

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 16-03)
In the Matter of Audit of)
R T Specialty LLC)
_____)

FINDINGS OF FACT

1. An audit report of R T Specialty LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to R T Specialty LLC.
2. The audit report of R T Specialty LLC (TA 16-03) has been transmitted to Timothy Turner, Compliance Officer, R T Specialty 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

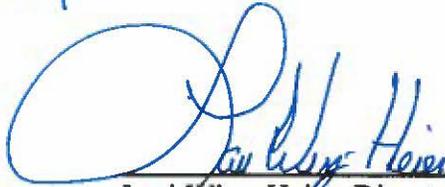
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of R T Specialty LLC (TA 16-03) 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 17, 2017.

Dated this 17th day of January, 2017 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

**R T Specialty LLC
Chicago, IL
Alaska License #085645**

TA 16-03

As of December 31, 2015

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



**FINAL REPORT:
January 17, 2017**

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



January 17, 2017

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 R T Specialty LLC. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

R T Specialty 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 second premium tax audit of R T Specialty LLC conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

R T Specialty LLC (the broker) is an Alaska licensed surplus lines broker based in Chicago, IL with locations all over the United States. 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 on evidence of insurance to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2014 through December 31, 2015.

METHODOLOGY

The division sent the call letter and initial data requests to the Designated Responsible Licensed Producer's business address in Burbank, CA. 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 from the Kansas City, MO office where the compliance unit is located. The number of policies written during the audit period was 359, from which a sample of 50 files was selected for audit. While evaluating the list provided, one transaction was found to have been filed with Alaska but not on the list to choose from so this file was included in the audit bringing the total files audited to 51.

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, policy type codes, producer names and license numbers were accurate on the forms filed.
 - (7) Verified the descriptions of the subject and 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 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
 - (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 binding and forwarding 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.
- 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.
- 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 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: The premium was calculated correctly in all audit files.

Results: Passed (error rate 0%)

- | |
|--|
| 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: Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division when comparing with the audit files:

- Wrong policy number – 3
- List of Lloyd’s syndicates missing in original report – 2
- Insured address incorrect – 1
- Insured name incorrect – 4
- Subscription policy missing all insurers – 1
- Producer number incorrect – 3
- DBA of producer used instead of producer name - 1

Total accuracy errors: 15 within 12 distinct files

Results: Failed (39 files passed & 12 failed, error rate 24%)

Recommendations: It is recommended the broker ensure their written procedures for filling out a Report of Surplus Lines Transaction form are followed. A second review by the compliance unit prior to submission should reduce the number of errors received by the division.

The broker response: RTS management discussed with the broker teams the importance of making sure the Report of Surplus Lines Transactions (RSLT) is completed accurately. Additional language regarding the accuracy of the RSLT forms has been included in the RT Specialty internal Alaska State Sheet, which is posted via the Ryan Specialty Group portal to be utilized by the broker teams when completing one of these forms. Further, compliance has created and provided an example of a correctly completed Report of Surplus Lines Transaction also posted on the RSG intranet via the portal for use by the broker teams to provide additional instructions when completing the RSLT form. The RSLT form example has already been

reviewed and approved by the AK auditor. In addition, updates were made to the Surplus Lines Tax Department's internal AK State Instruction Sheet to ensure that the Surplus Lines Tax Coordinator is reviewing/auditing these reports prior to filing. Both the AK State Sheet and internal AK State Instruction Sheet updates have been reviewed and approved by the AK auditor.

4. Verify the home state for insured is Alaska

AS 21.34.180

Comments: The broker writes several multi-state policies. The home state was accurately determined to be Alaska and 100% of the premium was reported to 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 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

Comments: All tax and fee payments made by the broker were accurate based upon the quarterly reports as filed.

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 their producers to document the diligent search. Two files have problems with that documentation:

- No documentation in file until the audit list provided then it was requested from the producer – 1
- Documentation was received three months after binding – 1

Results: Passed (49 files passed & 2 failed, error rate 4%)

Recommendations: It is recommended the broker ensure their written procedures are followed to receive the documentation within 15 days of binding. It is recommended the compliance unit spot check the files to ensure documentation is being received within the 15 days.

