

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 09-05)
In the Matter of Audit of)
Griffin Underwriting Services)
_____)

FINDINGS OF FACT

1. An audit report of Griffin Underwriting Services, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Griffin Underwriting Services.
2. The audit report of Griffin Underwriting Services (TA 09-05) has been transmitted to John Griffin, Compliance Officer, Griffin Underwriting Services (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 Griffin Underwriting Services (TA 09-05) 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 July 16, 2010.

Dated this 16th day of July, 2010 at Anchorage, Alaska.



Linda S. Hall, Director
State of Alaska
Division of Insurance

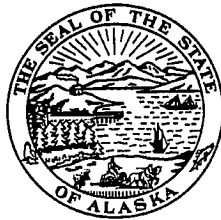
PREMIUM TAX AUDIT OF

**Griffin Underwriting Services Div of Cochrane Griffin & Co Inc
Bellevue, WA**

TA 09-05

As of December 31, 2008

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



**FINAL REPORT:
July 16, 2010**

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Sean Parnell, Governor
Susan Bell, Commissioner
Linda S. Hall, Director

July 16, 2010

Linda S. Hall, CPCU
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) 21.06.130, the Alaska Division of Insurance performed a limited and targeted premium tax audit of Griffin Underwriting Services Div of Cochrane Griffin & Co Inc (the broker) on December 7, 2009 through December 9, 2009, in the broker's Bellevue, WA office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Griffin Underwriting Services

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 and the premium tax regulations 3 AAC 21.550 – 570. This is the first premium tax audit of Griffin Underwriting Services conducted by the Alaska Division of Insurance.

Subject Matters Audited

Griffin Underwriting Services is an Alaska licensed surplus lines broker based in Bellevue, WA. As this agency ranked number one in total transaction volume among all Alaska licensed surplus lines brokers, the division elected to audit their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness as well as required due diligence and disclosures to the insured.

Time Frame

The audit covered this broker's surplus lines business for the two years of January 1, 2007 through December 31, 2008.

P.O. Box 110805, Juneau, Alaska 99811-0805
Telephone: (907) 465-2515 Fax: (907) 465-3422 Text Telephone: (907) 465-5437
Email: insurance@alaska.gov Website: <http://www.commerce.state.ak.us/insurance/>

METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker's office in Bellevue, WA. A list of all Alaska business transactions with non-admitted 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 2,260, from which a sample of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly premium reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly files sent to the Alaska Division of Insurance and verified the policy was included in the monthly filing based upon the effective date of the policy.
 - (2) Verified a statement of exempt premiums was filed when appropriate.
- 2) Verify the accuracy of the premium calculation
 - i) Audit steps taken:
 - (1) Reviewed policy, declaration page, and invoices to determine how they calculated the premium.
 - (2) Verified the correct premium was reported on the monthly reports as filed.
- 3) Verify the accuracy of all monthly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy & declaration pages in each file.
 - (2) If the effective date did not match the monthly 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 effective date may be a month or more prior to the actual book date or invoice date. In this case, the invoice date usually determined in which month the endorsement is required to be filed.
 - (3) Verified the monthly 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 multi-state allocation form was filed when appropriate.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology to allocate.
 - i) Audit steps taken:
 - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
- 5) Verify quarterly and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly and annual premium tax reports were mailed to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly and annual premium tax reports
 - i) Audit steps taken:
 - (1) Verified the quarterly and annual premium tax reports as filed with the division were accurately filled out to reflect the correct premiums, taxes and fees.

- 7) Verify if tax and filing fee payments were made on time and by ACH
 - i) Audit steps taken:
 - (1) Confirmed when the payments were made to the Alaska Division of Insurance and the payment method
- 8) Verify tax and filing fees payments were made accurately
 - i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the tax reports as filed.
- 9) Review effort made to place insured with an admitted insurer
 - i) Audit steps taken:
 - (1) Verified an affidavit of due diligence was received prior to binding and the declinations filled out. If it was marked as using the placement list, the list effective at the time of placement was reviewed to ensure the risk was on the list
- 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, license number, and stamp 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 white lists 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 in each file there was a policyholder notice regarding nonrenewal and premium increase included with the policy or other evidence of insurance.

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 that monthly premium reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: One of the 24 monthly reports was filed late. The Alaska Division of Insurance allows postmark to be used to consider on time status and the March 2008 was postmarked May 1, 2008.

Result: Passed (23 reports passed & 1 failed, error rate 4%)

Recommendation: It is recommended that the broker ensure the written procedures are followed. The due date is included in the procedures.

