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EXAMPLE OF A IN-STATE RISK NOT ON APPROVED RISK LIST FOR WHITE LIST, INLCUDES AN EXAMPLE OF PREMIUM CANCELLATION

This example has the following Information based on the filing of an electronic submission:

1. This policy was a property casualty risk for a Montana corporation with all of its operations in Montana. Montana is the home state.
2. No fire risks are included on this policy.
3. The policy was submitted with a declaration page rather than a binder.
4. **Insured Information** - the surplus lines agent is required to enter the following from the Montana Surplus Lines Submission Form:
 - a. policy holder name
 - b. policy number (enter the number as assigned by the insurance company)
 - c. the Montana street address of risk insured.
 - d. the nearest Montana city in which the risk is located.
5. **Submission Form Part 1 – Producing Insurance Producer Section**, the following information must be entered:
 - a. If the risk is included in the Approved Risk List or White List the category should be entered. If the yes box is checked, an approved code must be entered. If an approved risk is entered, sections 2, 3 and 4 of Montana Surplus Lines Submission form do not have to be entered.
 - b. If the risk is not listed on the ARL, the agent must describe the risk in complete sentences.
 - c. If this risk is not listed on the ARL, the agent must describe, in complete sentences, the reason for the risk is not available from an authorized insurer.
 - d. The agent must enter the name of the prior insurer from the drop down menu. **If more than one prior insurer exists, list the lead prior insurer or the prior insurer who retained the most risk.**
 - e. If the agent is using the 10% and \$1,500 exception, under 33-2-302(1)(d)(i) and (2), MCA, this box must be checked.
 - f. The source of the company's rating must be selected, either AM Best or Standard and Poor's when using the 10% and \$1,500 exception.
 - g. The applicable rating must be selected when using the 10% and \$1,500 exception.
 - h. The effective date of the insurance company rating, if using the 10% and \$1,500 exception must be entered.
 - i. The agent must select the three authorized insurers who provided a bid for coverage when using the 10% and \$1,500 exception. The bid amount must be entered in the box to the right of the company name when using the 10% and \$1,500 exception.
 - j. Enter the producing producer's license number, which should bring up the agents name and the affiliated agency in the drop down box. The agent must select the proper agency if more than one agency is listed.
 - k. Enter the date the producing producer signed the submission form.
6. **Submission Form Part II Surplus Lines Agent Information** - the Surplus Lines Agent is Required to enter the following information:

- a. The Montana Surplus Lines Agent license should be entered, which will cause the surplus lines agent information to be automatically entered in the form. The surplus lines agent should confirm the information to be correct.
 - b. Enter the date the surplus lines agent signed the policy.
7. Submission Form – Part III - Tax and Fee information are explained below. The premium for this policy is \$8,625 with no additional fees. **Premium tax and stamping fees are calculated automatically calculated in the electronic filing.**
- a. The surplus lines agent must enter the name the surplus lines company, from the drop down menu, which also lists each company's unique NAIC number. Keeping a record of the NAIC number will prevent entry delays if the surplus lines insurer has changed their name prior to Montana updating its eligible surplus lines list. Montana only updates its eligible surplus lines company list on May 31, and November 30 of each year. **If you have difficulty entering the surplus lines insurance company due to an old policy, please contact Tim Morris at 406-444-4489.**
 - b. If Underwriters at Lloyds is selected the appropriate syndicates must be entered. Lloyds syndicate numbers can be obtained at <http://sao.mt.gov/forms/Exams/Lists/biannlst.pdf> . **If you have difficulty entering a Lloyd's syndicate, please contact Tim Morris at 406-444-4489.**
 - c. The surplus lines agent must enter the policy period, which begins at the effective date of the policy through the policy expiration date. After entry of the policy effective date, the system
 - d. Enter the policy limits of coverage. Multi-state risks can use the entire policy amount rather than breakout the Montana portion.
 - e. Enter the policy premium
 - f. Enter the applicable fire premium
 - g. Enter the applicable inspection fee
8. Based on the example, the base premium for this policy is \$1,950 ,with no fire premium and a \$0 inspection fee was charged to the policyholder. **The manual calculations for the example are listed below (note the stamping fee is reduced to ½ of 1% or 0.005% for electronic filings from the 1% or 0.01 due for paper filings:**
- | | |
|---|-----------------|
| a. Base premium | \$ 1,950.00 |
| Inspection fee | <u>0.00</u> |
| Total Premium for premium tax calculation | \$ 1,950.00 |
| Premium tax rate | 2.75% |
| Fire tax premium (see item 9) | \$ 0.00 |
| Fire tax rate | 2.50% |
| Stamping fee rate | 0.50% |
| Premium taxes owed ((1,950.00) X .0275) | \$ 53.63 |
| Fire taxes owed (0.00 X .0250) | \$ 0.00 |
| Stamping fees owed (1,950.00 X.0005) | <u>9.75</u> |
| Total taxes and fees owed | \$ 63.38 |
9. The surplus lines agent should review the information for accuracy. If the agent is satisfied, the box to the left of the surplus lines agents name must be checked and the submit button can be pressed to enter the transaction. The surplus lines agent can view and print their statement of surplus lines activity at anytime. Please contact 406-444-2040 if you have any questions.
 10. After June 1, 2010 the surplus lines agent can either be pay the premium tax and stamping fees electronically or by a single check, at their convenience or with an annual payment due by April 1 in the next calendar year. The CSI will not be sending out tax and stamping fee statements as these amounts can be viewed on-line. **Checks must be made out to the Montana Commissioner of Securities and Insurance.**
 11. After the submit button has been pressed, the next screen should be the following confirmation, listed below, indicating that the submission was successful. If this screen is not present the transaction has not been entered into the database. Two possibilities are likely for the problem. The first may be that not all of the boxes have been properly completed or a problem may exist with the server. The agent should check the form for completeness, attempt to resubmit or reenter the information at a later time.

