

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 18-04)
In the Matter of Audit of)
Risk Placement Services Inc.)
_____)

FINDINGS OF FACT

1. An audit report of Risk Placement Services Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Risk Placement Services Inc.
2. The audit report of Risk Placement Services Inc. (TA 18-04) has been transmitted to Joel Cavaness, Compliance Officer, Risk Placement 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

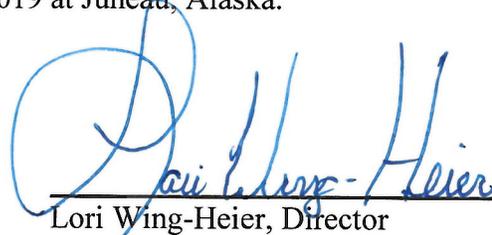
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Risk Placement Services Inc.. (TA 18-04) 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

Risk Placement Services Inc.

**Rolling Meadows, IL
Alaska License #27619**

TA 18-04

As of December 31, 2017

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



**FINAL REPORT:
January 25, 2019**

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January 25, 2019

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 Risk Placement Services Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Risk Placement 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 Risk Placement Services Inc. conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Risk Placement Services Inc. (the broker) is an Alaska licensed surplus lines broker based in Rolling Meadows, IL. 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 Rolling Meadows, IL. 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 206, 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

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|--|
| 1. Verify 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%)

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|--|
| 2. Verify the accuracy of the premium calculation
<b style="text-align: right;">AS 21.34.180 |
|--|

Comments: The premium was calculated incorrectly for three policies in the audit files. Premium for the three policies included broker fees when calculating the tax and filing fees due to the division. All policies are now expired and the division will not require amended quarterly reports but they can choose to file the amended reports for a refund of the tax and fees in order to refund the insureds.

These errors affect two additional audit tests:

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

Results: Passed (47 files passed & 3 failed, error rate 8%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all fees are identified as taxable or nontaxable. Reviewing Bulletin 04-14 will help identify the different fees and whether they are taxable or nontaxable.

The broker's response: Updated copies of RPS surplus lines procedures in the form of checklists to include identifying carrier fee is taxable but the broker fee is not.

- | |
|--|
| 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:

- Insured address incorrect – 11
- Filed late on amended report – 5
- Producer license # incorrect – 11
- Producer name incorrect – 1
- Location of risk incorrect as a different state was identified as the location – 1
- Insurance company part of subscription policy missing – 1

Total accuracy errors: 30 within 24 distinct files

Some of these errors affect one additional audit test: Accuracy of the Tax and Fee Payments

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 many of the multi-state policies in the audit, the other states were not identified on the reports 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. This can include either listing each state involved or a complete spreadsheet of all separate address locations or something in between.

One endorsement was filed using the effective date instead of the invoice date but the dates were within the same quarter. There is no effect on the quarterly report or the taxes and fees so will not be considered an error for this audit but this will need to be fixed for future reports so as not to cause a filing made to the wrong quarter report.

Results: Failed (26 files passed & 24 failed, error rate 48%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include instructions on how to fill out the transaction report. Procedures should include what data is entered into each field. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. Going forward the checklists will provide guidance as to what information must be on the Transaction Reports.

<p>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</p>

Comments: The 3rd Quarter 2016 premium tax and filing fee payments were made late. A late payment penalty was assessed prior to the audit. All payments were made by ACH. There were ten payments due during the audit period due to amended quarterly reports.

Results: Failed (9 payments passed & 1 failed, error rate 10%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include due dates for the quarterly payments as well as the required location for making the payments, which starting with the 1st Quarter 2018 is through the Online Premium Tax for Insurance (OPTins) system.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. Due dates for the quarterly payments and where the payment is to be made are included.

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 premium calculation 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: The broker writes some multi-state policies. The home state of the insured was evaluated for all policies and Alaska is correctly 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. Fifteen Affidavits were received from producers after 15 days from binding or never received.