Griffin Underwriting Services response: Regrettably, we were slightly late filing one of our monthly reports due to the fact that both signatories were out of state at the time of filing. We have since improved our communication about extended absences and we also plan to license another individual in Alaska, so this should not be an issue in months and years to come.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: The premium was not calculated correctly for every transaction in the audit files. The broker calls their broker fee (to pay for their processing overhead) a policy fee and they have always included it in premium. The insurance companies do not require they charge this fee. Every transaction had a broker fee charged. The broker also charges an installment fee of \$8 per installment, generally three installments for a policy. Although they do not charge the tax and fees to the insured on this installment fee, they do include this fee in the premium when reporting to the Alaska Division of Insurance and are paying tax and fees to the State. Four transactions included the installment fee of \$24 in premium to the State. This error affects the accuracy of the monthly reports, tax reports, and tax and fee payments.

Result: Failed (error rate 100%)

Recommendation: It is recommended that the broker modify their written procedures to include what fees are not to be included in premium. Bulletin B 04-14 should be read for guidance. Their computer program may need to be modified as well if the broker fees are automatically considered taxable. The broker must ensure the broker fees and installment fees are not included in the calculation of premium to either the insured or the State. The Alaska Division of Insurance will not require the broker to refund the tax and fees on the broker fees to the insured for all transactions but the practice must be discontinued immediately.

Griffin Underwriting Services response: 1. Written Procedures: Our written company procedure manual has been updated to correct the Alaska filing guidelines. 2. Technical Assistance: The premium field will be personally calculated and entered on each affidavit (report of surplus transaction form), as we have realized that our software cannot automatically input the correct amount; therefore, neither the policy/broker fee nor the installment fees will be included in the calculation of premium any longer. Furthermore, two separate fees have been created in our management system – AK Policy Fee (non-taxed) and AK Carrier Fee (taxed), which will remove the question of “which fee is or is not taxed in AK” from the user’s desk, and instead relies on technology to provide the correct answer, thus allowing for greater accuracy. Our online rating system (IQ) has also been corrected accordingly.

3. Verify the accuracy of all monthly reports filed

AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: Staff runs a report from AIM, the invoicing plus system, using the expiration date to determine which policies are included in a given month. Then the business manager manually checks the paper documents received from the Underwriting/processor on the report to ensure she has the necessary documents. Endorsements do not show up on AIM reports and right now staff is totally dependent upon others to correctly provide the necessary information. Sixteen out

of the 24 monthly reports filed were not accurate when filed and Division staff contacted broker staff for corrections. The two predominant issues identified as problems are transactions filed in the incorrect month and transaction forms not adding up to the summary, often leading to missing transactions. Of the audit files, one policy was not filed with the Alaska Division of Insurance. This error affects the accuracy of the tax reports and tax and fee payments.

Monthly reports Result: Failed (8 reports passed & 16 failed, error rate 67%)

Transaction Policies Result: Passed (49 files passed & 1 failed, error rate 2%)

Recommendation: It is recommended that the broker create written procedures for the processing of the monthly transactions. The procedures need to include a step-by-step checklist detailing how current staff uses the AIM reports to confirm that all transactions are accounted for and the manual process of cross referencing the transaction reports received from the Underwriting/processor with the AIM report. Since there appears to be problems with getting transactions in the correct month, it is recommended staff create new AIM reports that will help more readily identify the month in which the transactions should be filed. One report should be one that filters by the effective date instead of expiration dates due to the possibility of missing short term policies. Another should be for endorsements that are not currently available in a report. A review by a second individual might be considered in order to catch the mistakes before the paperwork is filed with the Division.

For the audit transaction that was not filed, the broker needs to amend the August 2007 monthly report previously filed to include the transaction. An amended 2007 Annual Premium Tax Report should also be filed and tax and filing fees of \$13.82 and \$5.12 respectively paid by ACH.

Griffin Underwriting Services response: 1. Begin use of exported report rather than manually compiled report: Unfortunately, our previous method of compiling this report left too much room for common user mistakes like transposing numbers and calculation errors. That, combined with relying on users to provide copies of all Alaska endorsements to the Filing Officer in a timely manner, made for some unnecessary errors on our monthly reports. We have now adjusted this method to utilize reports from our agency management system (AIM) to compile all data to be filed, which will not only capture the endorsements during the correct month, but it will solve the calculation errors. 2. Amended incomplete report: The August 2007 monthly report has been amended.

Alaska Division of Insurance response: In addition to receiving the amended August 2007 monthly report, the 2007 Annual Premium Tax Report was amended and additional tax and fees were paid by ACH. The late filed transaction penalty of \$300 has not yet been paid.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker does not write any multi-state policies.

