

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 15-03)
In the Matter of Audit of)
Denali Alaskan Ins LLC)
_____)

FINDINGS OF FACT

1. An audit report of Denali Alaskan Ins LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Denali Alaskan Ins LLC.
2. The audit report of Denali Alaskan Ins LLC (TA 15-03) has been transmitted to Mike Gordon, Designated Responsible Licensed Producer, Denali Alaskan Ins LLC (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).

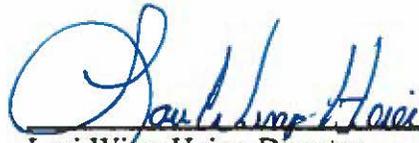
ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Denali Alaskan Ins LLC (TA 15-03) 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 January 5th, 2016.

Dated this 5th day of January, 2016 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

**Denali Alaskan Ins LLC
Anchorage, AK
Alaska License #27950**

TA 15-03

As of December 31, 2014

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



**FINAL REPORT:
January 5, 2016**

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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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January 5, 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 Denali Alaskan Ins LLC. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Denali Alaskan Ins LLC

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 Denali Alaskan Ins LLC conducted by the Alaska Division of Insurance (the division). The prior audit was completed on May 4, 2012.

Subject Matters Audited

Denali Alaskan Ins LLC (the broker) 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 diligent search efforts, prompt delivery, 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 division 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 38 so all files were 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 was accurate on the forms filed.
 - (7) Verified the insurance company was accurate on the forms filed.
 - (8) Verified the policy type code was accurate on the forms filed.
 - (9) 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
- 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
 - (2) For effective dates beginning 9/4/14, verified the documentation was received within 15 days of binding with the actual search completed prior to binding.
- 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) 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 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 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
<b style="text-align: right;">AS 21.34.180 |
|--|

Comments: The premium was calculated incorrectly for four policies in the audit files. Company policy fees or inspection fees were missed when calculating premium and the corresponding premium tax and filing fees. Amended quarterly reports will be required to adjust for the missing fees for those policies not yet expired. Additional tax and fees will be due.

These errors affect two additional audit tests:

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

Results: Failed (34 files passed & 4 failed, error rate 11%)

Recommendations: It is recommended the broker ensure their written procedures are followed to include all company fees 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. If unclear what types of fees the company is disclosing, the broker should contact the company for verification.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures which includes instructions that policy premium in addition to company fees are used in the calculation of premium tax and filing fees. There will be a checklist which this information will be included and it must be verified by a 2nd person. We also have changed the procedure for invoicing for Surplus Lines Transactions so they will be reviewed by bookkeeping before invoicing. This will be a 3rd set of eyes. We will clarify the info included in Bulletin 04-14 to the staff who will be responsible for handling surplus lines.

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|--|
| 3. Verify the accuracy of all quarterly reports filed
<b style="text-align: right;">AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|--|

Comments: Four Report of Surplus Lines Transaction forms and Quarterly Reports as filed with the division had errors based upon the information in the files:

- Premium was reported in two separate reports instead of amending a previous report to correct the premium – 1
- Policy # missing or incorrect – 2

- Cancellation endorsement not filed, which will need to be filed and taxes and fees returned to the insured – 1

Results: Failed (34 files passed & 4 failed, error rate 11%)

Recommendations: It is recommended that the broker ensure written procedures are followed for what elements are required are to be reported to the division in the Quarterly Report. It is also recommended the broker ensure all surplus lines policies are invoiced accurately in order to be identified on reports that are used to create the Quarterly Reports.

Broker response: Denali Alaskan Insurance will update the Surplus Lines Procedures which will clarify what elements are required to be reported to the division in the Quarterly Report. We will also be ensuring that all SL policies are invoiced accurately in order to be identified correctly on reports as mentioned in Response 2. (Verify the accuracy of the premium calculation AS 21.34.180). A checklist will also be created and a 2nd person will be required to review to make sure the information is accurate.

4. Verify the home state for insured is Alaska	AS 21.34.180
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Comments: Alaska is the home state for all insureds.

