

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 15-01)
In the Matter of Audit of)
The Insurance Center, An Alaskan)
Corporation)
_____)

FINDINGS OF FACT

1. An audit report of The Insurance Center, An Alaskan Corporation, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to The Insurance Center, An Alaskan Corporation.

2. The audit report of The Insurance Center, An Alaskan Corporation (TA 15-01) has been transmitted to Joshua Korver, Compliance Officer, The Insurance Center, An Alaskan Corporation (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

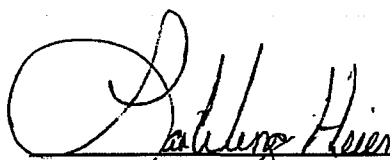
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of The Insurance Center, An Alaskan Corporation (TA 15-01) 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 August 25th, 2015.

Dated this 25th day of August, 2015 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

The Insurance Center, An Alaskan Corporation

Anchorage, AK

Alaska License # 7770

TA 15-01

As of December 31, 2014

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

August 25, 2015

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THE STATE
of **ALASKA**

GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

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August 25, 2015

Lori K Wing-Heier, CIC, CRM
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 The Insurance Center, An Alaskan Corporation (the broker) on May 4, 2015 through May 6, 2015, in the broker's Anchorage, Alaska office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

The Insurance Center, An Alaskan Corporation

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 third premium tax audit of The Insurance Center, An Alaskan Corporation conducted by the Alaska Division of Insurance. The second audit was completed May 4, 2012

Subject Matters Audited

The broker is an Alaska licensed surplus lines broker based in Location. 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 and notifications to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2013 through December 31, 2014.

METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker's office in Anchorage, AK. 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 229, 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 insured name, description of risk, 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 locations of risk were identified on the reports
- 4) If the placement is a multi-state placement, 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 Alaska has the highest percentage of risk if 100% of risk is not in state where the principal place of business is located.
- 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 and the declinations were documented with broker prior to binding up through 9/3/2014 then starting 9/4/2014 documentation received within 15 days of binding. If no declinations with 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 evidence of insurance receipt/creation and forwarding 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
 - 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 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 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) Review documentation required to be maintained
 - i) Audit steps taken:
 - (1) Reviewed the documentation of each action taken to confirm sufficient details were maintained as required in AS 21.27.350.
 - (2) Reviewed the documentation for meeting the additional requirements for surplus lines brokers in AS 21.27.810.
 - 15) Other issues not previously identified as a procedure step 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 that quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|--|

Comments: All eight 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 |
|---|

Comments: The premium was calculated incorrectly for three policies in the audit files. Company policy fees and inspection fees were not included in the premium and not part of the calculation of the tax and fees due to the Division. Amended quarterly reports were filed after the audit to adjust for the missing fees. Additional tax and fees were paid after the audit on the company fees.

These errors affect two additional audit tests:

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

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

Recommendations: It is recommended the broker modify their current written procedures to ensure all company fees are included in the calculation of premium tax and filing fees. The broker should read bulletin 04-14 to reinforce their understanding of what fees are to be included in premium and what are not.

The broker's response: We have posted a copy of bulletin 04-14 to our server hard drive under a folder dedicated to surplus lines procedures for access by all underwriters in our office. We have also updated a Surplus Lines Quote Checklist and Surplus Lines Binder Checklist and submitted them to the Auditor for review to ensure that going forward this information is double-checked at multiple points for accuracy.

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

Comments: A separate spreadsheet that all staff enter new/renewal policies on is used to compare with reports that are generated out of their database to ensure all transactions are identified. However, no endorsement information is maintained on the spreadsheet. Several errors were noted on the Quarterly Reports as filed with the division:

- Endorsements:

- One was filed based upon the effective date of the transaction instead of the invoice date but the invoice date was a subsequent quarter; thus, the transaction was filed in the wrong report
- Two were not filed with the division when originally due. Amended quarterly reports were filed after the audit. The overall effect is a reduction to premium tax and fees.

- One policy was filed on an amended quarterly instead of the initial report.

Total accuracy errors: 4 within 4 distinct files, which affected the accuracy of the tax and fee payments.

Eight endorsements were filed using the effective date instead of the invoice date but all within the same quarter. There was no effect on the quarterly report or the taxes and fees so will not be considered an error but this will need to be fixed for future reports so as not to cause a filing made to the wrong quarter report.

Results: Passed (46 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended that the broker revise written procedures for when endorsements are to be reported to the Alaska Division of Insurance. It is also recommended to work with their software vendor to revise the information that is currently updating on the Report of Surplus Lines Transaction form out of the database as well as new reports that will identify all transactions accurately for a given quarter with the expectation of reducing the redundant need for the spreadsheet.