Result: N/A

5. Verify quarterly and annual premium tax reports were filed on time

AS 21.34.180, 3 AAC 21

Comments: The broker was not required to file quarterly tax reports for 2007 as they did not meet the required monetary threshold but they did have to file quarterly during 2008. The first quarter for 2008 was not filed on time as they misunderstood the requirements. The two annual premium tax reports were filed on time.

Result: Failed (4 reports passed & 1 failed, error rate 20%)

Recommendation: It is recommended that the broker create written procedures for the tax reports due date requirements and ensure the procedures are followed.

Griffin Underwriting Services response: Unfortunately, one of our quarterly reports was postmarked one day late. We are normally quite punctual with such matters, and have documented the various due dates for monthly, quarterly, and annual reports for each state for future reference. We will do our utmost to file future reports in a timely manner.

Alaska Division of Insurance response: The first quarter 2008 tax report was postmarked August 5, 2008, two months late.

6. Verify the accuracy of the quarterly and annual premium tax reports

AS 21.34.180, 3 AAC 21

Comments: The broker was not required to file quarterly tax reports for 2007 as they did not meet the required monetary threshold but they did have to file quarterly during 2008. The three 2008 quarterly tax reports matched the monthly reports filed at the time. The two initially filed annual premium tax reports were not accurate when received. Division staff communicated with broker staff to make corrections. Additionally, one audit transaction was not filed with the Division and the premium amounts for all transactions were incorrect as found in the audit. These errors affect the accuracy of the quarterly and annual tax reports. The flow through errors will not be counted as an error here as they are reflected in their respective audit tests.

Result: Failed (3 reports passed & 2 failed, error rate 40%)

Recommendation: It is recommended the broker create written procedures for the processing of the tax reports. The procedures should include a step-by-step checklist for reconciling the monthly reports to the tax reports to ensure all transactions are accounted for. Additionally, it is recommended the broker have a second person review the tax reports before they are filed with the Division to ensure the monthly reports reconcile with the annual tax reports.

Griffin Underwriting Services response: This topic correlates with Recommendation #3 above. The previous method of compiling monthly reports left too much room for common user mistakes like transposing numbers and calculation errors. That, combined with relying on users to provide copies of all Alaska endorsements to the Filing Officer in a timely manner, made for some unnecessary errors on our monthly reports. And those monthly reporting errors were

carried forward to the quarterly reports. By adjusting our monthly reporting method from a manual compilation to an automated report from our management system (AIM), we feel confident that it will mitigate future errors.

7. Verify if tax and filing fee payments were made on time and by ACH

AS 21.34.180, 3 AAC 21

Comments: All payments were made on or before the required due date for the quarterly and annual payments and all were made by ACH.

Results: Passed (error rate 0%)

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

Comments: All tax and fee payments made by the broker were accurately based upon the tax reports as filed. The errors found during the audit were reflected in their respective audit tests.

Results: Passed (error rate 0%)

9. Review effort made to place insured with an admitted insurer

AS 21.34.020, 3 AAC 25.030 and .035

Comments: One policy file did not include any documentation the diligent search was completed. Several Affidavits of Due Diligence, the broker's documentation of choice, were missing information and should not have been accepted by the broker; instead they should have communicated with the producer to complete the document prior to binding.

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

Recommendation: It is recommended that the broker create written procedures to ensure all Affidavits of Due Diligence are received prior to binding. The procedures should include a policy of requiring an accurately completed Affidavit before a surplus lines policy can be bound.

Griffin Underwriting Services response: Our action on this item was three-fold: 1. Written Procedures: Our written company procedure manual has been clarified to require that we receive the Affidavit of Due Diligence prior to binding. 2. Training: Our applicable company procedures and the importance of the Affidavit of Due Diligence were stressed to all staff involved in the binding process, as was the fact that we cannot fill in missing data ourselves. 3. Assistance to Retail Agents: We incorporated a checklist into the binding paperwork we send to the Alaska Retail Agents to better assist them in completing the form correctly the first time around.

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

AS 21.34.100(e)

Comments: Three policies included the required stamp but were illegible because the words did not come through completely and for two the stamp was located on top of other language on the

Declaration page. The binders did not include the stamp nor the broker's license number. Not all of the audit policies received binders. No endorsement had the required stamp either.

