

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 15-04)
In the Matter of Audit of)
Alaska Premier Underwriters Inc.)
_____)

FINDINGS OF FACT

1. An audit report of Alaska Premier Underwriters Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Alaska Premier Underwriters Inc.
2. The audit report of Alaska Premier Underwriters Inc. (TA 15-04) has been transmitted to Lisa Woodall, Compliance Officer, Alaska Premier Underwriters 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

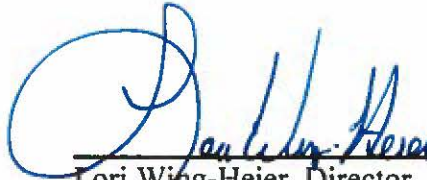
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Alaska Premier Underwriters Inc. (TA 15-04) 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 20, 2016.

Dated this 20th day of April, 2016 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

Alaska Premier Underwriters Inc.

Anchorage, AK

Alaska License # 32667

TA 15-04

As of June 30, 2015

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

April 20, 2016

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THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

P.O. Box 110805
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April 20, 2016

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 Alaska Premier Underwriters Inc. (the broker) on October 5, 2015 through October 7, 2015, in the broker's Anchorage, AK office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Alaska Premier Underwriters Inc.

SCOPE OF AUDIT

This premium tax audit was called to review compliance with the statutes AS 21.27.350, AS 21.27.810, AS 21.34, AS 21.36.360 and regulations 3 AAC 21.550 – 570, 3 AAC 25, and 3 AAC 26.610. This is the first premium tax audit of Alaska Premier Underwriters Inc. conducted as a follow-up to a prior market conduct examination completed May 2006 by the Alaska Division of Insurance.

Subject Matters Audited

Alaska Premier Underwriters Inc. is an Alaska licensed surplus lines broker based in Anchorage, AK. The Division elected to audit their quarterly filings, premium taxes and filing fees paid for accuracy and timeliness as well as required documentation requirements, diligent search efforts, disclosures and notifications to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years July 1, 2013 through June 30, 2015.

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 279, 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 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 insured name, insurance company, and policy type codes were accurate on the forms filed.
 - (7) Verified the locations of risk were identified on the reports
- 4) 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
- 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 was documented prior to binding and the declinations completed. If 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 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 in each file there was an Alaska Policyholder Notice regarding nonrenewal and premium increase included with the policy.
- 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.
 - (3) Reviewed files for recycled paper.
- 15) Review for altered documents
 - i) Audit steps taken:
 - (1) Reviewed documents in the file to ascertain if any changes were made to them and if so, how those changes were accomplished. AS 21.36.360(p)(2)

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
<b style="text-align: right;">AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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
<b style="text-align: right;">AS 21.34.180 |
|------------------------------------------------------------------------------------------------------------|

Comments: Sixteen files included inspection fees that ranged from \$45 to \$167 depending on the type of inspection. None of the inspection fees were included in premium. The cost and type of inspection is not known at the time the policy is bound. The inspection fees are part of the services provided for which a broker/wholesaler fee is charged.

A fee agreement form was developed after the prior exam and is signed by both the insured and the producer. A misunderstanding of the issue on the prior exam resulted in these fees no longer being included in the calculation of premium.

Alaska statute 21.97.900(35) states that premium includes charges made in consideration for an insurance contract regardless of the name called, including inspection fees.

This error affects two additional audit tests:

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

Results: Failed (34 files passed & 16 failed, error rate 32%)

Recommendations: It is recommended the broker create written procedures for how they will identify the inspection fees to include in the calculation of premium.

The broker's response: Alaska Premier is going to charge \$100 Inspection Fee to be taxed according to the Surplus Lines Laws (2.7% & 1%). This Inspection fee will only be applied on those policies where an inspection is ordered. Currently inspections cost us \$55 for a phone inspection and \$170 for a physical inspection. As we won't know for certain what type of inspection will be done when quoting the account, I'm using a reasonable estimate as an Inspection Fee (\$100) to apply to those accounts that will require some type of inspection. If I find that we are over or under on the estimate I have currently picked to use I will adjust next year at this time.

3. Verify the accuracy of all quarterly reports filed

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

Comments: Several errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division based on the policies bound:

- Sixteen homeowners policies were coded to policy type code 5.2 commercial multi-peril instead of code 4 homeowners multi-peril
- Two insured names were not complete on the reports

Total accuracy errors: 17 within 16 distinct files

At the time of identifying the audit files, the auditor found a policy that was filed on behalf of another entity with no Alaska license. Alaska law does not allow courtesy filings. However, during the audit, it was determined the broker did do some work in the transaction by evaluating the admitted market before going to the surplus lines market; therefore, as a surplus lines broker in the transaction they may file the transaction. The client needs to be added to their database.

