

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
PO BOX 110805
JUNEAU, AK 99811-0805

Order # TA 17-04)
In the Matter of Audit of)
CRC Insurance Services Inc.)
_____)

FINDINGS OF FACT

1. An audit report of CRC Insurance Services Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to CRC Insurance Services Inc.
2. The audit report of CRC Insurance Services Inc. (TA 17-04) has been transmitted to Ronald Helveston, Compliance Officer, CRC Insurance Services Inc. (Auditee), and Auditee has been accorded at least 30 days' opportunity to review and comment on this audit report.
3. The director of the Division of Insurance has fully considered and reviewed the report and any relevant portions of the auditor's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written audit report referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).
2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).
3. The director of the Division of Insurance has reviewed the audit report and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

ORDER

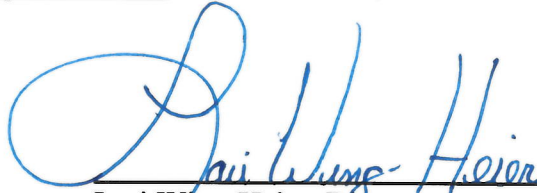
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of CRC Insurance Services Inc. (TA 17-04) is approved as filed.

2. Pursuant to AS 21.06.060, the audit report shall be kept in the office of the director of the Division of Insurance and be open to public inspection.

This order is effective April 18, 2018.

Dated this 18th day of April, 2018 at Juneau, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

CRC Insurance Services Inc.

Birmingham, AL

Alaska License #11142

TA 17-04

As of December 31, 2016

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

April 18, 2018

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April 18, 2018

Lori K Wing-Heier
Director, Division of Insurance
Department of Commerce, Community and Economic Development
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Pursuant to Alaska Statute (AS) 21.06.120, the Alaska Division of Insurance performed a limited and targeted premium tax audit of CRC Insurance Services Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

CRC Insurance Services Inc.

SCOPE OF AUDIT

This premium tax audit was called to review compliance with the surplus lines statutes AS 21.34, and regulations 3 AAC 25, the premium tax regulations 3 AAC 21.550 – 570 and licensing statutes AS 21.27.350 and 21.27.810. This is the first premium tax audit of CRC Insurance Services Inc. conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

CRC Insurance Services Inc. (the broker) is an Alaska licensed surplus lines broker based in Birmingham, AL. The division elected to audit their quarterly filings, premium taxes and filing fees paid for accuracy and timeliness as well as required diligent search efforts, disclosures, notifications, and prompt delivery of material facts in evidence of insurance to the insured.

Time Frame

The audit covered the broker's surplus lines business for policy effective dates occurring between January 1, 2015 and December 31, 2016.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Birmingham, AL. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied on a timely basis with all data requests. The number of policies written during the audit period was 270, from which a sample of 50 files was selected for audit. During the audit, it was determined Alaska was not the home state for two policies and therefore will not be included in the denominator of any test except for the home state test.

The following are the procedure steps for the audit:

- 1) Verify that quarterly reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the quarterly reports sent to the Alaska Division of Insurance and verified they were filed by the due date.
- 2) Verify the accuracy of the premium calculation.
 - i) Audit steps taken:
 - (1) Reviewed policy, binders, and invoices to determine how taxable premium was calculated.
 - (2) Verified the correct premium was reported on the reports as filed.
- 3) Verify the accuracy of quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, binder, and endorsement pages in each file.
 - (2) If the effective date did not match the quarterly filing, reviewed the correspondence to ensure the documentation in the file matched when the policy was booked. Most of these occurred with endorsements that often require additional information and sometimes company approval before it can be added to the policy. The invoice date determines in which quarter the endorsement is required to be filed.
 - (3) Verified the quarterly reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees based upon the information in the files.
 - (4) Verified a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the quarterly filing based upon the effective date of the policy.
 - (6) Verified the insured name, insurance company, policy type codes, producer names and license numbers were accurate on the forms filed.
 - (7) Verified the descriptions of the subject and locations of risk were identified on the reports.
- 4) Confirm Alaska is the home state of the insured.
 - i) Audit steps taken:
 - (1) Verified where the principal place of business or residence of the insured is located.
 - (2) Verified at least partial risk is located in Alaska or the highest % of premium in Alaska if headquarters not in Alaska with no risk in the headquarters state.
- 5) Verify if tax and filing fee payments were made on time and by ACH.
 - i) Audit steps taken:

