

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 18-06)
In the Matter of Audit of)
M J Hall & Co of Alaska Inc.)
_____)

FINDINGS OF FACT

1. An audit report of M J Hall & Co of Alaska Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to M J Hall & Co of Alaska Inc.
2. The audit report of M J Hall & Co of Alaska Inc. (TA 18-06) has been transmitted to John Tatum, Compliance Officer, M J Hall & Co of Alaska 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

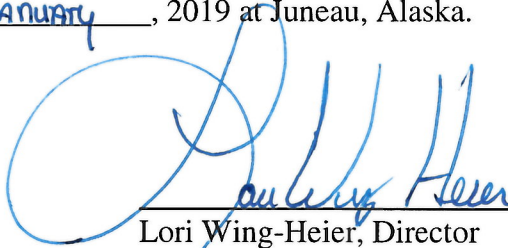
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of M J Hall & Co of Alaska Inc. (TA 18-06) 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 25, 2019.

Dated this 25th day of January, 2019 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

M J Hall & Co of Alaska Inc.

Stockton, CA

Alaska License #8349

TA 18-06

As of December 31, 2017

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:
December 20, 2018

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December 20, 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 M J Hall & Co of Alaska Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

M J Hall & Co of Alaska 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 fourth premium tax audit of M J Hall & Co of Alaska Inc. conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

M J Hall & Co of Alaska Inc. (the broker) is an Alaska licensed surplus lines broker based in Stockton, CA. 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 January 1, 2016 and December 31, 2017.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Stockton, 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. The number of policies written during the audit period was 393, 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: The 4th Quarter 2017 Report was filed on March 30, 2018 instead of by the due date of March 1, 2018. A late filing penalty was assessed and paid prior to the audit. The remaining seven quarterly reports were filed on time.

Results: Failed (7 reports passed & 1 failed, error rate 12.5%)

Recommendation: It is recommended the broker ensure their written procedures are followed in order for the quarterly reports to be filed on time.

The broker response: The individual who was handling the filings is no longer with MJ Hall and this process is now being handled by our accounting department. They have set up a recurring suspense in outlook as well as manually on a desk calendar. They understand the importance of timely filings.

- | |
|---|
| 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.

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: One error was noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division where a location of the risk was not provided.

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

Recommendations: It is recommended the broker ensure their written procedures are followed for confirming the information in the quarterly reports is accurate.

The broker response: Our accounting department has reviewed the procedures and is becoming more comfortable with what is required for the filings.

4. Verify if tax and filing fee payments were made on time and by ACH
AS 21.34.180, AS 21.34.190, 3 AAC 21.550 - .570

Comments: Due to amended quarterly reports, there were 13 required payments for the two year audit period. One payment, 4th Quarter 2017, was made late on 4/3/2018 instead of by March 1, 2018.

Results: Passed (12 payments passed & 1 failed, error rate 8%)

Recommendation: It is recommended the broker ensure their written procedures are followed in order for the quarterly payments to be made on time.

The broker response: As stated in item 1, we have now set up outlook and manual suspense's in order to not miss deadlines.

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.

Results: Passed (error rate 0%)

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

Comments: The broker generally does not write many multi-state policies. The home state of the insured was evaluated for all policies and Alaska is correct as the home state.

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 by the producers. All diligent search documentation was received and documented in the insured's files within 15 days from binding.

Results: Passed (error rate 0%)

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: All evidence of insurance included the required material facts.

Results: Passed (error rate 0%)

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

AS 21.34.100(e)

Comments: Three files included problems with the required disclosure statement on the evidence of insurance. Here are the different problems found in the files:

- No disclosure on binder – 1
- No disclosure on certificate - 1
- No disclosure on endorsement – 1

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

Recommendations: It is recommended the broker ensure written procedures are followed that all evidence of insurance have the required disclosure statement.

The broker response: The Alaska office staff have reviewed the procedures and will strive not to make these types of errors.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The notification was provided to all insureds prior to binding.

Results: Passed (error rate 0%)

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: The Alaska Policyholder Notice of premium increase and nonrenewal was provided to all insureds with the policies.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of M J Hall & Co of Alaska 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.

One significant issue did arise during the audit that affects compliance with Alaska statutes and regulations.

1) A quarterly report was filed late, subjecting the broker to a late penalty prior to the audit.

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.

The auditor's recommended actions along with the implementation of new or revised procedures should help the broker ensure all issues identified in the audit are improved.

The auditor recommends M J Hall & Co of Alaska Inc. be put into the premium tax audit cycle with all other brokers.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

M J HALL & CO OF ALASKA INC.
As of December 31, 2017
TA 18-06

Juneau, Alaska)
December 20, 2018)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2017 of M J Hall & Co of Alaska Inc. is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 20th day of December, 2018



Notary Public in and for Alaska

My Commission Expires office