The broker's response: As indicated above in the recommendation, there is an issue in our management system that we are currently working on with our software vendor where the surplus lines transaction reports produced by the system were incorrectly reporting endorsements according to their effective date rather than their invoice date. Additionally, the reports obtained from the management software showing the list of quarterly transactions was also inaccurate. We relied on this automated process for accuracy when we should not have done so. Accordingly, we have created a set of spreadsheets to provide a backup record of all surplus lines transactions that will record the endorsements according to their invoice date and the policies according to their inception date. We are working to upgrade or replace our management system as soon as possible.

4. Verify the home state for insured is Alaska on multi-state placements
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AS 21.34.180

Comments: The broker does not write much multi-state business. The home state for the insureds in the audit was Alaska.

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 - .570

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

Results: Passed (error rate 0%)

6. 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 originally filed.

Due to the company fees not included in premium, the broker owed additional tax and fees that were already paid. An overpayment due to amended reports will be carried over to subsequent quarterly reports. These errors were identified in their respective audit tests.

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 from the producers during the audit period. All documentation was received prior to binding or if after 9/4/14, within 15 days of binding. When the documentation provided shows the risk is located on the placement list, a description of risk should be the same as on the placement list.

Results: Passed (error rate 0%)

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: Two files have documentation showing the evidence of insurance was not provided to the insured within the 30 days of bind date or effective date, whichever comes first. One other policy was bound after the effective date but the policy was provided within 30 days of bind date.

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

Recommendations: It is recommended the broker revise their written procedures to include the prompt delivery of the policy or, if the policy is not available, a cover note, binder, or other evidence of insurance.

The broker's response: We have added suspense items in our workflows that will require that underwriter managing a particular policy double-check that evidence of insurance has been provided by 20 days from the effective date of the policy or the day the policy was bound, whichever is earlier. If evidence of insurance has not been provided by this date, this workflow task is graduated to the highest priority level in our office for completion to help eliminate any undue delays.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: The broker routinely does not re-type information off the company's quote, which the insured has requested to bind, on to their binder templates that are provided to the insureds as the cost of mistakes were considered too high so instead they reference the "attached quote" on the binder. Two files referenced the attached quote but the quote was not included in the communication to the producer. Will accept for this audit as it is clear the intent of the broker was to include the quote with the binder and the quote was previously provided.

Results: Pass (error rate 0%)

Recommendations: It is recommended the broker revise their written binder procedures to identify exactly which quote is being referenced by including the quote number and the date and to ensure the quote is sent with the binder.

The broker's response: We have included specific language that was developed by the Division's staff, for which we are grateful, that incorporates the quote by reference according to the quote number and the date the quote was provided. This language is required to be included on all binders that incorporate a quote by reference for binding. Our Surplus Lines Binder Checklist has been updated to ensure that this language is used before a binder is sent.

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

AS 21.34.100(e)

Comments: Two files demonstrated a problem with the required disclosure stamp on the evidence of insurance. Since the insured's copy is unavailable, auditor relied upon the broker copy. Here are the two problems found in the files:

- No stamp on binder – 1
- No stamp on subsequent audit – 1

Total disclosure errors: 2 within 2 distinct files

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

Recommendations: It is recommended that the broker ensure written procedures are followed that all evidence of insurance including endorsements and subsequent audits have the required disclosure stamp wording and is legible.

The broker's response: We have added another point of review in the workflows regarding stamps to ensure that each required document have a stamp as required prior to being sent. We are confident that this extra point of review in the process will reduce these incidents of error where a stamp has been inadvertently omitted.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: All files included documentation the insured was properly notified 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: 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 in the audit included the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured.

Results: Passed (error rate 0%)

14. Review documentation for sufficient detail of each transaction as well as the additional surplus lines broker records that must be maintained.

AS 21.27.350 and .810

Comments: One file included documents from the prior year's policy that were incorrectly identified as the current policy. All relevant events and dates of those events appear to be documented in the insured's files.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of The Insurance Center, An Alaskan Corporation. The auditor tested 14 standards focusing on the broker's filing of quarter 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 compliance officer and staff were very cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with The Insurance Center's management and staff.

Although the auditor found problems in several audit tests, no issues arose during the audit that significantly affects compliance with Alaska statutes and regulations. The auditor's recommended actions along with the implementation of the new or revised procedures should help the broker ensure all issues identified in the audit are improved.

The division commends the broker in their adherence in meeting Alaska laws. It is recommended that The Insurance Center be put into the premium tax audit cycle with all other brokers.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

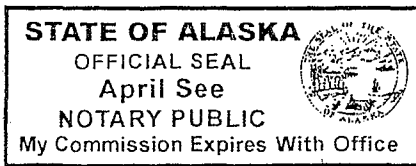
As of December 31, 2014
TA 15-01

Juneau, Alaska)
August 25, 2015)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2014 of is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 25 day of August, 2015



April See
Notary Public in and for Alaska
My Commission Expires office