- (1) Confirmed when the payments were received by the Alaska Division of Insurance and the payment method.
- 6) Verify tax and filing fee payments were made accurately.
 - i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the quarterly reports as filed.
- 7) Review effort made to place insured with an admitted insurer.
 - i) Audit steps taken:
 - (1) Verified the diligent search was documented prior to binding and received within 15 days from binding. If there were no declinations due to risk on the placement list, the list effective at the time of placement was reviewed to ensure the risk was on the list
- 8) Review prompt delivery of evidence of insurance AS 21.34.100(a) and 3 AAC 25.060.
 - i) Audit steps taken:
 - (1) Reviewed dates of binding and forwarding evidence of insurance to insured.
- 9) Review required material facts are located on evidence of insurance AS 21.34.100(a).
 - i) Audit steps taken:
 - (1) Reviewed documents to confirm required material facts were located on the evidence of insurance when policy not available within 30 days of binding.
- 10) Review disclosures for use of non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the evidence of insurance to ensure the broker's name and language required by statute AS 21.34.100(e) is present and legible.
- 11) Review notifications for use of non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the correspondence and other documentation in the files to find a copy of the notification sent to the insured that meets the requirement in AS 21.34.110
- 12) Confirm coverage is placed with an eligible non-admitted insurer.
 - i) Audit steps taken:
 - (1) Reviewed the Alaska published white lists and NAIC Quarterly Listings of Alien Insurers to ensure the company was eligible at the time of placement.
- 13) Review notice regarding nonrenewal and premium increase
 - i) Audit steps taken:
 - (1) Verified there was an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy in the format approved by the Director of the Alaska Division of Insurance.
- 14) Other issues not previously identified as a procedure step were included when not in compliance with Alaska laws.
 - i) Audit steps taken:
 - (1) Reviewed documents to ensure other surplus lines statutes and regulations requirements were met.

Acceptable Error Rate:

The Broker's acceptable error rate for the above referenced standards and tests must be less than 10%.

PREMIUM TAX AUDIT

- | |
|---|
| 1. Verify quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
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Comments: The eight original quarterly reports with accompanying forms were filed on time.

Results: Passed (error rate 0%)

- | |
|---|
| 2. Verify the accuracy of the premium calculation
AS 21.34.180 |
|---|

Comments: The premium was calculated incorrectly for four policies in the audit files. Premium for three policies included broker fees when calculating the tax and filing fees due to the Division. One policy had an inspection fee that was not included in premium. All policies are now expired and the division will not require amended quarterly reports but they can choose to file the amended reports for a refund of the tax and fees in order to refund the insureds.

The broker charges a broker fee on some accounts but they use the term “policy fee,” which is generally associated with an insurance company fee. This terminology is used for both taxable company fees and nontaxable broker fees and is easy to confuse both by the broker staff and by the insured.

These errors affect two additional audit tests:

1. Accuracy of the Quarterly Reports
2. Accuracy of Tax and Fee Payments

Results: Passed (44 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all fees are identified as taxable or nontaxable. It is also recommended the broker rename their “policy fee” to “broker fee” or similar in order for the insured to know what the fee is actually for and to ensure the correct fee is included in premium. Reviewing Bulletin 04-14 will help identify the different fees.

The broker response: Bulletin 04-14 has been reviewed. CRC to review all fees in AIM and communicate that broker fee should be chosen for all fees retained as income by CRC.

