

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 21-04 )  
In the Matter of Audit of )  
CBIZ Insurance Services Inc. )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of CBIZ Insurance Services Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to CBIZ Insurance Services Inc.

2. The audit report of CBIZ Insurance Services Inc. (TA 21.04) has been transmitted to Michael Gill, Compliance Officer, CBIZ 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

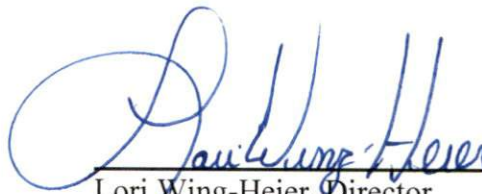
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of CBIZ Insurance Services Inc. (TA 21-04) 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 29<sup>th</sup>, 2022.

Dated this 29<sup>th</sup> day of April, 2022 at Juneau, Alaska.



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

**PREMIUM TAX AUDIT OF**

**CBIZ Insurance Services Inc.**

**Cumberland, MD**

**Alaska License # 25991**

**TA 21-04**

**As of June 30, 2021**

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



**FINAL REPORT:  
April 29, 2022**

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April 29, 2022

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Lori K Wing-Heier  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
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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 CBIZ Insurance Services Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

### **CBIZ 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 second premium tax audit of CBIZ Insurance Services Inc conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

CBIZ Insurance Services Inc (the broker) is an Alaska licensed surplus lines broker based in Cumberland, MD. 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 July 1, 2019, through June 30, 2021.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Cumberland, MD. 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 108, 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**

- |  |   |
|--|---|
| <b>1. Verify quarterly reports and accompanying forms were filed on time</b> | <b>AS 21.34.080 and .170, 3 AAC 25.090 and .100</b> |
|--|---|

*Comments:* The eight original quarterly reports with accompanying forms were filed on time.

*Results:* Passed (error rate 0%)

- |  |                     |
|--|---------------------|
| <b>2. Verify the accuracy of the premium calculation</b> | <b>AS 21.34.180</b> |
|--|---------------------|

*Comments:* The premium was calculated incorrectly for 15 policies in the audit files due to the broker fees being included in premium when calculating the tax and filing fees due to the division. 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 as they will need to refund the insureds.

These errors affect two additional audit tests:

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

*Results:* Failed (35 files passed & 15 failed, error rate 30%)

*Recommendations:* It is recommended the broker modify their Alaska specific written procedures to identify which fees are taxable or nontaxable. Reviewing Bulletin 04-14 will help identify the different fees.

*The broker's response:* A change has been made to our procedure, and we will no longer be taxing the broker/surplus lines fee.

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

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

- Incorrect insurance company – 8
- Endorsement invoice date incorrect – 2
- Insured address incorrect – 1

Total accuracy errors: 11 within 10 distinct files

Some of these errors affect one additional audit test:

1. Accuracy of Tax and Fee Payments

Several insured names were misspelled which causes searching problems for the division staff.

*Results:* Failed (40 files passed & 10 failed, error rate 20%)



*Recommendations:* It is recommended the broker modify their Alaska specific written procedures for specific fields where the procedures are incorrect and to add qualifiers to help with ensuring the information is accurate on the report. A second individual reviewing documents before submission should reduce the number of errors received by the division.

*The broker's response:* CBIZ is updating its processes to verify the accuracy of quarterly reports and amended inaccuracies.

**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**

*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. The errors found during the audit in the premium calculation and quarterly report accuracy 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%)

**6. Verify the home state for insured is Alaska**  
**AS 21.34.180**

*Comments:* The broker does not write multi-state policies in Alaska.

*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. However, the Affidavit is not being filled out correctly such as the surplus lines broker firm is an individual working at CBIZ instead of the firm name and the declinations are surplus lines companies not admitted companies. For the audit, email declinations from admitted companies were reviewed. These declinations are gathered every 180 days to meet regulation requirements that can be applied to the same class of insurance.

*Results:* Passed (error rate 0%)

*Recommendations:* If the broker continues to use the Affidavits of Due Diligence for each insured file, it is recommended the broker ensure the Affidavits are filled out correctly.

