

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 20-01)
In the Matter of Audit of)
Griffin Underwriting Services)
_____)

FINDINGS OF FACT

1. An audit report of Griffin Underwriting Services, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Griffin Underwriting Services.
2. The audit report of Griffin Underwriting Services (TA 20-01) has been transmitted to Van Griffin, Compliance Officer, Griffin Underwriting Services (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 Griffin Underwriting Services (TA 20-01) 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 September 21, 2020.

Dated this 21st day of September, 2020 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

Griffin Underwriting Services

Bellevue, WA

Alaska License #8034

TA 20-01

As of December 31, 2019

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:
September 21, 2020

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September 21, 2020

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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 Griffin Underwriting Services. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Griffin Underwriting Services

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 Griffin Underwriting Services conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Griffin Underwriting Services (the broker) is an Alaska licensed surplus lines broker based in Bellevue, WA. 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, 2018 and December 31, 2019.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Bellevue, WA. 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 1,544, 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 the policy was included in the quarterly filing based upon the effective date of the policy.
 - (5) Verified the insured name, insured address, insurance company, producer names and license numbers were accurate on the forms filed.
 - (6) 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 or in the case of individuals, the residence 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 of 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 and at least 10-point type.
- 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 eight original quarterly reports with accompanying forms were filed on time.

Results: Passed (error rate 0%)

- | |
|---|
| 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: In 2018, the Division started requiring the Quarterly Reports be filed through the NAIC's Online Premium Tax for Insurance system (OPTins). The Report of Surplus Lines Transaction form and Quarterly Report were converted to Excel in OPTins. The exact same fields are on the Excel version. Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Transaction filed on amended report after the quarter due date – 1
- Insured name incorrect as only reporting dba name – 4
- Insured address incorrect, the location of risk used instead of insured's actual address – 17
- Policy # incorrect on endorsement – 1
- Producing broker name and license number incorrect – 50
- Initial report had incorrect insurance company identifier – 2

Total accuracy errors: 75 within 50 distinct files

In addition, between the eight Quarterly Reports, there were 25 amended reports with a minimum of 69 errors in the aggregate. It takes hours for the division staff to identify the problems, write up the issues, and confirm the corrections with each subsequent report filed.

Results: Failed (50 files failed, error rate 100%)

Recommendations: It is recommended the broker amend 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: Our plan is to continue our internal audits of checking each transaction weekly and again quarterly to ensure all standards have been met. Now that we understand how

to complete the quarterly report, it should not be an issue to provide the data correctly. We had all the correct information on each Report of Surplus Lines Traction form in each file. We will ensure that information is transferred to the quarterly spreadsheet in OPTins moving forward. The next time there is a change to this form or process, we will contact you directly to ensure we understand the data being requested.

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: All policies in audit has the insured's home state of Alaska.

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: All diligent search efforts 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: 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: One file had a non-premium bearing endorsement that did not have the disclosure stamp on it. Where the insured's copy was unavailable, auditor relied upon the broker copy.

Results: Passed (39 files passed & 1 failed, error rate 2%)

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

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker provides the notification with their quote to the insured. All files included the notification.

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: 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 Griffin Underwriting Services. The auditor tested 13 standards focusing on the broker's accurate 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) The quarterly reports are consistently not accurate when filed.

The auditor has reviewed the broker's revised procedures and they should help the broker ensure all issues identified in the audit are improved.

Re-Audit

In closing, the auditor's recommended actions and the revised procedures should help the broker correct the problems encountered. It is recommended that Griffin Underwriting Services be re-audited limiting the scope of the audit to the accuracy of the quarterly reports audit test within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

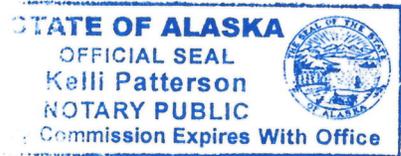
Griffin Underwriting Services
As of December 31, 2019
TA 20-01

Juneau, Alaska)
September 21, 2020)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2019 of Griffin Underwriting Services is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 21st day of September, 2020



Kelli Patterson
Notary Public in and for Alaska

My Commission Expires with Commission