12. Any changes to the original surplus lines submission must be made through an endorsement or cancellation of the policy.
13. The surplus lines agent is required to maintain the original or a scanned copy of the Montana Surplus Lines Submission form, declaration page and/or binder for a period of five years, from the ending date of the policy.
14. **PLEASE NOTE THE SURPLUS LINES FILING MUST BE MADE TO THE MONTANA COMMISSIONER OF SECURITIES AND INSURANCE, OFFICE OF THE STATE AUDITOR WITHIN 60 DAYS OF THE EFFECTIVE DATE OF THE POLICY**

Example of an Endorsement / Cancellation Form

15. On May 15, a change in the company's business occurred and it was determined that a portion of the policy could be cancelled. The attached Montana Surplus Lines Cancellation Sheet details the transaction amounts. Since this transaction represents a decrease from the premium reported on the submission form, the following steps must be taken.
16. Call up the cancellation form on the CSI website.
17. Enter the policy number
18. Enter the Cancellation number, if any.
19. Enter the effective date of the policy change, which in this case is May 15, 2010. If this were a flat cancellation, the preparer should list the effective date as a date prior to effective date of the policy, if the policy change was due to an audit, the policy expiration date (02/15/2011) would be used.
20. Enter the cancelled premium
21. Enter the cancelled fire premium, if any.
22. Verify the information is correct and hit the submit button. If the information is incorrect, use the reset button to clear the entered information and begin the process over by entering the policy number.

MONTANA SURPLUS LINES SUBMISSION FORM

SAMPLE

NOTICE: Complete entire submission form. Do not leave any blanks. Write "NA" if any question is "not applicable." Incomplete submission forms will be returned.

INSURED: Metallurgy, Inc. POLICY NUMBER: PAC000001
MT ADDRESS: 5460 Charlotte Road, Bozeman, MT 59715

PART 1: AFFIDAVIT OF PRODUCING INSURANCE PRODUCER SECTION

IS THIS FILED ON A BINDER? YES [] NO [X]

State of Montana, County of Silver Bow. The undersigned hereby certifies upon oath that the insurance which is the subject of this affidavit is in accordance with Title 33, § 33-2-301, et seq. MCA, the Montana Surplus Lines Insurance Law.

Is the risk included on the most recent Approved Risk List? [] YES or [X] NO. If so, in which category? (Ex: GL-01)
If not included on the most recent ARL describe 1) Type of Risk Engineering Consulting

1a) EXPLAIN in detail why insurance for this risk is unavailable from an authorized insurer: (COMPLETE SENTENCE)
Company has less than two years experience

2) Indicate prior insurer: None 2a) Explain why the prior insurer, if an authorized insurer, did not renew:
None 2b) If a renewal was offered, what was the renewal quote? None (IF NONE PUT "NONE")

3) Are you filing using the 10% AND \$1500 exception? (33-2-302(1)(d)(i) and (2) MCA) (Y or N) N (DILIGENT EFFORT IS REQUIRED)
If YES, the financial stability rating system used was and the rating was as of (effective date).

FOR OFFICE USE ONLY
VERIFIED RATING:

(If YES, you are affirming: 1. I have provided the insured with the disclosure information on the form approved by the Commissioner. 2. The unauthorized market quote was placed with a surplus lines company that is "A" rated or better. 3. The authorized market quote(s) that was used was the lowest premium from the diligent effort. 4. The difference between the authorized market quote(s) and the unauthorized market quote(s) meets both the 10% AND the \$1500 requirements. 5. I listed the lowest quotes obtained from the authorized market search in #4 below.)

