July 7, 2014

BULLETIN NO. 11-2014

TO: ALL LICENSED SURPLUS LINES BROKERS, RETAIL AGENTS AND UNDERWRITERS, INSURER TRADE ASSOCIATIONS, THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS AND OTHER INTERESTED PARTIES

FROM: ARKANSAS INSURANCE DEPARTMENT

SUBJECT: UNDERWRITERS AT LLOYD’S, LONDON

This bulletin is issued in response to recent requests from brokers for clarification regarding the eligibility of Underwriters at Lloyd’s, London to write surplus lines business in Arkansas. Lloyd’s, London includes a number of underwriting entities. The underwriting entities generally participate on one or more of the Lloyd’s, London syndicates. These syndicates are not legal entities, but are a convenient way for regulators and others to refer to the members participating on a particular risk.

Each of the following terms fall within the definition of insurer under § 23-60-102 of the Arkansas Insurance Code: “Lloyd’s,” “syndicate,” “member,” “name,” and “underwriters at Lloyd’s.” The structure of the Lloyd’s, London market differs from that of traditional insurers. A Lloyd’s, London syndicate is not a legal entity. Members of Lloyd’s, London can be corporations, limited liability companies or natural persons. The capital that supports a syndicate’s underwriting is provided by the members participating on that syndicate. A single Lloyd’s, London syndicate may have as few as one member or as many as several hundred members.

The Arkansas Insurance Code, §§ 23-65-305 and 20-65-310, allows the Arkansas Insurance Department to maintain its own list of approved surplus lines insurers and to treat as approved those insurers listed on the Quarterly Listing of Alien Insurers maintained by the National Association of Insurance Commissioners (“NAIC”). The Lloyd’s, London syndicates listed on the NAIC’s Quarterly Listing of Alien Insurers have been verified by the NAIC to have sufficient capital provided by their underwriting members to pay valid claims across the United States, including Arkansas.

In referring to these insurers in the Lloyd’s, London market, the Arkansas Insurance Department may use shorthand references which are intended to include all of the Lloyd’s, London underwriting members participating on a particular syndicate. When the Arkansas Insurance Department references, or has in the past referenced, “Underwriters at Lloyd’s, London” on its list of Approved Surplus Lines Insurers, the Arkansas Insurance Department approval is, and in
the past has been, intended to extend to each of the many separate underwriters who collectively make up the membership of any of the Lloyd’s syndicates which appear on the NAIC Quarterly Listing of Alien Insurers. If any policy of surplus lines insurance covering risks in this state is, or was, insured by underwriters at Lloyd’s, London, who, at the time of the issuance of the policy, were members of and operating through any Lloyd’s, London syndicate listed on the NAIC Quarterly Listing of Alien Insurers, that policy was insured by approved surplus lines insurers under the authority of the Arkansas Insurance Department. To avoid unnecessary confusion, the Arkansas Insurance Department permits surplus lines brokers to use shorthand references to Lloyd’s, London, syndicates or underwriters when issuing insurance policies and SL and SL-2 affidavits.

The eligibility of Lloyd’s, London underwriters is based on a comprehensive application process as well as a detailed financial analysis by NAIC staff, under the supervision of a panel of state regulators that comprise the Surplus Lines Financial Analysis Working Group. The NAIC staff reviews each annual financial statement submitted by Lloyd’s, London to the NAIC’s International Insurers Department.

The federal Nonadmitted Reinsurance and Reform Act (“NRRA”), a part of the Dodd-Frank Act that became effective in 2011, provides that states may not prohibit surplus lines brokers from placing business with insurers on the NAIC’s Quarterly Listing of Alien Insurers. The Arkansas Insurance Code has long provided for the Arkansas Insurance Department’s adoption of the NAIC Quarterly Listing of Alien Insurers, and the NRRA did not change the practices of the Arkansas Insurance Department.

Questions concerning this Bulletin should be directed to the Legal Division at (501) 371-2820.

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STATE OF ARKANSAS

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