NAPSLO Policy Regarding "Zero Report" Requirements for Surplus Lines Brokers
Adopted June 20, 2012

Issue: As a condition of their license (resident and non-resident), surplus lines brokers are currently required to file a tax report with most states, even in cases where no policies were written in the state for the particular reporting period. The reports are typically required for each license, including individual licenses and entity licenses. The report showing that no policies were written is frequently referred to as a "zero report".

Background: States require "zero reports" for the following reporting periods:

- The following states require a zero business report on a **monthly** basis:
  CO, PA

- The following states require a zero business report on a **quarterly** basis:
  KY (surplus line Rpt & municipal reports), MD, MO, NE, VT, WV

- The following states require a zero business report on a **semi-annual** basis:
  IL, IN, MD, MI, MN

- The following states require a zero business report on an **annual** basis:
  AL, AR, CA, CO, DC, DE, ID, IL, KS, LA, MA, MO, NH, NY, OK, PA, RI, TX, VA, WI

Compliance Issues: "Zero reports" cause unnecessary work for the surplus lines brokers. Each state requires a specific form with unique data elements, and some states require a wet signature on the form. "Zero reports" also create the risk of regulatory noncompliance. Failing to file a "zero report" can result in fines and administrative action, which might require reporting of the administrative action to other states. The Gramm-Leach-Bliley Act (GLBA) limited the licensing requirements that may be imposed upon a non-resident surplus lines broker, and the GLBA would likely be interpreted in such a manner that a broker cannot be denied a non-resident license for failure to file a "zero report."

Regulatory Justification: Regulators often argue that "zero reports" are necessary to verify that the broker has not transacted business without remitting taxes. The justification for the fines and administrative action is that there must be a penalty to encourage compliance. The practice of requiring "zero reports" became more prevalent in the early 2000's after the GLBA made non-resident licenses available for surplus lines brokers.

NAPSLO Position: The NRRA "home state" approach clarifies that only one state can require a tax payment, and surplus lines brokers must identify a home state for every policy and remit the taxes to that state. This simplified home state requirement means that "zero reports" are obsolete, because the pre-NRRA system requiring the broker to remit a portion of the tax to each exposure state has now been eliminated. Further, NAPSLO believes existing state requirements to file a "zero report" create unnecessary work for surplus lines brokers with no apparent benefit to the industry or regulatory community. For these reasons, NAPSLO believes "zero report" requirements should be eliminated.