4) List a minimum of three authorized insurers you contacted for your diligent efforts to place this insurance:
A. Travelers Casualty and Surety Co B. EMCASCO Insurance Company C. Liberty Northwest Insurance Corporation

I, Ed Smith, being of lawful age and being first duly sworn, on oath, depose and say that I am one and the same person whose name is subscribed to this affidavit; that I have read the same and know the contents thereof; and that the statement of facts contained herein are true.

Original Signature of Producing Insurance Producer is Required: Ed Smith, David Charles Agency
Date: 01/14/2010, Montana Producer/Agency License No. # 00001, 830 Helena Avenue, Helena, MT 59601

The notary stamp or seal is required for each Submission Form. Notary Section was not completed for the Sample. Subscribed and sworn to before me this of 20. Signature, Printed Name of Notary, Notary Public for the State of, Residing at, My Commission expires.

PART 2: Montana Surplus Lines Insurance Producer Section

I, Everett James (printed name of surplus lines insurance producer), affirm that: 1) I am the producer that placed this risk with the unauthorized insurer; 2) this line of insurance appears on the most recent Approved Risk List (ARL) issued by the Commissioner of Insurance or that I have, to the best of my ability, attempted to place this line of insurance through an authorized insurer and am unaware of any authorized insurer transacting this line or the full amount of this line of insurance in Montana; and 3) I have complied with § 33-2-302, MCA.

David Charles Agency, 830 Helena Avenue, Helena, MT 59601
Address as it appears on the MT Surplus Lines License
Original Signature of Surplus Lines Producer is Required: Everett James, Date: 01/25/2010, Montana Surplus Lines License No. #000005

PART 3: Premium / Tax / Fee Information Section

Name of Unauthorized Insurer(s): Penn-Star Insurance Company, Lloyds Syndicate # None
Policy Period From: 02/15/2010 To: 02/15/2011 Limits of Coverage: \$3,000,000

If this policy is a multi-year policy with the policy term greater than 12 months, this form is to be completed only in the initial year of the policy. For all subsequent years, report policy premium on the Montana Surplus Lines Multi-Year Policy Premium Form

Policy Premium: \$ 1,950.00 Fire Premium: \$ 0.00
Premium Tax: (2 3/4%) \$ 53.63 Fire Tax (2.5%): \$ 0.00
Stamping Fee: (1%) \$ 9.75 Inspection Fee: \$ 0.00

FOR OFFICE USE ONLY:
ACCEPTED STAMP ONLY

NOTICE: Under Montana law, inspection fees for the actual cost of inspecting the risk to be covered may be charged. Other fees, such as placement fees or policy fees, are not permitted.

SEND: THE ORIGINAL SUBMISSION, A COPY OF THE ORIGINAL SUBMISSION FORM AND A SELF-ADDRESSED STAMPED ENVELOPE WITH SUFFICIENT POSTAGE TO RETURN THE STAMPED COPY OF THE SUBMISSION FORM AND ANY OTHER DUPLICATES YOU WOULD LIKE RETURNED (I.E.; DECLARATION PAGES AND/OR BINDERS). IF COPIES ARE NOT PROVIDED, NONE WILL BE RETURNED. TO: MONTANA COMMISSIONER OF SECURITIES AND INSURANCE, SURPLUS LINES, 840 HELENA AVENUE, HELENA, MT 59601.

SAMPLE

COMMERCIAL LINES COMMON POLICY DECLARATIONS

INSURANCE IS PROVIDED BY THE COMPANY DESIGNATED BY AN "X"

Stock
Company

PENN-AMERICA INSURANCE COMPANY

PENN-STAR INSURANCE COMPANY

PAC0000001
Renewal of Number

Bala Cynwyd, Pennsylvania 19004

POLICY NUMBER: PAC000001

1. **NAMED INSURED:** METALLURGY, INC.

DBA:

MAILING ADDRESS: 5460 CHARLOTTE ROAD
BOZEMAN MT 59715

2. **POLICY PERIOD:** From 02/15/2010 To 02/15/2011 at 12:01 A.M.
Standard Time at your mailing address shown above.

3. **FORM OF BUSINESS:** CORPORATION **OTHER DESC:**

4. **BUSINESS DESCRIPTION:** ENGINEERING CONSULTING

IN RETURN FOR THE PAYMENT OF THE PREMIUM, AND SUBJECT TO ALL THE TERMS OF THIS POLICY, WE AGREE WITH YOU TO PROVIDE THE INSURANCE AS STATED IN THIS POLICY.

