

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 16-06a )  
In the Matter of Audit of )  
Griffin Underwriting Services )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. A revised audit report of Griffin Underwriting Services, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Griffin Underwriting Services.

2. The revised audit report of Griffin Underwriting Services (TA 16-06a) has been transmitted to Van Griffin, Compliance Officer, Griffin Underwriting Services (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 revised 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 revised 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

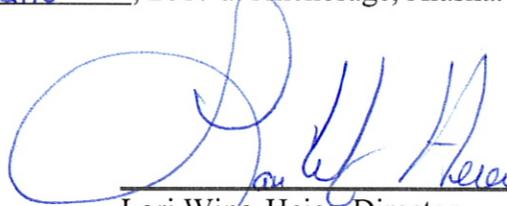
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the revised audit report of Griffin Underwriting Services (TA 16-06a) is approved as filed.

2. Pursuant to AS 21.06.060, the revised 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 June 8, 2017.

Dated this 8<sup>th</sup> day of June, 2017 at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF  
GRIFFIN UNDERWRITING SERVICES  
Bellevue, WA  
Alaska License #8034**

**TA 16-06a**

**As of June 30, 2016**

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



**REVISED FINAL REPORT:  
June 8, 2017**

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June 8, 2017

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 Griffin Underwriting Services. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

### **Griffin Underwriting Services**

### **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 Griffin Underwriting Services conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

Griffin Underwriting Services (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 January 1, 2015 through 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 1,112, from which a sample of 39 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, 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.

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

*Comments:* The six quarterly reports for the audit period were filed on time.

*Results:* Passed (error rate 0%)

- 2. Verify the accuracy of the premium calculation**  
**AS 21.34.180, AS 21.97.900(36)**

*Comments:* The premium was calculated incorrectly for two policies in the audit files by not including inspection fees in premium. Inspection fees are considered to be part of premium regardless of who charges the insured the fee. As the policies are now expired, the division will not require amended reports to report these fees.

The broker continues to use the term “Policy Fee” on declaration pages and “Alaska Policy Fee” on binders and invoices, which are not adequate in defining to the insured what these fees truly are – fees maintained by Griffin to cover the overhead costs of processing a policy. In the prior audit, in response to the same issue, they stated their system will be updated to reference the term “Broker Fee” in lieu of “Policy Fee” on all policy documentation. This did not occur.

This errors affects two additional audit tests:

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

*Results:* Passed (37 files passed & 2 failed, error rate 5%)

*Recommendations:* It is recommended the broker ensure written procedures are followed where all company fees and fees that are charged in consideration of an insurance contract as required by statute are included in the calculation of premium tax and filing fees. It is also recommended the broker make the necessary change in their database system to accurately name their broker fees charged instead of using “Policy Fees.” Reviewing Bulletin 04-14 will help identify the different fees.

*The broker’s response:* Griffin Underwriting is imposing the following actions immediately: updating current accounting system to ensure tax is charged correctly and reported accurately on inspection fees and changing our policy language from Policy Fee to AK Wholesaler Access Fee, as recommended. Also retraining of all production staff to ensure understanding and compliance with taxation of inspection fees including training on using state requirements checklist.

**3. Verify the accuracy of all quarterly reports filed**

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

*Comments:* Four files had errors on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Two transactions were combined into one transaction form: initial policy and endorsement #1. They should have been on separate transaction forms. They also would have occurred in separate quarters affecting the accuracy of the tax and fee payments.
- Two forms had the individual producer license numbers instead of the firm's license number; this is the first time this issue was identified during a premium tax audit.
- One form had the incorrect insurance company number; this is the first time this issue was identified during a premium tax audit.

Several other issues were noted and presented to the broker that will not be considered findings for this audit but will in the future if not corrected.

*Results:* Failed (35 files passed & 4 failed, error rate 10%)

*Recommendations:* It is recommended the broker revise written procedures for when initial or renewal policies as well as endorsements are to be reported to the Alaska Division of Insurance, initial/renewal by the effective date and endorsements/cancellations/company audits by the invoice date. In addition, accurate data must be on the transaction forms as required by Alaska statute and regulations. It is recommended the broker create a procedure to help those filling out the Report of Surplus Lines Transaction forms find the correct information to report.

*The broker's response:* Griffin Underwriting is imposing the following action immediately: instituting an internal audit of all diligent search letters and affidavit's each quarter to ensure correct Agent's and Agency licenses numbers are provided.

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

**AS 21.34.180**

*Comments:* The home state for the insured is Alaska for all policies.

*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:* The six quarterly payments for the audit period were paid 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. The errors found during the audit in the premium calculation and accuracy of the quarterly report affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

*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. All files include the required documentation received by the required date in statute and regulation.

