October 19, 2011

States Participating in the Nonadmitted Insurance Multi-State Agreement ("NIMA States")

Submitted via email to Commissioner Mike Chaney, Chair of the NIMA Governing Committee, at mike.chaney@mid.state.ms.us

Dear NIMA States:

On behalf of the insurance industry trade associations identified above, we write to urge the NIMA States to adopt the allocation methodology proposed by the Kentucky Department of Insurance ("Kentucky compromise").

The tens of thousands of insurance agents and brokers, and many insurers we collectively represent nationwide, along with the insurance consumers that we service, will be the parties most affected by the allocation system implemented by the NIMA States, so your actions in this area are of the utmost importance to us.

The targeted revisions to the NIMA allocation schedule included in the Kentucky compromise primarily address a narrow but important subject matter – the allocation of surplus lines premium taxes for casualty lines in multistate placements. The Kentucky compromise would continue to require the allocation of casualty premiums on a state-specific or location-specific basis when a multistate policy's premiums are determined on a state-specific or location-specific basis, but it permits the allocation of premiums to the home state if a single premium charge is applied and no location-specific rating occurs in connection with the placement. Among numerous other benefits, the Kentucky compromise mirrors the manner in which insurers are currently instructed to allocate and report premiums and could thus offer important consistency and alleviate the need for costly retrospective audits and reconciliations. The refinements to the NIMA allocation outlined in the Kentucky compromise possess considerable merit and meet the needs of state officials without burdening companies, brokers and insureds with unnecessary and new data reporting requirements for the sole purpose of collecting taxes.

In contrast, the NIMA allocation methodology is demonstrably unworkable for most of the industry, would unavoidably result in new costs and fees, and will complicate, rather than simplify, surplus lines premium tax reporting and allocation procedures. This system would require surplus lines brokers, retail agents, and insurance buyers to obtain and report information that is simply not available or that can only be collected with great difficulty and expense. Such an outcome would add new challenges and further complexity to the surplus lines marketplace and exacerbate the burdens the Nonadmitted and Reinsurance Reform Act ("NRRA") was designed to relieve. The Kentucky compromise is the option best suited and most likely to bring the various parties and interests together and produce the much-needed uniformity intended by the NRRA. In fact, the regulators who serve on the Surplus Lines Insurance Multistate Compliance Compact Commission ("SLIMPACT") have already stated their support for the Kentucky compromise. We respectfully urge you to approve the Kentucky compromise for implementation in all NIMA States.

In closing, we wish to thank you for your efforts to evaluate the various surplus lines multi-state tax allocation systems. We believe the Kentucky compromise is the most efficient and practical for all parties. We would appreciate an opportunity to participate in any future meetings of the NIMA States or joint meeting of the NIMA and SLIMPACT States to discuss these issues and real-world examples of our concerns with the NIMA allocation methodology. We urge you to approve the Kentucky compromise at the earliest possible time.

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