- | |
|---|
| 3. Verify the accuracy of all quarterly reports filed
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|---|

Comments: Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Insured name incorrect – 1

- Policy # incorrect – 1
- Admitted company initially reported, fixed prior to audit – 1
- Producer license # incorrect – 2
- Company NAIC# incorrect – 1
- Insured address incorrect, the location of risk used instead of insured’s actual address – 5
- Location of risk – other states that were part of the risk were not identified – 1
- Producer name incorrect – 1
- Both initial/renewal and endorsement boxes marked – 2
- Insurance company part of subscription policy missing – 1

Total accuracy errors: 16 within 12 distinct files

The subscription policy transaction report was corrected in the quarterly report on March 12, 2018.

Results: Failed (36 files passed & 12 failed, error rate 25%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include instructions on how to fill out the transaction report. Procedures should include what data is entered into each field. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker response: Instructions for Report of Surplus Lines Transaction, including examples, will be included in the Alaska specific written procedures. These procedures will include the checklists provided by the State of Alaska. Procedures required by the state will be communicated.

<p>4. Verify the home state for insured is Alaska</p>
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AS 21.34.180

Comments: The broker writes some multi-state policies. The home state of the insured was evaluated for all policies. Two policies had insureds headquartered in Washington with a small amount of risk also on Washington locations; therefore, per the NRRA (Nonadmitted and Reinsurance Reform Act of 2010), AS 21.34.900(8) and AS 21.34.180, Alaska is not the home state of the insured. The broker will need to amend the affected quarterly reports to remove the two transactions and file them in Washington.

This error affects three additional audit tests:

1. Accuracy of Premium
2. Accuracy of Quarterly Reports
3. Accuracy of Tax and Fee Payments

Results: Passed (48 files passed & 2 failed, error rate 4%)

Recommendations: It is recommended the broker create written procedures for how to determine the home state of the insured and to apply the process for each policy. When the headquarters of the insured is based outside of Alaska, as long as 100% of the risk is located out of the state in

which the headquarters reside and the largest percentage of taxable premium is allocated to Alaska then Alaska is considered the home state for that policy.

The broker response: The internal document entitled 'Declaration of Home State' will be included in the Alaska specific written procedures. This document was created using NRRA guidelines and will be used to determine the home state of the insured.

<p>5. Verify if tax and filing fee payments were made on time and by ACH AS 21.34.180, 3 AAC 21.550 - .570</p>
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Comments: All payments were made on or before the required due date for the quarterly payments and made by ACH.

Results: Passed (error rate 0%)

<p>6. Verify tax and filing fees payments were made accurately AS 21.34.180, 3 AAC 21.550 - .570</p>
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Comments: All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed. The errors found during the audit in the premium calculation and home state of the insured affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

Results: Passed (error rate 0%)

<p>7. Review diligent search effort made to place insured with an admitted insurer AS 21.34.020, 3 AAC 25.010 and .035</p>
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Comments: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search by the producers. Eleven Affidavits were received from producers after 15 days from binding.

Results: Failed (37 files passed & 11 failed, error rate 23%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all Affidavits of Due Diligence are received no later than 15 days from binding. The broker can require the documentation prior to binding or before providing evidence of insurance to encourage the producers to provide the documentation on time.

The broker response: CRC will continue in its effort to collect the Due Diligence document prior to binding or before providing evidence of insurance. This control will be notated in the Alaska specific written procedures.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: All files have documentation showing the evidence of insurance was provided to the insured within the 30 days of binding.

Results: Passed (error rate 0%)

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: Four files included a lack of required material facts on binders and policies. If the binder was missing facts, the policy sent within the 30 days from binding was evaluated. The binders provided to the insured should contain all material facts regardless of when the policy is sent.

Here are the different issues that the broker is not compliant with regarding this statute:

- Binder missing broker license # - 2
- Binder missing insured address – 2
- Binder missing premium tax amount - 2
- Policy missing premium tax amount – 1

Total errors: 7 within 4 distinct files

Results: Passed (44 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include what material facts regarding the coverage, insured, insurer, and broker must be on evidence of insurance. Review statute for details.