The broker response: The broker teams have been reminded of the importance of obtaining the Diligent Effort Search affidavit that is required within 15 days of binding. The wording on the Alaska State Sheet published on our internal intranet highlights this requirement as a reminder to personnel. The AK auditor has reviewed and approved all subsequent updates to our internal Alaska State Sheet. In addition, spot checking has been implemented by RT's respective Surplus Lines Tax Coordinator to ensure documentation is being received within the 15 day time frame.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: All files have documentation showing the evidence of insurance was provided to the insured within the 30 days of binding.

Results: Passed (error rate 0%)

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: Eleven files were missing some required material facts on binders and policies.

Here are the different issues the broker is not compliant with regarding material facts:

- Confirmation of Insurance (COI) missing insured's address – 2
- COI missing broker number – 7
- COI missing insurance company name – 1
- COI had incorrect premium amount – 1
- Dec had incorrect premium tax amount – 1

Total errors: 12 within 11 distinct files

Five COI's included "per quotation" to account for some of the material facts. The quote was sent along with the COI. Although the quotation was not referenced in the binder, it was clear that was intended.

Results: Failed (40 files passed & 11 failed, error rate 22%)

Recommendations: It is recommended the broker ensure their written procedures are followed for what material facts regarding the coverage, insured, insurer, and broker must be on evidence of insurance. If the quote is to be incorporated into the binder, it is recommended it be referenced by including the quote number and the date of the quote. Here is some language to use: Quote Number _____ dated _____ is incorporated by reference and is part of this binder as though fully set forth herein. It is recommended the compliance unit spot check the files to ensure required material facts are on the evidence of insurance.

The broker response: RTS management has discussed with the broker teams the importance of verifying the accuracy of all material facts contained on the COI and/or Dec Pages sent to the

insured. Additional language for guidance around this topic was added to the existing internal AK State Sheet. This language specifically addresses the auditor's recommendations of referencing a quote number and date of quote if the quote is referenced in a binder. A Binder Checklist that was provided by the auditor was also created and posted on the intranet via the portal for the brokers to use as a tool to remember to check for the accuracy of all material facts on the binder prior to sending to the insured. Also, the electronic AK State Stamp, in Nuance (our pdf creator tool), has been updated to include RT's broker name and license number to be utilized on the COI, Policy and all Endorsements (Premium and Non-Premium Bearing) sent to the insured. The AK auditor has already reviewed and approved the updates to the AK State Sheet, the Binder Checklist and the AK State Stamp.

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

AS 21.34.100(e)

Comments: Seven files demonstrated a problem with the required disclosure language on the evidence of insurance. The auditor was able to see the actual documents as provided to the insured as the broker predominately uses email when communicating with the insured through the producer. Here are the different problems found in the files:

- No disclosure on dec – 1
- No disclosure on endorsement – 1
- Broker name not on dec – 2
- Broker name not on endorsement – 3

The disclosure is being added to quotes but it's unnecessary as quotes are not considered evidence of insurance. Additionally, many times the disclosure is located on the last page of the COI or on a page in front of the dec when there is plenty of room on the first page where it is easily noticed by the insured and won't get lost.

Results: Failed (44 files passed & 7 failed, error rate 14%)

Recommendations: It is recommended the broker ensure written procedures are followed that all evidence of insurance including endorsements have the required disclosure wording and the broker name. The disclosure should be located on the first page of the evidence of insurance so the insured will not miss it. It is recommended the compliance unit spot check the files to ensure all evidence of insurance has the required disclosure language.