*The broker's response:* A sample Due Diligence form has been provided, and specific instructions have been updated to ensure the form is filled out correctly. Further, every carrier was approached for business on an admitted or E&S basis. All carriers had the capability of writing admitted program business. Most carriers declined outright on an admitted basis, and if they reviewed CBIZ's program-level information any further, it was with the understanding that admitted business was off the table. CBIZ made every effort to ask carriers to write admitted business, and in every instance, the carriers declined.

**8. Review prompt delivery of evidence of insurance**

**AS 21.34.100(a) and 3 AAC 25.060**

*Comments:* One file has documentation showing the initial evidence of insurance was not provided to the insured within 30 days of binding.

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

*Recommendations:* It is recommended the broker modify their Alaska specific written procedures to include the requirement of ensuring the initial evidence of insurance is provided to the insured within 30 days from binding either by email or through the online portal.

*The broker's response:* Written procedure has been updated to ensure evidence is provided to the Insured within 30 days of binding and that appropriate wording and Surplus Lines Broker number is added to this notice,

**9. Review required material facts located on evidence of insurance**

**AS 21.34.100(a)**

*Comments:* Thirty-nine files were missing the surplus lines broker license number. The primary evidence of insurance for the broker is the policy as binders are not provided to the insured.

*Results:* Failed (11 files passed & 39 failed, error rate 78%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures to include the broker license number on the initial evidence of insurance is followed.

*The broker's response:* Alaska documentation has been updated to include the Surplus Lines Broker number be added to the evidence of insurance.

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

**AS 21.34.100(e)**

*Comments:* Seventeen 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:

- Disclosure on dec missing a word, on separate page from the insurance company – 11
- No disclosure on endorsement – 9
- No disclosure on proof of coverage – 10

- No disclosure on certificates – 112

Total disclosure errors: 142 within 17 distinct files

*Results:* Failed (33 files passed & 17 failed, error rate 34%)

*Recommendations:* It is recommended the broker either create additional written procedures to ensure all Alaska business written contain the requirements or modify the current procedures so they cover all Alaska business. The insurance company should be contacted to fix their disclosure especially if the broker continues to rely upon it instead of adding their own.

*The broker's response:* Procedures have been updated to ensure the disclosure statement is added correctly on the appropriate documents which include endorsements, proof of coverage, and certificates when used as proof of coverage. CBIZ created a stamp that satisfies the language and 10 point font as required:

*This is evidence of Insurance procured and developed under the Alaska Surplus Lines Law, AS 21.34. It is not covered by the Alaska Insurance Guaranty Association Act, AS 21.80.*

<b>11. Review notification for use of non-admitted insurer</b>
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**AS 21.34.110**

*Comments:* The broker has some written procedures identifying the notification requirements but they were not followed for several of their programs. Eighteen files either did not include the notification or parts of the notification were missing. The three points of the notification are: 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 (32 files passed & 18 failed, error rate 36%)

*Recommendations:* It is recommended the broker either create additional written procedures to ensure all Alaska business written contain the requirements or modify the current procedures so they cover all Alaska business.

*The broker's response:* Written procedure has been updated to include the notification requirement.

*Please be aware, the Insurance Company does not have a certificate of authority, is not under the supervision of the Alaska Division of Insurance and, in the case of insolvency, losses are not covered by the Alaska Insurance Guaranty Association Act.*

<b>12. Confirm coverage is placed with an eligible non-admitted insurer</b>
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**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:* Twelve policies either did not include the Alaska Policyholder Notice of premium increase and nonrenewal or it was added by endorsement after the premium tax audit commenced.

*Results:* Failed (38 files passed & 12 failed, error rate 24%)

*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.

*The broker's response:* CBIZ received clarification, corrected with the carriers, and revised internal protocol.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of CBIZ 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 affects the service to the insured and compliance with Alaska statutes and regulations.

- 1) The premium was miscalculated for numerous files.
- 2) Several quarterly reports were not accurate when filed.
- 3) The majority of the files were missing some material facts.
- 4) Many evidence of insurance were missing the disclosure language.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in some 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 CBIZ Insurance Services Inc be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

CBIZ Insurance Services Inc  
As of June 30, 2021  
TA 21-04

Juneau, Alaska )  
April 29, 2022 )  
State of Alaska ) ss.  
First Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2021, of CBIZ 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 2 day of May, 2022

NOTARY PUBLIC  
ANNA M. LATHAM  
STATE OF ALASKA  
My Commission Ending with Office

Anna M. Latham  
Notary Public in and for Alaska  
My Commission Expires with office