*Results:* Passed (error rate 0%)

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

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

*Comments:* Two files have documentation showing the evidence of insurance was not provided to the insured within 30 days of the bind date. Although a binder was generated for these two insureds, it was not sent out as only the policy was provided to the insured but after the prompt delivery requirement of 30 days from the bind date.

*Results:* Passed (37 files passed & 2 failed, error rate 5%)

*Recommendations:* It is recommended the broker revise their written procedures to include the requirements to meet prompt delivery of the policy or, if the policy is not available, a cover note, binder, or other evidence of insurance. It is also recommended that if a binder will be generated, consider sending the insured the binder to ensure the 30 day prompt delivery of evidence of insurance is followed if the policy will not be available within the 30 days.

*The broker's response:* Griffin Underwriting is imposing the following action immediately: It is our current policy that a binder or policy is delivered within 30 days of binding. We plan to retrain all staff to ensure compliance with this requirement.

**9. Review required material facts located on evidence of insurance**

**AS 21.34.100(a)**

*Comments:* One file included a lack of required material facts on evidence of insurance. The binder was missing the premium and tax amounts and the policy with the correct information was not provided within 30 days of binding

*Results:* Passed (38 files passed & 1 failed, error rate 3%)

*Recommendations:* It is recommended the broker revise their written procedures to include what material facts regarding the coverage, insured, insurer, and broker must be on evidence of insurance. Review statute for details. If the binder references the quote where some of the material facts are located, there should be a reference including the quote number and the date of the quote. Consider adding this to the binder in these circumstances: “Quote Number, dated \_ is incorporated by reference and is part of this binder as though fully set forth herein.”

*The broker’s response:* Griffin Underwriting is imposing the following action immediately: instituting a requirement that all policies (regardless of line) contain breakdown of premium and fees on the binding documents

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

**AS 21.34.100(e)**

*Comments:* Six files demonstrated a problem with the required disclosure language on the evidence of insurance. In most circumstances, the insured’s copy was not available so the broker relied on the broker’s copy. Here are all the different problems found in the files:

- No disclosure on binder – 1
- No disclosure on non-premium bearing endorsement – 2
- No disclosure on dec – 2
- Dec missing a required word in disclosure - 1

*Results:* Failed (33 files passed & 6 failed, error rate 15%)

*Recommendations:* It is recommended the broker ensure their written procedures are followed where all evidence of insurance leaving their Production Department (binders, policies, endorsements, certificates of insurance) have the required disclosure wording. A step on a checklist is one way to ensure each document is reviewed for the disclosure before being released.

*The broker’s response:* Griffin Underwriting is imposing the following action immediately: retraining of all production staff to ensure understanding and compliance with Alaska state stamping requirements including training on using state requirements checklist.

**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 not regulated by the Alaska Division of Insurance in their proposal to the insured. However, there were two files with problems regarding the notification to the insured:

- No Alaska notification document in file
- Broker’s copy of proposal included the notification but the copy sent to the insured did not as the faxed back copy from the insured of proposal was missing the notification.

*Results:* Passed (37 files passed & 2 failed, error rate 5%)

*Recommendations:* It is recommended that the broker ensure their written procedures are being followed to include Alaska notification language in the proposal to the insured describing the surplus lines insurance company as required by statute.

*The broker's response:* Griffin Underwriting is imposing the following action immediately: retraining of all production staff to ensure understanding and compliance with Alaska state notification requirements including training on using state requirements checklist.

**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:* Five policies did not include the Alaska Policyholder Notice or it was outdated. Two were for policies issued by the carrier and three were issued by the broker.

*Results:* Failed (34 files passed & 5 failed, error rate 13%)

*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 or by the broker when they issue the policy. If the notice is missing or outdated, the broker should contact the insurance company to include or fix the notice. A step on a checklist is one way to ensure this document is reviewed.

*The broker's response:* Griffin Underwriting is imposing the following action immediately: retraining of all production staff and policy processing teams to ensure they understand the Alaska Policyholder notice and how to recognize outdated notices, internally or from a carrier including training on using state requirements checklist.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of Griffin Underwriting Services. 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) Several evidence of insurance were missing the required disclosure language.
- 2) The Alaska Policyholder Notice was missing or outdated in several 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 Griffin Underwriting Services be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

Griffin Underwriting Services  
As of June 30, 2016  
TA 16-06a

Juneau, Alaska )  
June 8, 2017 )  
State of Alaska ) ss.  
First Judicial District )

I, being duly sworn, do verify that the revised report of premium tax audit as of June 30, 2016, of Griffin Underwriting Services is true to the best of my knowledge and belief.

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

SUBSCRIBED and SWORN to before me this 9<sup>th</sup> day of June, 2017



  
\_\_\_\_\_  
Notary Public in and for Alaska  
My Commission Expires office