The broker response: RTS management has discussed with the broker teams the importance of appropriately stamping the COI, Policy and all Endorsements (Premium and Non-Premium Bearing) sent to the insured with the AK State Stamp from Nuance. This stamp is to be included on the 1st page of any COI, Dec Page, and all Endorsements (Premium and Non-Premium Bearing) sent to the insured. The AK State Stamp in Nuance has been updated to properly include RT's broker name and license number. Additional language regarding specific placement of the stamps were added to the internal AK State Sheet. This language is also included in the newly created Binder, Policy and Endorsement Checklists which were posted to the intranet via the portal. These checklists include a step to verify the stamp prior to sending to the insured ensuring that going forward this information is double-checked for accuracy. The

AK auditor has already reviewed and approved the updates to the AK State Sheet, the Binder Checklist, Policy Checklist, Endorsement Checklist and the AK State Stamp.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker generally includes the notification the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance as a separate document with the quote. However, there were seven files with problems regarding the notification to the insured:

- No notification provided to insured. The disclosure statement of AS 21.34.100(e) was on the quote but is not sufficient to meet the requirements. The company was noted as nonadmitted – 6
- No notification provided to insured - 1

Results: Failed (44 files passed & 7 failed, error rate 14%)

Recommendations: It is recommended the broker ensure their written procedures are followed to provide the notification to the insured describing the surplus lines insurance company as required by statute. A contract of insurance is not binding upon the insured and premium is not due and payable until the insured is notified. It is recommended the compliance unit spot check the files to ensure the required notifications are being sent to the insured with the quote.

The broker response: RTS management discussed with the broker teams the importance of appropriately including the Notification for Use of Non-Admitted Carrier AS 21.34.110 document with the quote sent to the insured. More specifically, stating the Company is Non-Admitted is not deemed sufficient. Therefore, a separate notice document was created and placed on our intranet via the portal and was also included in the 'Memo' section of our RTS agency management system (AIM). Additional language addressing this specific AK auditor's recommendation was added to the AK State Sheet as well as a Quote Checklist which includes a step to verify that this notice was sent to the insured. The AK auditor has already reviewed and approved the updates to the AK State Sheet, the Quote Checklist and the Notification for Use of Non-Admitted Carrier AS 21.34.110 document.

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: Three policies effective after 9/4/2014, when it became the broker's responsibility to ensure the policy included the Alaska Policyholder Notice, had problems:

- The broker attached the notice to the quote and the COI but it was not attached to the policy as required by the insurer. The broker did request the company add it to the policy but they were unable to find evidence this was completed – 1
- Not part of policy even though it's noted as a "yes" on the policy checklist. No evidence it was requested from insurer – 1
- Missing from policy – 1

Advisory: One file effective prior to the law change was missing the notice.

Results: Passed (48 files passed & 3 failed, error rate 6%)

Recommendations: It is recommended 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.

The broker response: RTS management has discussed with the broker teams the importance of ensuring the 3 AAC 25.050 notice is provided to the insured from the insurance company. The broker teams have been instructed that if the Alaska Policyholder Notice is not included in the policy issued by the carrier, the team will need to request the carrier add the notice by an endorsement. Once the broker team has ensured the notice is properly included then they can proceed with sending the notice to the insured. This notice **MUST** be sent to the insured. Additional language regarding the inclusion of this notice by the insurance company has been added to the AK State Sheet. Further, management created and posted a Policy Checklist on the portal for the brokers to use as a tool to remember to check for the inclusion of this notice in the policy before sending to the insured. The AK auditor has already reviewed and approved the updates to the AK State Sheet as well as the Policy Checklist.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of R T Specialty LLC. 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 affect the service to the insured and compliance with Alaska statutes and regulations.

- 1) The quarterly reports are often not accurate when filed with the division.
- 2) Material facts about the coverage were missing from evidence of insurance.
- 3) Several evidence of insurance were missing the disclosure language.
- 4) The required notification to the insured regarding the use of a nonadmitted insurer was not found in some files

The auditor worked with the Director of Surplus Lines Tax on revising procedures to help the broker ensure all problems identified in the audit were captured accurately.

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that R T Specialty LLC be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

R T Specialty LLC
As of December 31, 2015
TA 16-03

Juneau, Alaska)
January 17, 2017)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2015 of R T Specialty LLC is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 17 day of January, 2017





Notary Public in and for Alaska

My Commission Expires office