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The purpose of the WSIA Regulatory Principles is to guide and serve WSIA in setting legislative and regulatory advocacy work and priorities.

## I. Freedom from Regulation of Surplus Lines Rates and Forms

Freedom from regulation of rates and forms distinguishes the surplus lines market from the admitted market and is the essential feature that allows the surplus lines industry to serve the consumer and function as a market for hard to place risks. It should be defended at all times in all states, even for seemingly minor infringements.

## II. The Principle of Export

The principle of export means that surplus lines transactions involve state regulated surplus lines brokers, exporting business to nonadmitted companies not licensed by the state. This principle forms the regulatory framework of the surplus lines market and defines the role of the surplus lines broker in the transaction as the regulated entity. It separates the company from direct, 50 state regulation – including rates and forms - and establishes context of the taxation of the transaction.

## III. Primacy of Surplus Lines

State based residual market mechanisms should not be given risk placement preference before surplus lines. The sequence of risk placement should be as follows: admitted market → surplus lines market → state based residual market.

## IV. Nonadmitted and Reinsurance Reform Act (NRRRA)

WSIA continues to strongly support the NRRRA and encourages and expects all states to maintain the federal law in a uniform manner as contemplated by Congress in its implementation. Properly implemented as consistent with the letter of the law and Congressional intent, the NRRRA has significantly improved the surplus lines market.

## V. Uniform and Reciprocal Licensing of Surplus Lines Brokers Between the States

WSIA's goal is a uniform and reciprocal 50 state system. To achieve such a system, the implementation of the National Association of Registered Agents and Brokers (NARAB) is critical.

## VI. Standardization of Taxation of Multistate Surplus Lines Risks

WSIA's goal is a simple and conflict free single payment system for remitting surplus lines taxes on multistate risks. With the elimination of surplus lines tax sharing compacts and agreements, the most effective means of producing that system is uniformly following the "home state" approach contemplated by the Nonadmitted and Reinsurance Reform Act of 2010 (NRRRA), where one state, the home state of the insured, is the regulatory authority for the transaction, including taxing the entire multistate risk at the home state's rate and rules, and retaining the entire tax for the home state.

## VII. Commercial Lines Deregulation – Automatic Export

Transactions involving commercial policyholders under state commercial lines deregulation, and the NRRRA exempt commercial purchaser laws, should automatically qualify for export to the surplus lines market without conducting a diligent search.

## VIII. State Regulation

The surplus lines marketplace is an essential part of the national insurance market. It operates successfully in the state-based regulatory system where business is exported from one state to another. WSIA favors the continuation of a state-based regulatory system for insurance over a federal system. However, the current state-based system must become more uniform and efficient. Uniformity and reciprocity among the states in areas of producer licensing and taxation is critical. The adoption of truly national standards will improve the efficiency and effectiveness of the state regulatory system and no federal standard should be enacted that curtails, hinders or otherwise prevents the surplus lines market from performing its vital role as a supplemental market for insurance consumers.

## IX. Federal Regulation

WSIA does not believe that a federally-based system of regulation can be effective in the oversight of an industry established to address a state-based system of reparations.

Proponents of creating a system of optional federal charters (OFC) believe that regulation of rates and forms will be eliminated by securing such charters. If a system of OFCs is created, it will be an unproven regulatory system. Under a system of federal charters, it would be essential for surplus lines underwriters that the regulatory structure permit a holding company to simultaneously hold federal and state charters so that the insurance can be placed under the regulatory system that offers rates, terms and conditions most consistent with the policyholder's needs. WSIA is committed to maintaining the state-based system of insurance regulation because it is the most favorable system for the wholesale, specialty and surplus lines market.

WSIA supports the role of the Federal Insurance Office (FIO) in studying and overseeing the efficiency and modernization of the system of insurance regulation in the United States and believes any federal policy regarding insurance regulation continue a course aimed at strengthening state insurance regulation and coordinating the efforts of federal agencies with state regulatory systems. WSIA supports the elimination of federal subpoena authority as it relates to insurance data and believes that a federal entity should secure such data through the appropriate state insurance regulator. Protecting our industry from such subpoena authority prevents insurance companies from unnecessary and costly reporting requirements that would ultimately add little value while increasing the costs of doing business. As in any business, these costs would ultimately be felt by consumers.

## X. Guaranty Funds

WSIA is opposed to surplus lines guaranty funds for the following reasons:

- They promote a false security because the coverage is typically inadequate for commercial lines;
- They promote the use of financially weak companies;
- Potential premium assessments are an unfair burden on surplus lines consumers; and
- The surplus lines marketplace is financially secure and dominated by companies with average ratings significantly higher than the overall market.