

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 19-04 )  
In the Matter of Audit of )  
R T Specialty LLC )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of R T Specialty LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to R T Specialty LLC.
2. The audit report of R T Specialty LLC (TA 19-04) has been transmitted to Timothy Turner, Compliance Officer, R T Specialty LLC (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 R T Specialty LLC (TA 19-04) 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 December 16, 2019.

Dated this 16th day of December, 2019, at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF**

**R T Specialty LLC  
Chicago, IL  
Alaska License # 85645**

**TA 19-04**

**As of June 30, 2019**

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



**FINAL REPORT:  
December 16, 2019**

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December 16, 2019

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Lori K Wing-Heier  
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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 R T Specialty LLC. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

## **R T Specialty LLC**

### **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 third premium tax audit of R T Specialty LLC conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

R T Specialty LLC (the broker) is an Alaska licensed surplus lines broker based in Chicago, 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 nonadmitted business for policy effective dates occurring between July 1, 2017 and June 30, 2019.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Chicago, 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 548, 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.

*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:* There were several errors noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Location of risk subject missing, fixed prior to audit – 1
- Insurer name incorrect for original transaction and endorsement, partially fixed prior to audit – 2. The broker is asked to amend their quarterly report and fix the insurer for the endorsement.
- Not all insurers that were part of a subscription policy identified, fixed prior to audit – 1
- DBA name reported instead of insured name – 1
- Location of risk subject in other states covered by policy not identified - 1

Total accuracy errors: 6 within 4 distinct files

*Results:* Passed (46 files passed & 4 failed, error rate 8%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed 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. If the same errors continue, then the written procedures should be evaluated and revised as needed.

*The Broker Response:* RTS management will reiterate with the current broker teams, placing business in Alaska, the importance of making sure the Report of Surplus Lines Transactions (RSLT) is completed accurately. For broker teams that are writing business in Alaska for the first time, the SLT team will schedule meetings to discuss the importance of making sure the Report of Surplus Lines Transactions (RSLT) is completed accurately. In addition to these discussions, RTS management has added a second level of review to be completed by the SLT Coordinator prior to filing the RSLT with Alaska; this added review should help to reduce the number of filing errors.

**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:* All payments were made on or before the required due date for the quarterly payments and made by ACH.

*Results:* Passed (error rate 0%)

**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 writes some multi-state policies. The home state of the insured was evaluated for all policies and Alaska was the home state for all policies.

*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 were received within 15 days of 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 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:* Two confirmations of insurance were missing the location of subject of insurance, which is a required material fact if the policy is not available within 30 days of binding.

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

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed regarding what material facts must be on evidence of insurance. Review statute for details.

*The Broker Response:* RTS management will reiterate with the current broker teams, placing business in Alaska, the importance of verifying the accuracy of all material facts contained on the COI and/or Dec Pages sent to the insured. For those broker teams that are new to placing business in Alaska, the SLT team will schedule meetings to discuss the importance of verifying the accuracy of all material facts contained on the COI and/or Dec Pages sent to the insured. RTS management has also updated the COI template to automatically populate the location of subject of insurance which is a required material of fact.

<b>10. Review disclosures on evidence of insurance for use of non-admitted insurer</b> <b>AS 21.34.100(e)</b>
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*Comments:* Three 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:

- No disclosure on confirmation of insurance – 1
- No disclosure on endorsement – 1
- Disclosure was less than 10 point type on dec – 1

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

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed that all evidence of insurance, including endorsements, have the required disclosure statement and is at least 10 point type. The disclosure statement should be located on the first page of the evidence of insurance so the insured will not miss it.

*The Broker Response:* RTS management will reiterate with the current broker teams, placing business in Alaska, the importance of appropriately stamping the COI, Policy and all Endorsements (Premium and Non-Premium Bearing) sent to the insured with the AK State Stamp from Adobe. For those broker teams that are new to placing business in Alaska, the SLT team will schedule meetings to discuss the importance of appropriately stamping the COI, Policy and all Endorsements sent to the insured. This stamp is to be included on the 1st page of any COI, Dec Page, and all Endorsements (Premium and Non-Premium Bearing) sent to the insured and in 10 point font.

<b>11. Review notification for use of non-admitted insurer</b> <b>AS 21.34.110</b>
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*Comments:* The broker provides the notification to the insured with their quotes. One file was missing documentation showing the notification was provided to the insured.

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

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are following to provide the notification with the quote.

*The Broker Response:* RTS management will continue to discuss with the current broker teams, placing business in Alaska, the importance of appropriately including the Notification for Use of Non-Admitted Carrier AS 21.34.110 document with the quote sent to the insured. The SLT team will also schedule meetings with any broker teams newly writing Alaska business to ensure they understand the importance of appropriately including the Notification of Use of Non-Admitted Carrier AS 21.34.110 document with the quote sent to the insured. Effective July 2019, our RTS agency management system (AIM) was updated to automatically populate this notice to be sent out with all 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:* One policy did not include the Alaska Policyholder Notice of premium increase and nonrenewal.

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

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed to ensure policies contain the Alaska Policyholder Notice.

*The Broker Response:* RTS management will remind the current broker teams, placing business in Alaska, the importance of ensuring the 3 AAC 25.050 notice is provided to the insured from the insurance company. The broker teams will be instructed that if the Alaska Policyholder Notice is not included in the policy issued by the carrier, the team will need to request the carrier add the notice by an endorsement. Once the broker team has ensured the notice is properly included then they can proceed with sending the notice to the insured. This notice **MUST** be sent to the insured. The SLT team will also schedule meetings with any broker teams newly writing Alaska business to ensure they understand this notice requirement and how to appropriately address if the insurance company failed to provide the notice with the policy.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of R T Specialty LLC. 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.

Although the auditor found problems in several audit tests, no significant issues arose that affects the service to the insured or compliance with Alaska statutes and regulations. The auditor has reviewed the broker's revised procedures and they should help the broker ensure all issues identified in the audit are improved.

The division commends the broker in their adherence in meeting Alaska laws. It is recommended that R T Specialty LLC be put into the premium tax audit cycle with all other brokers.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

R T Specialty LLC  
As of June 30, 2019  
TA 19-04

Juneau, Alaska )  
December 16, 2019 )  
State of Alaska ) ss.  
First Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2019 of R T Specialty LLC is true to the best of my knowledge and belief.



Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 16<sup>th</sup> day of December, 2019



Notary Public in and for Alaska

My Commission Expires w/office

