

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 18-01)
In the Matter of Audit of)
CBIZ Insurance Services Inc.)
_____)

FINDINGS OF FACT

1. An audit report of CBIZ Insurance Services Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to CBIZ Insurance Services Inc.
2. The audit report of CBIZ Insurance Services Inc. (TA 18-01) has been transmitted to Michael Fetchero, Compliance Officer, CBIZ Insurance Services Inc. (Auditee), and Auditee has been accorded at least 30 days' opportunity to review and comment on this audit report.
3. The director of the Division of Insurance has fully considered and reviewed the report and any relevant portions of the auditor's work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written audit report referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).
2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).
3. The director of the Division of Insurance has reviewed the audit report and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

ORDER

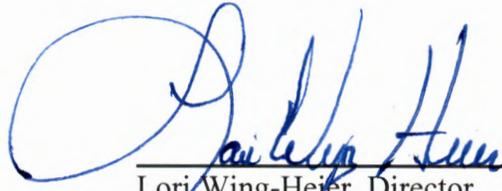
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of CBIZ Insurance Services Inc. (TA 18-01) 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 June 28, 2018.

Dated this 28 day of June, 2018 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

CBIZ Insurance Services Inc.

Cumberland, MD

Alaska License #25991

TA 18-01

As of June 30, 2017

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

June 28, 2018

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June 28, 2018

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Lori K Wing-Heier
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) 21.06.120, the Alaska Division of Insurance performed a limited and targeted premium tax audit of CBIZ Insurance Services Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

CBIZ Insurance Services Inc.

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, the premium tax regulations 3 AAC 21.550 – 570 and licensing statutes AS 21.27.350 and 21.27.810. This is the first premium tax audit of CBIZ Insurance Services Inc. conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

CBIZ Insurance Services Inc. (the broker) is an Alaska licensed surplus lines broker based in Cumberland, MD. 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, 2015 and June 30, 2017.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Cumberland, MD. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied on a timely basis with all data requests. The number of policies written during the audit period was 279, from which a sample of 50 files was selected for audit.

The following are the procedure steps for the audit:

- 1) Verify that quarterly reports and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the quarterly reports sent to the Alaska Division of Insurance and verified they were filed by the due date.
- 2) Verify the accuracy of the premium calculation.
 - i) Audit steps taken:
 - (1) Reviewed policy, binders, and invoices to determine how taxable premium was calculated.
 - (2) Verified the correct premium was reported on the reports as filed.
- 3) Verify the accuracy of quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, binder, and endorsement pages in each file.
 - (2) If the effective date did not match the quarterly filing, reviewed the correspondence to ensure the documentation in the file matched when the policy was booked. Most of these occurred with endorsements that often require additional information and sometimes company approval before it can be added to the policy. The invoice date determines in which quarter the endorsement is required to be filed.
 - (3) Verified the quarterly reports as filed with the division were accurately filled out to reflect the correct effective date, premiums, taxes and fees based upon the information in the files.
 - (4) Verified a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the quarterly filing based upon the effective date of the policy.
 - (6) Verified the insured name, insurance company, 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) 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.
- 5) 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.
- 6) 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 with no risk in the headquarters state.
- 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 received within 15 days from binding. 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
- 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 when policy not available within 30 days of binding.
- 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 quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|---|

Comments: Out of eight quarterly reports filed during the audit period, the first quarter 2017 report was filed late. A late filing penalty was assessed prior to the audit.

Results: Failed (error rate 13%)

Recommendations: It is recommended the broker ensure their written procedures are followed to file the report by the due date. The procedures include the due dates for the quarterly reports.

The broker response: The CBIZ surplus lines tax filing team has made the necessary changes to their internal procedures to ensure that all future Alaska quarterly reports are filed before the declared due date.

- | |
|---|
| 2. Verify the accuracy of the premium calculation
AS 21.34.180 |
|---|

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

The broker charges a broker fee on some accounts but they use the term “policy fee or surplus lines – filing fee, or service fee – filing fee.” A “policy fee” is generally associated with an insurance company fee. In addition, not all invoices list out the taxes, fees, policy fees separately for the benefit of the insured. The division would like to see this fixed so the insured has complete information for what they are being charged.

Results: Passed (error rate 0%)

- | |
|---|
| 3. Verify the accuracy of all quarterly reports filed
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:

- Insured name incorrect – 10
- Policy # incorrect – 3
- Producer license # incorrect – 2
- Endorsements filed on an amended report – 2
- Endorsement filed using date of endorsement instead of invoice date, which did not affect the quarter in which it was to be filed – 1
- Policy term incorrect on endorsement – 1
- Endorsement not filed for \$242. Additional tax and filing fees due on this transaction – 1
 - This endorsement was filed on an amended report prior to the conclusion of the premium tax audit. Additional tax and filing fees were paid.

Total accuracy errors: 20 within 16 distinct files

Several of these errors affect the Accuracy of the Tax and Filing Fees Payment.

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

Recommendations: It is recommended the broker ensure Alaska specific written procedures are followed, which include instructions on how to fill out the transaction report. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker response: CBIZ will make reporting accuracy a priority on all future Alaska surplus lines transactions.