Results: Passed for illegible stamps (47 files passed & 3 failed, error rate 6%)

Results: Failed for stamps on binders (3 files passed & 47 failed, error rate 94%)

Recommendation: It is recommended that the broker create written procedures for staff to ensure all evidence of insurance, including premium and non-premium bearing endorsements, have a legible stamp and in a location that is not covering other language.

Griffin Underwriting Services response: 1. Written Procedures: Our written company procedure manual has been edited to state that all Certificates of Insurance and Endorsements issued for a non-admitted insurer are to have the applicable Alaska state verbiage applied in a legible manner. 2. Technical Assistance: By adding all of our states' required Surplus Lines wording to our imaging system, it makes it easier for users to apply the required wording to all applicable documents without having to print, stamp, and scan each document. The easier the method, the more consistent its use.

Alaska Division of Insurance response: The company procedure manual should state that all evidence of insurance needs the verbiage, including binders.

11. Review notification for use of non-admitted insurer
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AS 21.34.110

Comments: The primary mode of operation is for the producer to request coverage through the broker's Internet site. There is nothing on the Internet application/quote that alerts the insured to the three parts of the notification for the placement with a surplus lines company, which is predominantly the business of the broker. There is nothing in any of the electronic policy files that shows the required notification of the surplus lines company was provided to the insured.

Results: Failed (error rate 100%)

Recommendation: It is recommended that the broker create written procedures to provide the notification to the insured at the time of submission on the Internet and maintain a copy in the insured's electronic file as required by statute. Since the broker's Internet program already sends a blank application and Affidavit of Due Diligence in an email to the producer after submitting the request for coverage, the required notification can be added to the email. The notification can be added to the insured's file at the same time the blank application and Affidavit are saved.

Griffin Underwriting Services response: 1. Internet-Based Quoting: Our internet-based rating/binding system has been edited to add the required verbiage, as well as our Alaska license number, on all Alaska product quotes and applications. 2. Traditional Quote Method: Our written company procedure manual has been edited to state that all Quotations and Confirmations of Binding issued for a non-admitted insurer include the applicable Alaska state verbiage. For our busiest Alaska product lines, this wording is now automatically applied without user intervention required.

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 companies.

Results: Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

Comments: Six policy files did not have evidence of the required notice of nonrenewal and premium increase being sent to the insured. One of those six included the notice on the Declaration page in the list of forms sent to the insured but no copy was in the file. Forty-three files included an obsolete notice.

Results: Failed (44 files passed & 6 failed, error rate 12%)

Recommendations: It is recommended that the broker create written procedures to ensure the Alaska Policyholder Notice is part of the policy from the insurance company and that they maintain a copy in the insured's file. If the notice is not the correct language based upon the most current Bulletin from the Division, then the broker should request a revision by the insurance company.

Griffin Underwriting Services response: 1. Written Procedures: We have begun the process of formalizing our Compliance Procedures for each state, which includes checking periodically for updates to this Bulletin to ensure that this form is always up to date. 2. Training: Our applicable company procedures and the importance of the Alaska Policyholder Notice appearing on every non-admitted policy have been stressed to all policy issuance staff. 3. Proofreading Safety Net: A proofreading checklist item has been added for all Alaska policies in which the Processing Dept has been charged with ensuring that the Alaska Policyholder Notice (usually form #AK-SL-01 8/08) is actually attached to each non-admitted policy that leaves our office.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Griffin Underwriting Services. The auditor tested 13 standards focusing on the broker's filing of monthly and tax reports and the subsequent payment of premium taxes and filing fees as well as due diligence and notification requirements for using a non-admitted insurer.

The broker's staff was cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Griffin's management and staff.

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

- 1) The broker fee was included in the calculation of premium for every policy; thus, overcharging the insured for tax and fees.
- 2) The monthly reports and tax reports were often incorrect when originally filed with the Division. More diligence for accuracy must be taken prior to submission.
- 3) Not all evidence of insurance included the notification stamp required by statute.
- 4) The required notification to the insured regarding the use of a non-admitted insurer was not found in any file

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Griffin Underwriting Services be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

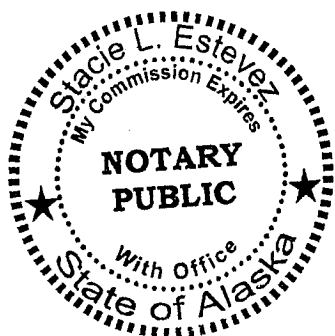
Griffin Underwriting Services
As of December 31, 2008
TA 09-05

Juneau, Alaska)
July 16, 2010)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2008 of Griffin Underwriting Services is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 20th day of July, 2010



Stacie Estevez
Notary Public in and for Alaska
My Commission Expires with office