

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 16-05 )  
In the Matter of Audit of )  
Groninger & Co Inc. Superior Underwriters)  

---

FINDINGS OF FACT

1. An audit report of Groninger & Co Inc. Superior Underwriters, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Groninger & Co Inc. Superior Underwriters.
2. The audit report of Groninger & Co Inc. Superior Underwriters (TA 16-05) has been transmitted to Roy Rankin, Compliance Officer, Groninger & Co Inc. Superior Underwriters (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

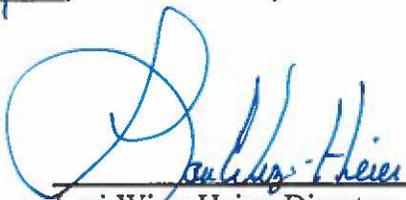
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Groninger & Co Inc. Superior Underwriters (TA 16-05) 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 19, 2017.

Dated this 19<sup>th</sup> day of January, 2017 at Juneau, Alaska.



---

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

**PREMIUM TAX AUDIT OF  
GRONINGER & CO INC SUPERIOR UNDERWRITERS  
Bellevue, WA  
Alaska License #7913**

**TA 16-05**

**As of June 30, 2016**

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



**FINAL REPORT:  
January 19, 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.....	10
7) AFFIDAVIT .....	11



January 19, 2017

P.O. Box 110805  
Juneau, AK 99811-0805  
Main: 907.465.2515  
Fax: 907.465.3422

Lori K Wing-Heier, CIC, CRM  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
550 West 7<sup>th</sup> 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 Groninger & Co Inc. Superior Underwriters on December 5, 2016 through December 8, 2016, in the broker's Bellevue, WA office. The audit was conducted by Rebecca Nesheim, Tax Auditor for the Alaska Division of Insurance.

### **Groninger & Co Inc. Superior Underwriters**

### **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 first premium tax audit of Groninger & Co Inc. Superior Underwriters conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

Groninger & Co Inc. Superior Underwriters (the broker) is an Alaska licensed surplus lines broker based in Bellevue, WA. The division elected to audit their quarterly filings, premium taxes and filing fees paid for accuracy and timeliness as well as required diligent search efforts, disclosures, notifications, and prompt delivery of material facts in evidence of insurance to the insured.

### **Time Frame**

The audit covered the broker's surplus lines business for policy effective dates occurring between July 1, 2014 and June 30, 2016.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Bellevue, WA. 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 518, 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, 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**

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

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

*Results:* Passed (error rate 0%)

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

*Comments:* The premium was calculated correctly for all policies in the audit files.

*Results:* Passed (error rate 0%)

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

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

- Producer number incorrect – 2
- Insured's address incorrect – 1
- Two endorsements were filed together instead of as separate transactions – 1

After July 21, 2011, there was some confusion with multi-state risk transactions if the location of risk was still required to be reported when the insured's home state was Alaska with 100% of the premium reported to Alaska. Locations of risk are still required to be reported per statute AS 21.34.080(a)(3). For the one multi-state policy in the audit, the other state was not identified on the report as filed to the division. This will not be a finding in this audit but all future reports need to have locations of risk accurately identified.

*Results:* Passed (46 files passed & 4 failed, error rate 8%)

*Recommendations:* It is recommended the broker revise written procedures for the underwriting staff who prepare the form and for the accounting staff who review the form with a list of items to pay particular attention to in order for the form to be accurate. The procedures should include confirming the producer's name and number using the licensee search on the division's website. If this information is maintained in their database, it is recommended these be reviewed on a consistent schedule to ensure only up-to-date information is maintained.

*The broker's response:* Written procedures have been developed for both underwriting and accounting staff to utilize the "License Search" link on the division's website. This will ensure up-to-date individual and business entity licensing at the time the Report of Surplus Lines Transaction form is completed. Procedures include showing the same address on the Report as it appears on the declaration page. Separate reports are completed for each endorsement

transaction. It is rare we see multi-state risks, but when we do, the report will show additional states where the insured conducts business.

**4. Verify the home state for insured is Alaska**

**AS 21.34.180**

*Comments:* The broker writes very few multi-state policies. Alaska was the home state for all insured's in the audit.

*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 documenting the diligent search. In one file, the affidavit was received after the allowed 15 days grace period after the policy was bound.

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

*Recommendations:* It is recommended that the broker ensure written procedures to ensure all Affidavits of Due Diligence are received within 15 days of binding are followed.

