Understanding the Commercial Lines Multi-State Insurance Licensing Exemption

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The commercial lines multi-state insurance licensing exemption is a significant regulatory provision that simplifies the licensing process for insurance producers dealing with commercial policies across multiple states. This exemption is particularly relevant for property and casualty agencies, which often face the complexity of ensuring their producers are properly licensed in every state where they operate.

What is the Commercial Lines Multi-State Licensing Exemption?

Broadly, the exemption allows insurance producers who sell commercial policies covering risks in more than one state to avoid obtaining a license for every state involved. This provision was introduced as part of the National Association of Insurance Commissioners' (NAIC) Uniform Licensing Standards, aiming to increase competition in the P&C market and reduce the administrative burden associated with insuring complex business risks.

Section 4B(6) of the Producer Licensing Model Act

The basic exemption can be found in Section 4B(6) of the NAIC's Producer Licensing Model Act, which provides a licensing exemption for:

> "A person who is not a resident of this state who sells, solicits or negotiates a contract of insurance for commercial property and casualty risks to an insured with risks located in more than one state insured under that contract, provided that that person is otherwise licensed as an insurance producer to sell, solicit or negotiate that insurance in the state where the insured maintains its principal place of business and the contract of insurance insures risks located in that state".

This section allows non-resident insurance producers to operate across state lines without needing additional licenses, provided they are licensed in the state where the insured's principal place of business is located.

Challenges and Variations

The language of the exemption in the model act applies to "a contract of insurance" that insures risks in multiple states. Accordingly, if risks in multiple states are not insured on one policy, and separate policies are needed to insure some risks in states other than the state where the insured maintains its principal place of business, then the producer will need non-resident licenses in each of those other states. For example, if a Virginia based insured owns properties in North Carolina and West Virginia, and an insurer will write a policy that insures the Virginia and North Carolina properties, but requires a separate policy for the West Virginia properties, then the producer will need a Virginia resident license and a West Virginia non-resident license, but will not need a North Carolina license.

Despite the uniformity goal, not all states have adopted the model act's exemption, and some have adopted it with material changes. Additionally, the interpretation of the exemption by insurance regulators and courts may vary from state to state. For example, "commercial property and casualty" risks generally include commercial property, business auto and workers compensation insurance and other lines of commercial insurance, but this may vary from state to state depending on how each state's law and insurance regulator defines commercial lines.

Conclusion

The commercial lines multi-state insurance licensing exemption is a crucial regulatory tool that simplifies the licensing process for insurance producers operating across state lines. While it offers significant benefits in terms of administrative efficiency and market competitiveness, variations in how it has been adopted and interpreted in each state present ongoing challenges. Sales executives, account managers and other client service personnel are responsible for determining whether an insurance license is required for the activities they are conducting in the states where those activities are deemed to be conducted. It is important that they know and understand the licensing requirements of each applicable state.

For more information or assistance with producer licensing for your agency, contact Mel Tull, at Mel@TullLawPLC.com or (804) 404-7748. Mel advises insurance agencies and other companies on general business law matters, regulatory compliance issues, and buying and selling businesses, agencies and books of business.

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