



**INSURANCE**

A CONSUMER'S GUIDE TO

# **SURPLUS LINES**



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Insurance Commissioner

Traditional insurance markets consisting of North Carolina licensed (“admitted”) companies are not always available for every risk. The surplus lines market is an insurance marketplace that is established for the purpose of insuring unique or hard to place risks. Some of the rules that apply to surplus lines placements and surplus lines companies differ from those that govern coverage obtained from licensed insurance companies.

The North Carolina Department of Insurance (NCDI) hopes this guide will help you understand this frequently misunderstood market, its purposes and its limitations. Please read this guide carefully, and should you have any questions after reading the material, do not hesitate to ask your agent. Additionally, help is available by calling our toll-free number 1-855-408-1212 or by visiting the Department’s Web site [www.ncdoi.com](http://www.ncdoi.com).

## **SURPLUS LINES INSURERS**



“Surplus lines” insurance is coverage that is unavailable through admitted carriers but can legally be placed with eligible non-admitted companies. These surplus lines companies may be located in other states or countries.

Your agent may work with a licensed surplus lines broker in securing your policy.

Only licensed surplus lines brokers can place coverage with these insurers. A broker must pass a special examination to qualify for a surplus lines license.

By law, a broker can place a risk with a surplus lines company only after making a “diligent effort” to find an admitted carrier to issue the policy. If you are not satisfied with the results of the search, keep shopping for a licensed company, perhaps with another agent.

The surplus lines broker must notify the insured in writing that:

1. The insurer with which the coverage has been placed is not licensed by this state and is not subject to its supervision; and
2. In the event of the insolvency of the surplus lines insurer, losses will not be paid by any State insurance guaranty or solvency fund.

Surplus lines insurers are unlicensed. Their policies are regulated by state laws which require surplus lines coverage to be obtained by specially licensed surplus lines agents or brokers who are authorized to transact business with unlicensed (also called “non-admitted”) insurers that meet financial and other criteria. These insurers are known as surplus lines insurers.

Companies attempting to become eligible surplus lines insurers must have at least \$15 million in combined capital and surplus to conduct business in North Carolina. (Capital and surplus are a company’s financial cushion against unexpected claims.)

In addition, an alien insurer – one based in a foreign country – must have a trust fund of at least \$5.4 million in either a national bank or a member of the Federal Reserve System to protect its U.S. policyholders.

## **INSURANCE POLICIES WRITTEN IN THE SURPLUS LINES MARKET**



Surplus lines business consists primarily of property and casualty coverages such as commercial general liability insurance, fire insurance, mobile home policies, automobile physical damage coverage, and medical malpractice insurance.

Most surplus lines policies are sold to businesses. A small percentage of the surplus lines market consists of individual consumers who cannot secure residential property or automobile physical damage coverage with an admitted insurer.

The policies of surplus lines companies are not reviewed or approved by the NCDOL. A surplus lines company can modify, and often does modify, standard policy language to decrease or increase coverage depending upon the desire of the insured and the extent to which the company is willing to offer coverage.

There is NO protection for surplus lines policies. The Insurance Guaranty Association only covers policies of licensed insurers. This means that if the surplus lines insurer has financial difficulties, claims against your policy might go unpaid.

## FREQUENTLY ASKED QUESTIONS



### **Why am I getting coverage from a Surplus Lines Insurer?**

Your agent was unable to obtain the coverage you requested among the companies licensed in North Carolina, but was able to provide the coverage from an eligible surplus lines company.

The reason for your broker's action is that the risk or property for which you sought coverage may be unique or have certain risk characteristics that prevented your agent from placing the coverage with licensed carriers.

### **How is the rate or price of a Surplus Lines policy determined?**

The rate or premium charged for a surplus lines policy is determined by the insurer depending upon coverage, policy limits, exclusions, deductibles or other similar policy provisions.

As unlicensed carriers, surplus lines insurers do not file their rates or premiums with the NCDI for review. The total cost of the policy will include the insurer's premium charge, state surplus lines taxes plus broker fees and commissions incurred in selling and delivering the policy to you.

### **Can my policy be renewed or extended?**

Your surplus lines policy may or may not be renewed or extended when the policy expires. An extension of coverage may depend upon the availability of the coverage from insurers licensed in North Carolina and the willingness of the insurance company to continue to accept the risk.

Since a surplus lines policy is not subject to the same notice requirements as a policy issued by an admitted carrier, notice of a premium increase for a new policy term or the company's intent not to extend the policy at the same terms and conditions may not be provided until or around the date the policy expires.

Therefore, it is necessary for you to keep in contact with your broker, particularly as the expiration of the policy term nears, to learn the status of the policy and to assure continuity of coverage.

**IF YOU HAVE QUESTIONS, THE CONSUMER SERVICES DIVISION OF THE DEPARTMENT OF INSURANCE IS HERE TO HELP.**

855-408-1212	Toll free
919-807-6750	Outside of North Carolina
919-715-0319	TDD (Telephone Device for Deaf Callers)
919-733-0085	Fax

North Carolina Department of Insurance  
1201 Mail Service Center  
Raleigh, NC 27699-1201

You can find additional information as well as a downloadable copy of our Request for Assistance form on the [NCDI Web site](#).