*The broker's response:* While the 15 day grace period is helpful, we have instructed our underwriting staff to mandate receipt of the affidavit from the producing broker prior to binding coverage.

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

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

*Comments:* All policies or binders were provided to the producing broker within 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:* Four binders were missing both the insured address and the location of risk, which are part of the required material facts for evidence of insurance.

*Results:* Passed (46 files passed & 4 failed, error rate 8%)

*Recommendations:* It is recommended the broker revise their written procedures to require all binders include material facts regardless of when the policy is provided to the producing broker. Review statute for the list of required material facts.

*The broker's response:* Our agency management system generates a binder template. We are working with our IT vendor to add material facts to our binder. As we work through this process, all policies issued from our office reflect material facts. Policies are issued and transmitted to the producing broker 10-14 days from the policy effective date. Carrier-issued policies will require we annotate our template binder reflecting the required material facts.

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

**AS 21.34.100(e)**

*Comments:* Ten files demonstrated a problem with the required disclosure language on the evidence of insurance. Here are the different problems found in the files:

- No disclosure on binder – 1
- No disclosure on endorsement – 7
- No disclosure on certificate – 3
- Disclosure illegible on certificate – 1
- Broker name not on endorsement – 4
- Broker name not on certificate – 2

Total disclosure errors: 18 within 10 distinct files

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

*Recommendations:* It is recommended the broker ensure written procedures are followed that all evidence of insurance have the required disclosure language with the broker name and is legible, not covering up any words on the documents. It is recommended binders include the language regardless of when the policy is provided to the producing broker.

*The broker's response:* Written procedures have been updated addressing the required disclosure language on quotes, binders, policies, endorsements and certificates. Updated procedures include verifying our name appears on all endorsements and certificates. On documents with insufficient space to stamp the disclosure statement, the stamp is affixed to the second page.

**11. Review notification for use of non-admitted insurer**

**AS 21.34.110**

*Comments:* The broker generally includes the notification that the insurance is being placed with a company not regulated by the Alaska Division of Insurance as an attachment sent with the quote. However, there were 15 files with problems regarding the notification to the insured:

- Nothing in the file to indicate the insured received the notification and no notice in file – 13
- Notification was emailed to producing broker identifying the document as an attachment but a copy was not maintained in the file – 2

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

*Recommendations:* It is recommended that the broker ensure their written procedures are followed to include Alaska notification language as an attachment to the insured describing the surplus lines insurance company as required by statute and a copy of the notice is maintained in the insured's file.

*The broker's response:* The notification (AS.21.34.110) is emailed with every non-admitted quote and a copy of the notification is maintained in each file.

**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 did not include the Alaska Policyholder Notice and there was no indication it was requested from the company to add it to the policy.

*Results:* Passed (47 files passed & 3 failed, error rate 6%)

*Recommendations:* It is recommended the broker ensure their written procedures are followed to confirm the notice is part of the policy. If not, the company must be contacted to add the notice to the policy.

*The broker's response:* Written procedures have been updated to review carrier-issued policies carefully to ensure the Alaska Policyholder Notice is part of the policy. If not attached, the carrier is notified requesting they endorse the notice onto the policy.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of Groninger & Co Inc. Superior Underwriters. 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 compliance officer and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Groninger & Co Inc. Superior Underwriters's management and staff.

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

- 1) Several evidence of insurance documents did not have the required disclosure language
- 2) The required notification to the insured regarding the use of a nonadmitted insurer was not found in many 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 Groninger & Co Inc. Superior Underwriters be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

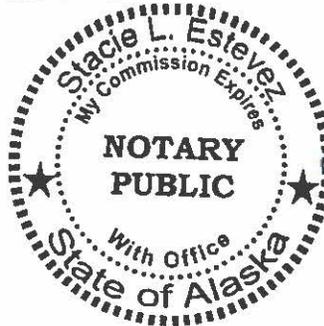
Groninger & Co Inc. Superior Underwriters  
As of June 30, 2016  
TA 16-05

Juneau, Alaska        )  
January 19, 2017     )  
                              )  
State of Alaska       ) ss.  
First Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2016 of Groninger & Co Inc. Superior Underwriters is true to the best of my knowledge and belief.

  
\_\_\_\_\_  
Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 20 day of January, 2017



  
\_\_\_\_\_  
Notary Public in and for Alaska

My Commission Expires with office