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

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all Affidavits of Due Diligence are received no later than 15 days from binding. The broker can require the documentation prior to binding or before providing evidence of insurance to encourage the producers to provide the documentation on time.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. A complete due diligence form must be received within 15 days of binding and proof of receipt uploaded to database.

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: Forty-nine files were missing at least one required material facts on binders and policies. If the binder was missing facts, the policy sent within the 30 days from binding was evaluated.

Here are the different issues that the broker is not compliant with regarding this statute:

- Binder missing broker license # - 16
- Policy missing broker license # - 33
- Binder missing premium tax amount - 1
- Policy missing premium tax amount - 1
- Policy missing location of risk - 3

Total errors: 54 within 49 distinct files

Results: Failed (1 file passed & 49 failed, error rate 98%)

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. If a binder is going to reference a quote, it is highly recommend this language be added to the binders to ensure the insured understands the quote is now part of the binder: Quote Number _____, dated _____ is incorporated by reference and is part of this binder as though fully set forth herein.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. All evidence of insurance will include the location of risk, broker name, broker license number, premium, fees and taxes, as appropriate.

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

AS 21.34.100(e)

Comments: The disclosure statement most frequently used by the broker is missing a word. Since the statement is in quotes in statute, it must be word-for-word. Forty-nine files had 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:

- Incorrect statement on binders/confirmation of coverage- 41
- Incorrect statement on dec - 13
- Incorrect statement on endorsements - 3
- No disclosure on binder/confirmation of coverage - 7
- No disclosure on dec - 1
- No disclosure on endorsement - 4
- No broker name on endorsement - 4

Total disclosure errors: 73 within 49 distinct files

Results: Failed (1 file passed & 49 failed, error rate 98%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include the disclosure statement as identified in statute 21.34.100(e) on all evidence of insurance including the broker's name.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. The surplus lines stamps have been updated and automatically generate when appropriate on the forms and staff knows where they are located.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker generally does not provide the notification to the insured. Only two files included the required three points of the notification: 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 (2 files passed & 48 failed, error rate 96%)

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

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. Software updates were made to include state notification on all proposals/quotes.

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 most recent version created by the division of the Alaska Policyholder Notice of premium increase and nonrenewal was not provided to five insureds with the policy

Results: Failed (45 files passed & 5 failed, error rate 10%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include a step to ensure policies contain the Alaska Policyholder Notice or is provided with the policy. Bulletin 08-06 should be reviewed for the exact wording.

The broker's response: Checklists have been updated for accounting and branch departments and copies forwarded to the appropriate team members. Software updates were made to include Policyholder Notice in all AK policies.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Risk Placement 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 affects the service to the insured and compliance with Alaska statutes and regulations.

- 1) The quarterly reports are consistently not accurate when filed including late transactions filed subjecting the broker to late penalties.
- 2) The premium tax and filing fees were not paid on time for one quarter subjecting the broker to a late penalty.
- 3) The diligent search in the admitted market was not documented in the time required by law in many of the files.
- 4) Several material facts required to be in the policy or initial evidence of insurance were missed in most files.
- 5) The disclosure language was missing a word when attached to the evidence of insurance and many disclosures were missing.
- 6) The required notification to the insured regarding the use of a nonadmitted insurer was not found in the majority of files.
- 7) The Alaska Policyholder Notice was missing from several files.

The auditor reviewed the broker's new and revised procedures and if they are followed, the errors found in the audit should no longer be issues.

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 Risk Placement Services Inc. be re-audited within the next three years to ascertain compliance.

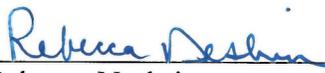
Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Risk Placement Services Inc.
As of December 31, 2017
TA 18-04

Juneau, Alaska)
January 25, 2019)
)
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 Risk Placement Services Inc. is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 25 day of January, 2019





Notary Public in and for Alaska
My Commission Expires with office