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
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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%)

6. Verify tax and filing fees payments were made accurately	AS 21.34.180, 3 AAC 21.550 - .570
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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.

Due to the company fees not included in premium and the cancellation endorsement not filed, the division owes the broker tax and fees of (\$8.45) and (\$3.13) respectively. These amounts will be available as an overpayment credit to be taken on a subsequent Quarterly Report.

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. The broker is also the producer in the placements so the requirement is they must do the diligent search prior to binding and include documentation of that search in the insured's file. Six policy files have problems with the documentation:

- Five affidavits were created and signed after binding with no evidence the diligent search actually took place prior to the creation of the affidavit.
- One policy type of coverage is not on the placement list but the affidavit identified it as such. There should have been declinations from admitted companies to document the diligent search.

Results: Failed (32 files passed & 6 failed, error rate 16%)

Recommendations: It is recommended that the broker revise written procedures to ensure all Affidavits of Due Diligence are created prior to binding including those with risks located on the placement list as required by Alaska law. If another form of documentation is maintained, there must be clear indications that the declinations were done before binding or an accurate description of how the risk is qualified on the placement list.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures which address strict guidelines regarding the Affidavits of Due Diligence and that they be created and attached prior to binding, including those located on the placement list. The procedure also states that if it is not on the placement list, declinations from admitted insurers are required to be documented in our system with the appropriate categories and they also must be done and documented prior to binding. There will also be a checklist that will be reviewed by a 2nd person to verify all has been done within the required time period.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: Sixteen files have documentation showing the evidence of insurance was not provided to the insured within the 30 days of the bind date or effective date, whichever comes first:

- No binder sent even if received, policy sent after 30 days from binding or effective date – 15
- Binder was sent to client within 30 days of binding but policy was never sent even though received - 1

Results: Failed (22 files passed & 16 failed, error rate 42%)

Recommendations: It is recommended the broker revise their written procedures to include the prompt delivery requirements for a policy or, if the policy is not available, a cover note, binder, or other evidence of insurance. Often the broker receives a binder from the company but it is not sent to the insured. It is recommended the broker consider sending the binder to the insured.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedure to clarify the details of what prompt delivery requirements are for a policy, cover note, binder, or other evidence of insurance. The procedures will specify the number of days that a binder or policy (if available) must be provided to the insured based on Alaska law. There will be a checklist for a 2nd person to sign off to ensure prompt delivery has been handled timely.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: Nine files identified a lack of required material facts on binders or confirmation of coverage as sent to the insured when the policy was not available:

- No broker name – 2
- No broker license number – 5
- No premium amount – 1
- No tax charged amount – 6
- No insured address – 2
- Missing or no insurance company name – 2
- No general description of coverage – 1

Total errors: 19 within 9 distinct files

Results: Failed (29 files passed & 9 failed, error rate 24%)

Recommendations: It is recommended the broker revise their written procedures to include what material facts regarding the broker, premium, taxes, general coverage, insured, and insurer must be on evidence of insurance. Review statute for details.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures to clarify the details of what material facts regarding the broker, premium, taxes, general coverage, insured and insurer must be on evidence of insurance. There will also be a checklist which must be signed off by a 2nd person to ensure all material facts are included as required by Alaska law.

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

AS 21.34.100(e) & (f)

Comments: Eighteen files demonstrated a problem with the required disclosure stamp on the evidence of insurance. When the insured's copy wasn't available, auditor relied upon the available copy in the files. Here are all the different problems identified:

- No stamp on dec - 6
- No stamp on binder/confirmation of coverage/certificate of insurance – 10
- No stamp on endorsement – 4
- Broker name not on dec – 2
- No stamp on certificate of insurance to third party – 2

Total disclosure errors: 24 within 18 distinct files

Since the broker also creates the certificate of insurance for third parties, they are responsible for stamping the evidence of insurance.