**4. Verify if tax and filing fee payments were made on time and by ACH
AS 21.34.180, 3 AAC 21.550 - .570**

Comments: Out of ten quarterly payments due during the audit period, the first quarter 2017, was paid late and a penalty was assessed and paid prior to the audit. There were 10 required payments due to amended reports. All payments were made by ACH or through OPTins.

Results: Failed (9 payments on time, 1 payment late, error rate 10%)

Recommendation: It is recommended the broker ensure their written procedures are followed, which includes the due dates for the quarterly tax and filing fee payments.

The broker response: The CBIZ surplus lines tax filing team has made the necessary changes to their internal procedures to ensure that all future Alaska quarterly payments are made before the declared due date.

**5. 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 quarterly report accuracy affects the accuracy of the tax and fee payments. This flow-through finding is addressed in its respective audit test.

Results: Passed (error rate 0%)

**6. Verify the home state for insured is Alaska
AS 21.34.180**

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

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. Forty-two affidavits had incorrect information when prepared by the broker. In addition, the majority of documentation was prepared after the policy was bound or unable to determine when the documentation was prepared. Several of the broker's programs would allow them to use the 180 day rule for the same class of insurance to meet the diligent search requirements.

Results: Failed (8 files passed & 42 failed, error rate 84%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure the diligent search is completed prior to binding and all Affidavits of Due Diligence are created no later than 15 days from binding. Procedures should include what information is to be entered in the affidavits.

The broker response: Going forward, the date reflected in Alaska Affidavit of Due Diligence will be either the first week of January or the first week of July. CBIZ will maintain a file with a verification email from declining insurer that is updated every January and July. The third date on the Alaska Affidavit of Due Diligence will be the date the Affidavit is prepared which will be no later than 15 days from binding.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: One file showed evidence of insurance was provided to the insured beyond the 30 days from binding.

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

Recommendations: It is recommended the broker create Alaska specific written procedures to include the requirement if the policy will not be available after 30 days from binding, then a binder or other evidence of insurance must be provided to the insured within 30 days from binding.

The broker response: CBIZ will continue to send evidence of insurance to all policyholders within 30 of binding.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: All 50 files policies or binders, if policy not sent within 30 days of binding, were missing the license number of the broker, which is one of the material facts required to be on the evidence of insurance.

Results: Failed (error rate 100%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include what material facts regarding the coverage, insured, insurer, and broker must be on evidence of insurance. Review statute for details.

The broker response: CBIZ will add the appropriate broker license to all surplus lines policies filed in Alaska.

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

AS 21.34.100(e)

Comments: Forty-six files included problems with the required disclosure statement on the evidence of insurance. Where the insured's copy was unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- Disclosure statement missing one word – 32
- No disclosure on binder – 6
- No disclosure on dec – 10
- No disclosure on endorsement – 29
- No disclosure on certificates – 23

Total disclosure errors: 100 within 46 distinct files

Results: Failed (4 files passed & 46 failed, error rate 92%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all evidence of insurance, including all endorsements and certificates, have the required disclosure statement as in quotes in Alaska law.

The broker response: The CBIZ Internal ratings system was updated with the required Alaska disclosure language. The updated CBIZ disclosure was verified with Rebecca Nesheim. Going forward, all CBIZ endorsements, epi's, binders and certificates of insurance will include the updated disclosure language.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: Thirty files did not include the notification to the insured. The three points of the notification are: the company does not have a certificate of authority, they are not regulated by the Alaska Division of Insurance and in the event of insolvency losses will not be covered by the Alaska Insurance Guaranty Association Act.

Results: Failed (20 files passed & 30 failed, error rate 60%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include Alaska notification language in the proposal or at the same time as the invoice is sent to the insured describing the surplus lines insurance company as required by statute.

The broker response: Going forward, the notification will be included on the proposal for new business and, for renewals, within the cover letter which accompanies the policy/binder/invoice. The updated notification was read to the Rebecca Nesheim who confirmed it was correct and that it could be placed within the cover letter which accompanies the policy/binder/invoice.

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: All policies included the Alaska Policyholder Notice of premium increase and nonrenewal.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of CBIZ Insurance Services Inc. 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) One Quarterly Report and its payment of tax and filing fees were made late subjecting the broker to late penalties.
- 2) Many quarterly reports were not accurate when filed.
- 3) The documentation for the diligent search was inadequate in many of the files and were created after 15 days from binding.
- 4) All evidence of insurance did not have the required material facts.
- 5) The disclosure language was missing from the majority of evidence of insurance or did not meet statute requirements.
- 6) 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 CBIZ Insurance Services Inc. be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

CBIZ Insurance Services Inc.
As of June 30, 2017
TA 18-01

Juneau, Alaska)
June 28, 2018)
)
State of Alaska) ss.
First Judicial District)

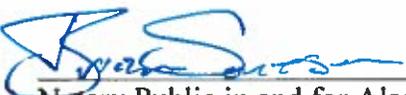
I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2017, of CBIZ Insurance Services Inc. is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 28th day of June, 2018





Notary Public in and for Alaska

My Commission Expires off. cc.