and are therefore subject to Lloyd's U.S. Surplus Lines Trust Fund and reporting requirements). Lloyd's, working with the market, will continue to make an annual surplus lines eligibility filing with the NAIC as it has done in the past to ensure that, in accordance with NRRA standards, Lloyd's is an eligible surplus lines insurer.

Further guidance will be issued to local stakeholders to assist with the transition.

Further Information and Contacts

If you require information regarding the regulatory requirements for underwriting or placing risks located in Illinois or regarding Lloyd's US surplus lines eligibility generally, please contact:

Lloyd's International Trading Advice
Lloyd's Desk, Ground Floor, Underwriting Room
Telephone: + 44 (0) 20 7327 6677
Email: LITA@Lloyds.com
www.lloyds.com/crystal

or

Steve Yates, Manager, Lloyd's International Regulatory Affairs, Lloyd's
+44 (0)20 7327 5351 or Email stephen.yates@lloyds.com, or;

Luther Collins, Executive, Lloyd's International Regulatory Affairs, Lloyd's
+44 (0)20 7327 6355 or Email luther.collins@lloyds.com.

Tom Oberwetter, Vice President, Regulatory Compliance, Lloyd's Illinois, Inc.
+1 312 407 6204 or Email tom.oberwetter@lloyds.com

Appendix A

Lloyd's Illinois Surplus Lines Procedures – Key Considerations

With effect from 1 January 2016, surplus lines policies and endorsements will no longer need to be sent to Lloyd's Illinois. Instead, surplus lines brokers will file their policies directly with the Illinois SLA. Lloyd's underwriters and London brokers should note the following key considerations when accepting surplus lines risks from Illinois (further guidance concerning Lloyd's status and business placement requirements in Illinois can be found on Crystal and in the Lloyd's QA tool).

Key considerations under Lloyd's requirements for transacting U.S. surplus lines business from Illinois:

1. Placement by a licensed surplus lines broker – Lloyd's underwriters are responsible for ensuring that every U.S. surplus lines risk they write, where Illinois is the 'home state' (see market bulletin Y4500 in "Related Links") for the placement, is placed via a resident or non-resident broker who possesses a current Illinois surplus lines licence. A search of licensed Illinois surplus lines brokers can be carried out on the Illinois Department of Insurance webpage (see "Related Links").
2. U.S. Classification - The standard Market Reform Contract (MRC) for an open market placement includes, in its Fiscal and Regulatory section, the heading 'U.S. Classification'. The U.S. classification for an Illinois surplus lines risk should be 'U.S. surplus lines'. Illinois licensed business should still receive the U.S. Classification 'US Illinois licensed'.
3. Service of suit nominee - Mendes and Mount is frequently designated as the service of suit nominee for Lloyd's underwriters' U.S. surplus lines business. The use of Mendes and Mount is not mandatory and underwriters are free to appoint another nominee if desired. Lloyd's underwriters are still required to appoint Lloyd's Illinois Inc. as nominee for service of process on licensed business.
4. LPANs - Illinois surplus lines premium should be included within the LPAN prepared for U.S. surplus lines premium. A separate LPAN for Illinois surplus lines premium is no longer required, however, where preferred, it will still be acceptable to submit separate LPANs. Separate LPANs will still be required where two US Classifications apply, i.e. licenced and surplus lines.
5. FIL Codes – The FIL code to be used on an Illinois surplus lines risk will be 'USL1'. The Illinois surplus lines FIL code 'ILC1' should not be used after 31 December 2015 for any new business but should continue to be used for any additional premium, corrections or claims where the original policy was processed using 'ILC1' .
6. The binding authority premium report currently prepared by Lloyd's Illinois will still be produced but will only cover licensed business from 1 January 2016. Xchanging will continue to check that Illinois licensed business has been countersigned. Illinois surplus

lines business from 1 January 2016 will be subject to the same checks as all other surplus lines transactions from other states, i.e., there will be no countersignature requirement, or countersignature check, applied to Illinois surplus lines business and normal surplus lines compliance rules will apply as per this Appendix.

7. Certificates issued under binding authorities – The surplus lines certificate to be used for Illinois surplus lines business from 1 January 2016 will be ‘SLC3 (USA)’.
8. Documents of insurance – For Illinois surplus lines business the LMA 3035 will no longer be used from 1 January 2016.
9. US General Cover conditions (LMA 5058A) – Working with the LMA the US general cover conditions are currently being reviewed for Illinois surplus lines references that require updating.
10. Coverholders – An Illinois risk written on a surplus lines basis via a binding authority must still be bound by an approved coverholder. There is a single regional approval category of “USA” which covers both surplus lines and licenced Illinois business (For further information, see market bulletin Y4125). Given the particular requirements that apply to coverholders carrying on business in Illinois, any coverholder proposing to write Illinois licenced business must contact Lloyd’s Illinois beforehand.
11. Open Market Correspondents (OMCs) – Surplus lines brokers will no longer need to be registered as OMCs for Illinois surplus lines business purposes (the same as any other surplus lines broker producing business home stated in any other state). Note, OMC registration requirements will still be applicable to Illinois licensed business. The Lloyd’s Illinois Open Market Correspondent Undertaking and related guidance is currently being reviewed for amendments.
12. Countersignature – Illinois surplus lines risks will no longer require countersigning by Lloyd’s Illinois, Inc. (see 5. Above). All insurance documents and endorsements pending with Lloyd’s Illinois, Inc. (i.e. documents which have been received or queried prior to January 1), will be processed and sent to the Illinois SLA. If insurance documents are received by Lloyd’s Illinois, Inc. and something is missing or in error, the documents will be returned to the remitter with instructions to correct and forward the documents to the Illinois licensed surplus lines producer for filing with the Illinois SLA.
13. Binding Authority Agreements (BAAs) – Where the BAA contains a clause setting out the Coverholders obligation to ensure all Illinois surplus lines business is countersigned by Lloyd’s Illinois, Inc. it will not be necessary to have the BAA endorsed to remove the requirement.