The broker response: CRC will implement all material facts to be shown on documents in the policy file. Please note, in most cases the carrier is creating the policy, not CRC. Pursuant to Alaska Statutes Title 21. Insurance §21.34.100 Evidence of Insurance: the evidence of insurance must contain all material facts that would regularly be included in the policy. Material facts include:

- Description and location of the subject of insurance
- A general description of the coverage
- Premium, tax rate, and tax amount
- Name and address of the insured
- Name of surplus lines insurer and percentage of risk
- Name of surplus lines broker
- License number of surplus lines broker

10. Review disclosures on evidence of insurance for use of non-admitted insurer

AS 21.34.100(e)

Comments: Eleven files included problems with the required disclosure statement on the evidence of insurance. Where the insured's copy was unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No disclosure on binder – 3
- No disclosure on dec - 1
- No disclosure on endorsement – 10
- Disclosure illegible on dec – 1

Total disclosure errors: 15 within 11 distinct files

Results: Failed (37 files passed & 11 failed, error rate 23%)

Recommendations: It is recommended the broker ensure written procedures are followed for all evidence of insurance to have the required disclosure statement and is legible. The disclosure statement should be located on the first page of the evidence of insurance so the insured will not miss it. It is further recommended to revise the written procedures to include the disclosure statement on all premium bearing and non-premium bearing endorsements as they are also evidence of insurance.

The broker response: CRC will implement the internal control of having the disclosure statement on all evidence of insurance, including all endorsements. CRC is currently researching to verify if the disclosure statement can be automated on documentation from AIM.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker generally does not provide the notification to the insured. Five files included the required three points of the notification: the company does not have a certificate of authority, they are not regulated by the Alaska Division of Insurance and in the event of insolvency losses will not be covered by the Alaska Insurance Guaranty Association Act.

Results: Failed (5 files passed & 43 failed, error rate 90%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include the notification language in the quote or at the same time as the quote to the insured describing the surplus lines insurance company as required by statute.

The broker response: CRC will implement having the notification language automated in AIM for the quote document. CRC is currently researching to verify if the notification language can be automated on the quote document only in AIM.

12. Confirm coverage is placed with an eligible non-admitted insurer

AS 21.34.050

Comments: All policies in the audit were placed with eligible surplus lines companies.

Results: Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Ten policies did not include the Alaska Policyholder Notice of premium increase and nonrenewal. For some of the files, the broker provided the notice when missing from the policy from the company.

Results: Failed (38 files passed & 10 failed, error rate 21%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include a step to ensure policies contain the Alaska Policyholder Notice. Bulletin 08-06 should be reviewed for the exact wording. The broker should contact the insurance company to include the notice when it is missing and should not provide it themselves.

The broker response: CRC will include in the Alaska specific written procedures concerning the Policy Holder Notice. This document needs to come from the insurance company and if it is missing, CRC should request same.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of CRC Insurance Services Inc. The auditor tested 13 standards focusing on the broker's filing of quarterly reports and the subsequent payment of premium taxes and filing fees as well as diligent search efforts, disclosure and notification requirements for using a non-admitted insurer, and prompt delivery of material facts to insured.

The audit was conducted in the auditor's office as she received electronic versions of the broker's files under audit. The broker responded quickly to all requests for additional information. The auditor appreciated this behavior.

Several significant issues did arise during the audit that affect the service to the insured and compliance with Alaska statutes and regulations.

- 1) The quarterly reports contained numerous errors.
- 2) The home state of the insured was incorrectly identified as Alaska for several policies.
- 3) The diligent search in the admitted market documentation was not received within 15 days from binding in numerous files.
- 4) The disclosure statement was missing from many of the evidence of insurance.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in the majority of files
- 6) The Alaska Policyholder Notice was missing from several files.

The auditor would like to review any new or revised procedures to help the broker ensure all problems identified in the audit were captured accurately.

Re-Audit

In closing, the auditor's recommended actions and review of the procedures should help the broker correct the problems encountered. It is recommended that CRC Insurance Services Inc. be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

CRC INSURANCE SERVICES INC.
As of December 31, 2016
TA 17-04

Juneau, Alaska)
April 18, 2018)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2016 of CRC Insurance Services Inc. is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 18th day of April, 2018



Devon Searles
Notary Public in and for Alaska
My Commission Expires with office