

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 20-03)
In the Matter of Audit of)
Groninger & Co Inc Superior Underwriters)
_____)

FINDINGS OF FACT

1. An audit report of Groninger & Co Inc Superior Underwriters, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Groninger & Co Inc Superior Underwriters.
2. The audit report of Groninger & Co Inc Superior Underwriters (TA 20-03) has been transmitted to Roy Rankin, Compliance Officer, Groninger & Co Inc Superior Underwriters (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 Groninger & Co Inc Superior Underwriters (TA 20-03) 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 November 9, 2020.

Dated this 9 day of November, 2020 at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF
Groninger & Co Inc Superior Underwriters
Bellevue, WA
Alaska License #7913**

TA 20-03

As of December 31, 2019

**Issued by
DIVISION OF INSURANCE
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC
DEVELOPMENT
STATE OF ALASKA**



**FINAL REPORT:
November 9, 2020**

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November 9, 2020

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 Groninger & Co Inc Superior Underwriters. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Groninger & Co Inc Superior Underwriters

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 second premium tax audit of Groninger & Co Inc Superior Underwriters conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Groninger & Co Inc Superior Underwriters (the broker) is an Alaska licensed surplus lines broker based in Bellevue, WA. 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, 2018 and December 31, 2019.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Bellevue, WA. 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 733, from which a sample of 50 files was selected for audit.

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 the policy was included in the quarterly filing based upon the effective date of the policy.
 - (5) Verified the insured name, insured address, insurance company, producer names and license numbers were accurate on the forms filed.
 - (6) Verified the descriptions of the subject and locations of risk were identified on the reports.
- 4) 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.
- 5) 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.
- 6) 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 or in the case of individuals, the residence state.
- 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 of 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 and at least 10-point type.
- 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%)

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| 2. Verify the accuracy of the premium calculation | AS 21.34.180 |
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Comments: The premium was calculated correctly for all policies in the audit files.

Results: Passed (error rate 0%)

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

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

- Insured name incorrect as only dba was reported – 1
- Endorsement was not identified as an endorsement and an invoice date was not provided – 1

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

Recommendations: It is recommended the broker ensure Alaska specific written procedures are followed on how to fill out the transaction report. The written procedures include what data is entered into each field.

The broker's response: The insured name filed on the transaction report only reflected the assumed business name. We have updated our procedures to ensure the transaction report correctly reflects the individual's name for all sole proprietors. Prior to submitting the transaction report, a review of insured names will be completed. The second error was an input error. Procedures will be updated to ensure endorsements are reported as such and invoice dates are not missed. A review of the transaction report will be completed prior to submitting. The policy, binder and AK Report of SL Transaction should exactly match.

- | | |
|--|--|
| 4. Verify if tax and filing fee payments were made on time and by ACH | AS 21.34.180, AS 21.34.190, 3 AAC 21.550 - .570 |
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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%)

5. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21.550 - .570

Comments: All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed.

Results: Passed (error rate 0%)

6. Verify the home state for insured is Alaska

AS 21.34.180

Comments: The broker writes very few multi-state policies. The home state of the insured was evaluated for all policies and Alaska was the home state for all policies.

Results: Passed (error rate 0%)

7. Review diligent search effort made to place insured with an admitted insurer

AS 21.34.020, 3 AAC 25.010 and .035

Comments: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search by the producers. All documentation was received within the required 15 days from binding.

Results: Passed (error rate 0%)

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: The broker's binder generally is missing several of Alaska's material facts such as the insured address and insured name when there is a dba. For the audit files, if the binder was missing facts, the policy sent within the 30 days from binding was evaluated. One file, where the policy was sent beyond 30 days from binding, had a binder that was missing the insured name as just the dba was identified.

Results: Passed (49 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended the broker modify their binding written procedures to include required material facts regarding the coverage, insured, insurer, and broker that must be on evidence of insurance. Review statute for details.

The broker's response: Working with our automation vendor, we have updated the binder to reflect the insured's address and the individual's name when a sole proprietor. Staff has been instructed to send the policy within 30 days from binding. We have also updated our written procedures to reflect these changes.

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

AS 21.34.100(e)

Comments: Fourteen files included problems with the required disclosure statement on the evidence of insurance. The auditor viewed the documents sent to the insured in all files. Here are the different problems found in the files:

- No disclosure on binder – 1
- No disclosure on revised binders – 3
- No disclosure on endorsement – 2
- No disclosure on certificates – 3
- Disclosure statement is missing a word – 9

Total disclosure errors: 18 within 14 distinct files

Results: Failed (36 files passed & 14 failed, error rate 28%)

Recommendations: It is recommended the broker modify written procedures to ensure all evidence of insurance have the required disclosure statement including non-premium bearing endorsements and policies that are not subject to tax and filing fees. The disclosure statement should be located on the first page of the evidence of insurance if it fits so the insured will not miss it.

The broker's response: With respects to the disclosure statement missing a word – this was pointed out to the carrier and their IT team immediately updated the policy issuance program to reflect the correct statement. We continue to work with our automation vendor to automatically affix the disclosure on all binders and endorsements. We have updated our procedures and provided additional training to staff to ensure the disclosure wording is affixed to binders, premium and non-premium bearing endorsements, and ACORD certificates.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker provides the required notification to the insured with the quote. All files included the notification and proof of sending to the insured.

Results: Passed (error rate 0%)

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: All policies included the Alaska Policyholder Notice of premium increase and nonrenewal.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Groninger & Co Inc Superior Underwriters. 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 was able to view the broker's files remotely. The broker responded quickly to all requests for additional information. The auditor appreciated this behavior.

One significant issue did arise during the audit that affects the service to the insured and compliance with Alaska statutes and regulations.

1) The disclosure statement was incorrect or missing from many evidence of insurance.

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 Groninger & Co Inc Superior Underwriters be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Groninger & Co Inc Superior Underwriters
As of December 31, 2019
TA 20-03

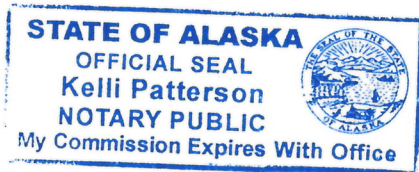
Juneau, Alaska)
November 9, 2020)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2019 of Groninger & Co Inc Superior Underwriters is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 10 day of November, 2020



Kelli Patterson

Notary Public in and for Alaska

My Commission Expires With office