Florida

Office of Insurance Regulation

Report on Florida's Cooperative Reciprocal Agreement Joined Pursuant to the Nonadmitted and Reinsurance Reform Act (the Dodd-Frank Act)

December 2011

Section 626.9362(7), Florida Statutes, requires the Office of Insurance Regulation (Office) to prepare and submit a report to the President of the Senate and the Speaker of the House of Representatives by January 1, 2012 following the execution of a cooperative reciprocal agreement entered between the Office and a group of states.

This report provides:

- Details of the terms of the cooperative reciprocal agreement.
- The projected collections and allocation of nonadmitted insurance premium taxes for each state participating in the agreement.
- Details of the administrative structure supporting the agreement, including information regarding the clearinghouse.
- Insurance tax rates of states participating in the agreement.
- The status of other cooperative reciprocal agreements.

---

1. Details of the cooperative reciprocal agreement:

a) The Nonadmitted and Reinsurance Reform Act (NRRA), which passed in 2010 as part of the Dodd-Frank Wall Street Reform legislation, allows only the home state to require premium tax payments for non-admitted insurance absent a cooperative reciprocal agreement.

b) On June 15, 2011, Florida joined the Nonadmitted Insurance Multi-State Association (NIMA). NIMA is the cooperative reciprocal agreement Florida entered that will provide the mechanism to collect, allocate, distribute, and report surplus lines tax revenues consistent with the NRRA. Without the NIMA agreement, several states and territories (including Florida) could potentially lose surplus lines tax revenues.

c) Florida was one of NIMA's initial members along with Hawaii and Mississippi. Since June 15, 2011, eight additional states have joined NIMA including Alaska, Connecticut, Louisiana, Nebraska, Nevada, South Dakota, Utah, and Wyoming as well as the territory of Puerto Rico. The NIMA participating states created a formal agreement which adopts a premium tax allocation, distribution, and payment plan. The Office anticipates that this plan will maintain the current Florida tax collection system at current Florida premium tax rates.

d) NIMA participating states represent 22% of the surplus lines market according to 2009 data.

2. Actual and projected collections and allocations for each participating state:

Actual: These premium figures are based on the multi-state policy filings of Florida licensed surplus lines agents and Independently Procured Coverage (IPC) filers, and were filed with Florida Surplus Lines Service Office (FSLSO) as Florida is the home state of the policy. The Florida premiums are attributable to the total exposure in Florida for all multi-state policies reported. The date range for these filings is July 1, 2011 – December 16, 2011 and is based on the date in which the policy was submitted to FSLSO:

	Agent Premium	IPC Premium	Total Premium (7/1/11-12/15/11)
Alaska	$22,283.12	$9,917.42	**$32,200.54**
Connecticut	$35,017.10	$98,225.73	**$133,242.83**
Florida	$17,292,725.54	$7,348,802.66	**$24,641,528.20**
Hawaii	$108,291.00	$35,525.40	**$143,816.40**
Louisiana	$283,421.44	$123,295.65	**$406,717.09**
Mississippi	$247,283.50	$73,660.83	**$320,944.33**
Nebraska	$13,155.29	$181,081.20	**$194,236.49**
Nevada	$15,054.50	$247,076.35	**$262,130.85**
Puerto Rico	$928.00	$ -	**$928.00**
South Dakota	$19,288.85	$754.87	**$20,043.72**
Utah	$19,694.99	$4,204.23	**$23,899.22**
Wyoming	$3,834.51	$ -	**$3,834.51**

Projected: Projected values are based on the same criteria as listed above, and are annualized to represent an entire year's worth of data.

	Annualized
Alaska	**$ 64,401.08**
Connecticut	**$ 266,485.66**
Florida	**$ 49,283,056.40**
Hawaii	**$ 287,632.80**
Louisiana	**$ 813,434.18**
Mississippi	**$ 641,888.66**
Nebraska	**$ 388,472.98**
Nevada	**$ 524,261.70**
Puerto Rico	**$ 1,856.00**
South Dakota	**$ 40,087.44**
Utah	**$ 47,798.44**
Wyoming	**$ 7,669.02**

3. <u>Description of administrative structure; Clearinghouse; and fees charged to support administration</u>:

   a) <u>NIMA Agreement</u>: Florida formally entered the NIMA Agreement on June 15, 2011. (Amended on July 5, 2011, September 13, 2011, and October 21, 2011.) The Agreement sets forth the terms under which NIMA will operate and focuses on the fair and uniform distribution of surplus lines taxes intended by the Dodd-Frank legislation. The

Agreement includes provisions regarding implementation, selection of a central clearinghouse, surplus lines tax allocation and collection procedures, and membership and governance. The NIMA Agreement meets the federal requirement of uniformity and allows participating states to continue to receive their portion of premium taxes and fees due from multi-state surplus lines policies.

b) NIMA Officers: Chair – Commissioner Mike Chaney (Mississippi); Vice-Chair – Commissioner Merle Scheiber (South Dakota); Secretary – Commissioner Kevin McCarty (Florida)

c) NIMA incorporated as a not for profit corporation in the state of Florida on October 28, 2011. All NIMA member states have joined NIMA, Inc. NIMA, Inc., adopted bylaws on November 4, 2011.

d) NIMA Clearinghouse:

1. NIMA is actively negotiating with the Florida Surplus Lines Service Office (FSLSO) to retain FSLSO as the NIMA Clearinghouse. NIMA anticipates the Clearinghouse will become operational no later than July 1, 2012 (third quarter).

2. The NIMA Agreement establishes an allocation schedule to govern the method of tax allocation for multi-state risks to be used by the Clearinghouse.

e) Fees: NIMA, Inc. does not foresee any administrative costs other than nominal expenses to incorporate NIMA, Inc. Additional necessary expenses will be borne by the Clearinghouse. The FSLSO is authorized by Florida Statutes to collect a service fee of up to .3% of the total gross premium of each surplus lines policy. (§626.921) NIMA anticipates the Clearinghouse will charge this service fee to the policies it processes.

4. Insurance tax rates of participating states:

State	Surplus Lines Premium Tax Rate
Alaska	2.7%
Connecticut	4.0%
Florida	5.0%
Hawaii	4.68%
Louisiana	5.0%
Mississippi	4.0%
Nebraska	3.0%
Nevada	3.5%
Puerto Rico	9.0%
South Dakota	2.5%
Utah	4.25%
Wyoming	3.0%

5. <u>Status of other cooperative reciprocal agreement in country</u>:

The Office is aware of one other reciprocal agreement created pursuant to the NRRA. This group, SLIMPACT, includes nine state members: Alabama, Kansas, Kentucky, Indiana, New Mexico, North Dakota, Rhode Island, Tennessee, and Vermont. The Office is coordinating with key representatives of SLIMPACT to explore a common data collection framework, should SLIMPACT become operational.