

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 19-01 )  
In the Matter of Audit of )  
Alaska Premier Underwriters Inc. )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of Alaska Premier Underwriters Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Alaska Premier Underwriters Inc.
2. The audit report of Alaska Premier Underwriters Inc. (TA 19-01) has been transmitted to Lisa Woodall, Compliance Officer, Alaska Premier Underwriters 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 Alaska Premier Underwriters Inc. (TA 19-01) 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 April 23, 2019.

Dated this 22nd day of April, 2019 at Juneau, Alaska.



---

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

**PREMIUM TAX AUDIT OF**

**Alaska Premier Underwriters Inc.**

**Anchorage, AK**

**Alaska License # 32667**

**TA 19-01**

**As of December 31, 2018**

**Issued by**

**DIVISION OF INSURANCE**

**DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC**

**DEVELOPMENT**

**STATE OF ALASKA**



**FINAL REPORT:**  
**April 23, 2019**

## 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



April 23, 2019

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

**Alaska Premier Underwriters 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 second premium tax audit of Alaska Premier Underwriters Inc. conducted by the Alaska Division of Insurance (the division).

**Subject Matters Audited**

Alaska Premier Underwriters Inc. (the broker) is an Alaska licensed surplus lines broker based in Anchorage, AK. 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, 2017 and December 31, 2018.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Anchorage, AK. 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 227, 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**

- |  |   |
|--|---|
| <b>1. Verify 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:* The policy type codes are being reported accurately during this audit. However, there were several errors noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Insured name incorrect – 7
- Insured address incorrect – 1
- Policy term end date incorrect – 1

Total accuracy errors: 9 within 9 distinct files

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 (41 files passed & 9 failed, error rate 18%)

*Recommendations:* It is recommended the broker modify their written procedures to include instructions on how to fill out the transaction report. Procedures should include what data is entered into each field. It is also recommended to ensure the insured name as shown on the policy is captured accurately in the quarterly report.

*The broker's response:* I just want to clarify that the quotes, binders and policies did leave our office correctly. The names were correct on the report but due to inputting errors the second name didn't properly flood to the surplus lines report. Attached you will find the procedure document that we have all received a copy of and we had training in order to be certain that we are all inputting information uniformly. We have received confirmation on the address and it is correct in our system. We also reiterated the importance of correct date usage on S/L reports during our in-office training.

**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:* The 4<sup>th</sup> Quarter 2017 payment was made late by eight days after the due date of March 1, 2018 and a penalty was assessed and paid prior to the audit. There were 8 required payments due. All payments were made by ACH.

*Results:* Failed (7 payments passed & 1 failed, error rate 13%)

*Recommendations:* It is recommended the broker modify their written procedures to include due dates for the payment of premium tax and filings fees and how those payments must be made. Beginning with the first quarter 2018, the Online Premium Tax for Insurance (OPTins) through the National Association of Insurance Commissioners (NAIC) is the required repository for the reports and payments.

*The broker's response:* This was a fluke. We are aware of the dates payments are due and in the future if our bookkeeper is not in office by the specified date, Michelle Coleman is the back up and knows how to make payments.

**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 does not write multi-state policies and all policies were determined to have Alaska as the home state of the insured.

*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. Three Affidavits were received from producers after 15 days from binding or were not received at all.

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

*Recommendations:* It is recommended the broker modify written procedures to include the diligent search documentation requirement to be 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:* We used to not bind anything until due diligence was received from our agents. When the DOI loosened guidelines, we did as well. At this time, our procedure is to request at the time of binding, if we have not received, we will allow 2 business days for the agent to send us the due diligence, if not received we will send DNOC.

**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 initial evidence of insurance was provided to the insured 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:* All files show required material facts were provided on evidence of insurance to the insured within the 30 days from binding.

*Results:* Passed (error rate 0%)

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

**AS 21.34.100(e)**

*Comments:* All evidence of insurance included the required disclosure statement. Auditor was able to review the insured's copy.

*Results:* Passed (error rate 0%)

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

**AS 21.34.110**

*Comments:* The broker provided the notification to the insured in all files.

*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:* Two policies did not include the Alaska Policyholder Notice of premium increase and nonrenewal.

*Results:* Passed (48 files passed & 2 failed, error rate 4%)

*Recommendations:* It is recommended the broker modify their written procedures to include a step in the policy processing to ensure the Alaska Policyholder Notice is included at the time the policy is emailed to the agent/insured.

*The broker's response:* This again was a fluke. The policyholder notice goes out with every quote, binder and policy. Each station has the policyholder notice on the desktop for attachment on every non-admitted policy. We have included this in our training meeting.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of Alaska Premier Underwriters 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 reviewed electronic versions of the broker's files under audit. The broker responded quickly to all questions. The auditor appreciated this behavior.

Several significant issues did arise during the audit that affects compliance with Alaska statutes and regulations.

- 1) Several quarterly reports were not accurate when filed.
- 2) One quarterly tax and filing fee payment was made late, subjecting the broker to penalties.

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 Alaska Premier Underwriters Inc. be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

Alaska Premier Underwriters Inc.  
As of December 31, 2018  
TA 19-01

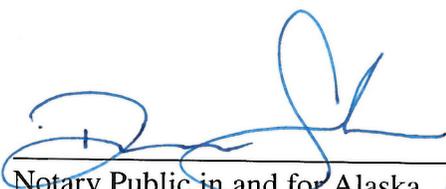
Juneau, Alaska )  
April 23, 2019 )  
State of Alaska ) ss.  
First Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2018 of Alaska Premier Underwriters Inc. is true to the best of my knowledge and belief.

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

SUBSCRIBED and SWORN to before me this 2<sup>nd</sup> day of May, 2019



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