Results: Failed (34 files passed & 16 failed, error rate 32%)

Recommendations: It is recommended that the broker create written procedures for reviewing the policy type codes list to ensure the codes are accurate when reported to the Alaska Division of Insurance. It is also recommended to ensure the insured name as shown on the policy is captured accurately in the database that will then automatically print on the report of surplus lines transaction form.

The broker's response: The first bullet point was a consistent error made by one employee who misunderstood the coding. While audit was still in progress this discrepancy was handled with this employee and all policies have since been re-coded and all reports have been amended. The second bullet point discrepancies were a data entry error. I have since gone over the proper data entry procedure with each employee to make sure this error does not happen again. A clear paper trail will follow all placements going forward. The database has been updated to reflect the missed client.

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

AS 21.34.180

Comments: Alaska is the home state for all insured's.

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 for the annual payments 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 filed. The errors found during the audit in the premium calculation affects the accuracy of the tax and fee payments. This flow-through finding is addressed in its respective audit test.

Due to the inspection fees not included in premium, the broker owes additional tax and fees of \$53.81 and \$19.93 respectively.

Results: Passed (error rate 0%)

The broker's response: The additional amount of tax and fees owed due to the previous errors that were found have been paid and reports corrected. Auditor Passed our agency on this finding.

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

AS 21.34.020, 3 AAC 25.010 and .035

Comments: Documentation was provided either prior to binding when effective date was before September 4, 2014, or within 15 days of binding when effective date was September 4, 2014 or after the regulation change.

Results: Passed (error rate 0%)

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: Evidence of insurance was provided to the insured within 30 days of binding for all policies.

Results: Passed (error rate 0%)

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: For all policies in which evidence of insurance was provided other than the policy, all material facts were located on the documentation.

Results: Passed (error rate 0%)

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

AS 21.34.100(e)

Comments: All binders, certificates and policies included the disclosure statement. The auditor reviewed the insured's copy of all evidence of insurance emailed to the producers.

Results: Passed (error rate 0%)

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker includes the notification that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance with the quote. The notification was found in all files.

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: On September 4, 2014, regulation changed to requiring the broker ensure the Alaska Policyholder Notice is included in the policy. One policy did not include the form. In another policy, the notice included language that did not meet the requirement of Bulletin 08-06 and the company did not file for a form review.

While the tax auditor was in the broker's office, the company was contacted and the form was modified to be included with all policies immediately going forward.

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

Recommendations: It is recommended that the broker revise their written procedures to include a step in the processing of the policy to ensure the notice is included from the insurance company.

The broker's response: Going forward regulation changes that are instituted by the DOI will be followed up closely with our carriers to make sure they are in compliance.

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: The broker consistently maintains all documentation of transactions for policies bound. No recycled paper was noted in the files.

Results: Passed (error rate 0%)

15. Review for altered documents.

AS 21.36.360(p)(2)

Comments: The broker does not alter documents in any way. When a change to a policy is required, it is crossed out showing the original data and the new data written in. These are due to endorsements that are then created and sent to the insured.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Alaska Premier Underwriters Inc. The auditor tested 15 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, prompt delivery of material facts to insured and documentation maintained in the files.

The compliance officer and staff were very cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Alaska Premier Underwriters Inc.'s management and staff.

Several significant issues did arise during the audit that affect compliance with Alaska statutes and regulations.

- 1) The premium was not accurate as reported resulting in a deficiency of taxes and fees paid.
- 2) Numerous quarterly reports were consistently not accurate when filed.

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 Alaska Premier Underwriters Inc. be re-audited within the next three years to ascertain compliance.


Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Alaska Premier Underwriters Inc.
As of June 30, 2015
TA 15-04

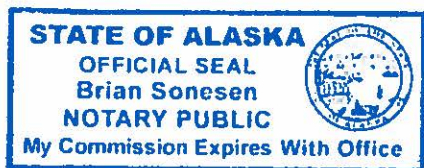
Juneau, Alaska)
April 20, 2016)
State of Alaska) ss.
First Judicial District)


I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2015 of Alaska Premier Underwriters Inc. is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 21 day of April, 2016





Notary Public in and for Alaska
My Commission Expires office