

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

Order # TA 22-01)
In the Matter of Audit of)
Risk Placement Services Inc)
_____)

FINDINGS OF FACT

1. An audit report of Risk Placement Services Inc, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Risk Placement Services Inc.
2. The audit report of Risk Placement Services Inc (TA 22-01) has been transmitted to Joel Cavaness, Compliance Officer, Risk Placement 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

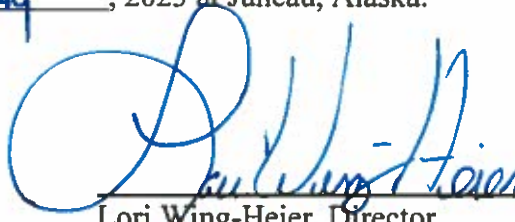
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Risk Placement Services Inc (TA 22-01) 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 May 9, 2023.

Dated this 9th day of May, 2023 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

**Risk Placement Services Inc
Rolling Meadows, IL
Alaska License # 27619**

TA 22-01

As of December 31, 2021

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



**FINAL REPORT:
May 9, 2023**

TABLE OF CONTENTS

	PAGE
1) TABLE OF CONTENTS.....	2
2) SALUTATION	3
3) SCOPE OF AUDIT.....	3
4) METHODOLOGY	4
5) PREMIUM TAX AUDIT	6
6) SUMMARY AND SUBSEQUENT EVENTS.....	12
7) AFFIDAVIT	13



May 9, 2023

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 Risk Placement Services Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Risk Placement 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 Risk Placement Services Inc conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Risk Placement Services Inc (the broker) is an Alaska licensed surplus lines broker based in Rolling Meadows, IL. 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, 2020 and December 31, 2021.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Location. 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 437, 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%)

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

Comments: The premium was calculated incorrectly for two policies in the audit files. Premium for two policies failed to include inspection fees when calculating the tax and filing fees due to the Division. The policies are now expired and the division will not require amended quarterly reports.

This error affects two additional audit tests:

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

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

Recommendations: It is recommended that the broker ensure their Alaska specific written procedures are followed, identifying all fees as taxable or nontaxable. It is also recommended that the broker modify their secondary written procedures for those preparing the quarterly report to include which fees are taxable or nontaxable. A review of bulletin B 04-14 will help identify the different fees.

The broker's response: We will be sending an updated communication around taxable and non-taxable fees for the State of Alaska and will provide specific direction to the sales teams that had errors noted. Bulletin B 04-14 has been reviewed and will be shared with the appropriate teams.

- | | |
|--|---|
| 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:

- Missing parts of insured name – 1
- Producer license # incorrect – 3
- Producer name incorrect – 2
- Insured address incorrect, the location of risk used instead of insured's actual address – 6
- Endorsement invoice date missing – 1
- Filed on amended report after the due date – 1
- Not filed – 3, an amended report will be required to report these transactions.
- Expiration date incorrect – 2

- Endorsement start date incorrect – 1
- Start and expiration dates incorrect – 1

Total accuracy errors: 18 within 14 distinct files

There were 18 amended reports for the eight quarterly reports in the audit, each with several errors. It takes hours for the division staff to review the reports.

These errors affect one additional audit test: Accuracy of Tax and Fee Payments

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

Recommendations: It is recommended the broker ensure their Alaska specific written procedures are followed. The procedures currently include information for 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 amended reports were received for those transactions previously not filed.

The broker's response: Over the last year, the RPS team has been in the process of overhauling our compliance requirements which includes our state filings. Part of that process was centralizing all state filings and implementing a new system that will allow more oversight and review along with meeting all required timelines. Additionally, we have overhauled our professional standard audit process and increased the number of people doing reviews. This latest change was just implemented in 2023. We now have a review of all filings being completed by the national SL team. That team has been trained in various areas and direction has been given for specific areas of concern to look out for.

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 affect 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 writes some multi-state policies. The home state was evaluated for all policies, and all have Alaska as the home state.

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. Eleven files had problems with the documentation:

- Received after 15 days from binding – 7
- Nothing in file – 4

Results: Failed (39 files passed & 11 failed, error rate 22%)

Recommendations: It is recommended that the broker ensure their Alaska specific written procedures are followed 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's response: We have reiterated with the production teams that affidavits are needed within 15 days of binding. Additionally, this will be included in training with the teams that write the predominate amount of Alaska business.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: The requirement is the first evidence of insurance must be delivered within 30 days of binding. Six files do not have documentation showing evidence of insurance was provided to the insured within 30 days of binding as no emails were maintained.