Results: Failed (20 files passed & 18 failed, error rate 47%)

Recommendations: It is recommended that the broker ensure written procedures are followed that all evidence of insurance have the required disclosure stamp wording. It is further recommended to revise the written procedures to include the stamp requirement on all premium bearing and non-premium bearing endorsements as they are also evidence of insurance. One last recommendation is to ensure the broker's name is included on all evidence of insurance.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures to clarify the requirement of verification that all evidence of insurance have the required disclosure stamp wording. We will also include this stamp requirement for all premium and non-premium bearing endorsements. We will require the broker's name to be included on all evidence of insurance. There will be a checklist that will require a 2nd person to review to ensure that the stamp wording is included as required by Alaska law.

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

Comments: The broker generally includes the notification that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance, does not have a certificate of authority and in the event of insolvency losses will not be covered by the Alaska Insurance Guaranty Association Act with their proposal prior to invoicing. However, there were 11 files with problems regarding the notification to the insured:

- No notification document at all in file – 5
- Wrong notification in proposal (either Alaska Policyholder Notice or AS 21.34.100(e)) – 4
- Notification document in file but no indication provided to insured – 2

Results: Failed (27 files passed & 11 failed, error rate 29%)

Recommendations: It is recommended that the broker revise their written procedures to include the Alaska notification language in the proposal to the insured describing the surplus lines insurance company as required by statute. A separate document is sufficient although including it as part of the proposal on the same page the non-admitted company is identified is recommended.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures which will clarify the requirement to include the Alaska notification language in the proposal. We will also require that the notification be included on the same page where the non-admitted company is identified. There will be a checklist for a 2nd person to review which will help us to ensure that the Alaska notification has been included with the proposal to the client. All proposals for surplus lines will be required to be viewed by a 2nd person before they are sent to the client.

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%)

Advisory:

Alaska Policyholder Notice

Nine files did not have the required Alaska Policyholder Notice of nonrenewal and premium increase as part of the policy or the notice that was attached was an obsolete form. It is recommended that the broker ensure their written procedures are followed when processing the policy to ensure the notice is included from the insurance company. If the notice is missing, the broker should contact the insurance company to include the notice. Effective 9/4/14, Alaska regulation now states it is the broker's responsibility to ensure the notice is attached to the policy. AS 21.34.100 and 3.AAC 25.050

File documentation

- One file included another insured's information
- One file's policy number was incorrect as identified in the policies section of the file as evidenced by the policy received. The incorrect information was provided to the division and the file was not fixed.

Broker response: Denali Alaskan Insurance will revise the Surplus Lines Procedures to include clarification regarding the Alaska Policyholder Notice and will include information regarding the changes made effective 9/4/14 that it is the broker's responsibility to make sure the notice is attached to the policy. This will be part of a checklist that will be reviewed by a 2nd person.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Denali Alaskan Ins LLC. The auditor tested 12 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 the insured.

The audit was conducted in the auditor's office as she reviewed electronic versions of the broker's files under audit.

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

- 1) Several premiums were not accurate when filed causing additional taxes and fees needing to be paid.
- 2) Several quarterly reports were not accurate.
- 3) In several files, the diligent search of the admitted market was not documented before binding.
- 4) Prompt delivery of evidence of insurance to the insured did not occur in many files
- 5) Material facts on several evidence of insurance were missing when delivered to the insured
- 6) Many of the disclosure stamps were missing from the evidence of insurance.
- 7) The required notification to the insured regarding the use of a nonadmitted insurer was not found in some 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 Denali Alaskan Ins LLC be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

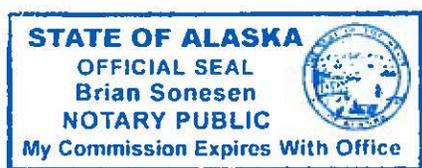
Denali Alaskan Ins LLC
As of December 31, 2014
TA 15-03

Juneau, Alaska)
January 5, 2016)
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 Denali Alaskan Ins LLC is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 8th day of January, 2016



Brian Sonesen
Notary Public in and for Alaska
My Commission Expires office