5. **THIS POLICY CONSISTS OF THE FOLLOWING COVERAGE PARTS FOR WHICH A PREMIUM IS INDICATED. THIS PREMIUM MAY BE SUBJECT TO ADJUSTMENT.**

	PREMIUM	
Commercial General Liability Coverage Part	\$ <u>950.00</u>	ISSUED IN AN AUTHORIZED INSURER UNDER THE SURPLUS LINES INSURANCE LAW, UNDER SURPLUS LINES INSURANCE PRODUCER LICENSE NO. 000005
Commercial Property Coverage Part	\$ <u>NOT COVERED</u>	
Commercial Crime Coverage Part	\$ <u>NOT COVERED</u>	
Commercial Inland Marine Coverage Part	\$ <u>NOT COVERED</u>	
Professional Liability Coverage Part	\$ <u>NOT COVERED</u>	
Liquor Liability Coverage Part	\$ <u>NOT COVERED</u>	
Commercial Umbrella Coverage Part	\$ <u>1,000.00</u>	
Owners Contractors Protective Coverage Part	\$ <u>NOT COVERED</u>	
TRIA	\$ <u>NOT COVERED</u>	
6. TOTAL PREMIUM PAYABLE AT INCEPTION	\$ <u>1,950.00</u>	
MT State Tax	\$ <u>53.63</u>	
Stamping Fee	\$ <u>9.75</u>	
Inspection Fee	\$ <u>NOT COVERED</u>	
	\$ _____	
	\$ _____	
	\$ _____	
	\$ _____	
TOTAL	\$ <u>2,013.38</u>	

7. **FORM(S) AND ENDORSEMENT(S) MADE A PART OF THIS POLICY AT THE TIME OF ISSUE:***

*Omits applicable Forms and Endorsements if shown in specific Coverage Part/Coverage Form Declarations

THESE DECLARATIONS TOGETHER WITH THE COMMON POLICY CONDITIONS, COVERAGE PART DECLARATIONS, COVERAGE PART COVERAGE FORM(S) AND FORMS AND ENDORSEMENTS, IF ANY, ISSUED TO FORM A PART THEREOF, COMPLETE THE ABOVE NUMBERED POLICY.

David Charles Agency
Butte, MT

By *Everett Jones*
Authorized Representative

MONTANA SURPLUS LINES

SAMPLE

ENDORSEMENT / CANCELLATION COVER SHEET

NAME OF INSURED Metallurgy, Inc.

ENDORSEMENT # 1 OR CANCELLATION check if cancellation

COMPANY Penn-Star Insurance Co POLICY # PAC000001

EFFECTIVE DATE 02/15/2010 EXPIRATION DATE 02/15/2011
EX:01/01/08 EX:01/01/09

ENDORSEMENT/CANCELLATION EFFECTIVE DATE May 15, 2010
EX:01/01/08

NOTICE: Under Montana law, inspection fees for the actual cost of inspecting the risk to be covered may be charged. Other fees, such as placement fees or policy fees, are not permitted.

PREMIUM (additional or return*) \$1,200.00
 (Mark one)

FIRE PREMIUM (additional or return)** \$0.00

INSPECTION FEE \$0.00

PREMIUM TAX 2.75% \$33.00

FIRE TAX 2.5% \$0.00

STAMPING FEE 1.0% \$0.00

(Only returned if flat cancellation prior to the effective date of the policy)

SURPLUS LINES PRODUCER: David Charles **SL PRODUCER**
David Charles Agency **AGENCY NAME**
735 Park Avenue **ADDRESS**
Butte, Montana **CITY/ST/ZIP**

SURPLUS LINES LICENSE NUMBER 000005

For Office Use Only:

PENN-STAR INSURANCE COMPANY

A Stock Company

Policy Number	Endorsement Effective Date	Insured Name	Agency Name
PAC000001	03/15/2010	Metallurgy, Inc.	David Charles Agency

The above information is required on when this endorsement is issued subsequent to the preparation of the policy

Returned premium	\$1,200.00
Returned tax	<u>33.00</u>
Total returned	\$1,233.00

ISSUED IN AN UNAUTHORIZED INSURER UNDER THE SURPLUS LINES INSURANCE LAW, UNDER SURPLUS LINES INSURANCE PRODUCER LICENSE NO. 000005

NOT COVERED BY THE PROPERTY AND CASUALTY GUARANTY FUND OF THIS STATE IF THE UNAUTHORIZED INSURER BECOMES INSOLVENT

SAMPLE

ALL OTHER POLICY TERMS REMAIN UNCHANGED

Everett Jones

Authorized Representative

05/17/2010

Date