Results: Failed (34 files passed & 6 failed, error rate 12%)

Recommendations: It is recommended the broker modify their Alaska specific written procedures to include the requirement of providing the first evidence of insurance within 30 days from binding. It is further recommended they follow their written procedures to maintain proof the evidence of insurance was sent to the retailer and insured.

The broker's response: The delivery of insurance document was shown to have several issues which we will address through specific branch training. The training will focus on exactly what is needed in the evidence of insurance along with the importance of correctly documenting the delivery of the document to the customer.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: Thirty-two 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.

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

- Binder missing broker license # – 38
- Binder missing insured address – 7
- Binder missing premium tax amount – 3
- Binder missing location of risk – 4
- Binder missing general coverages – 1
- Policy missing broker license # – 26

Total errors: 79 within 42 distinct files

Results: Failed (8 files passed & 42 failed, error rate 84%)

Recommendations: It is recommended the broker modify their 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's response: The delivery of insurance document was shown to have several issues which we will address through specific branch training. The training will focus on exactly what is needed in the evidence of insurance along with the importance of correctly documenting the delivery of the document to the customer.

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

AS 21.34.100(e)

Comments: Thirty 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. Several times the broker's copy had the disclosure but the document in the email to the insured did not include the disclosure. When that occurred, the auditor used the actual email copy. Here are the different problems found in the files:

- No disclosure on binder – 8
- No disclosure on dec – 9
- No disclosure on endorsement – 2
- Incorrect statute reference in disclosure on binder – 5
- Incorrect statute reference in disclosure on dec – 15
- Incorrect statute reference in disclosure on endorsements – 6
- Disclosure illegible on binder – 1
- Disclosure illegible on endorsement – 1

Total disclosure errors: 47 within 30 distinct files

Results: Failed (20 files passed & 30 failed, error rate 60%)

Recommendations: It is recommended that the broker ensure their Alaska specific written procedures are followed that all evidence of insurance 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.

The broker's response: Procedures will be communicated that the Disclosure Statement must be included in all Evidence of Insurance documents. We have also updated our template so that the exact necessary wording is used going forward for all accounts.

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. Seven 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 (7 files passed & 43 failed, error rate 86%)

Recommendations: It is recommended the broker modify their Alaska specific written procedures to include what Alaska notification language is required as it is referenced but with no details. The procedures should include what the notification is and where to find it in their system in order to add to the quote.

The broker's response: Although the requirement of notification of use of a non-admitted insurer has always been a requirement it appears that this was not reinforced. Our Director of Professional Standards will reinforce this requirement.

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: Six policies did not include the Alaska Policyholder Notice of premium increase and nonrenewal.

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

Recommendations: It is recommended the broker modify 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: Many states do require the notification of non-renewal and premium increase. We will increase training to make sure the state rules are followed and documented in the files.

14. Additional Compliance Issues Identified
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1. One 2021 policy was never sent to the insured in violation of AS 21.27.810(11).
2. Six files did not include any emails for when binder and policy were sent to the insured/retailer in violation of AS 21.27.350(a).

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Risk Placement 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. There were several staffing changes on the broker side during the audit resulting in a longer than normal audit. The auditor appreciated the new staff's efforts to provide additional requested information to complete the audit.

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

- 1) The quarterly reports are consistently not accurate when filed.
- 2) The diligent search efforts are not well documented in the files.
- 3) Several files showed evidence of insurance not provided promptly to the insured.
- 4) Most evidence of insurance did not include the required material facts.
- 5) Many of the disclosures were missing or had an incorrect statute reference on the evidence of insurance.
- 6) The required notification to the insured regarding the use of a nonadmitted insurer was not found in most files.
- 7) The Alaska Policyholder Notice was missing from several policies.

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 Risk Placement Services Inc be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Risk Placement Services Inc
As of December 31, 2021
TA 22-01

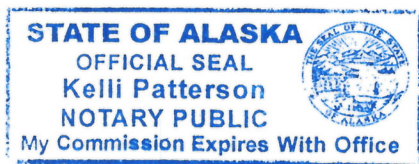
Juneau, Alaska)
May 9, 2023)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2021, of Risk Placement 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 9th day of May, 2023



Kelli Patterson

Notary Public in and for Alaska

My Commission Expires with office