

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 20-02)
In the Matter of Audit of)
Aon Risk Services Central Inc.)
_____)

FINDINGS OF FACT

1. An audit report of Aon Risk Services Central Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Aon Risk Services Central Inc.
2. The audit report of Aon Risk Services Central Inc. (TA 20-02) has been transmitted to William Murphy, Compliance Officer, Aon Risk Services Central 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 Aon Risk Services Central Inc. (TA 20-02) 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 November 4, 2021.

Dated this 4 day of November, 2021 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

**Aon Risk Services Central Inc
Lincolnshire, IL
Alaska License #20376**

TA 20-02

As of December 31, 2019

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



**FINAL REPORT:
November 3, 2021**

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November 3, 2021

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

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

Subject Matters Audited

Aon Risk Services Central Inc (the broker) is an Alaska licensed surplus lines broker based in Lincolnshire, 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, 2018 and December 31, 2019.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Lincolnshire, IL. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied with all data requests. Initially, the number of policies written during the audit period was 49, so all 49 files were selected for audit. During the audit it was determined two policies were being split between three insureds within the policies for billing purposes but the entities are all part of the same policy as additional insureds so four insured names were deleted from the audit list. In addition, Alaska was determined to not be the home state for one policy so will not be considered for any audit test except home state test. For the audit, the final number of audited policies is 44 for the majority of the audit tests.

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 incorrectly for four policies in the audit files. Here are the different issues identified:

- Inspection fee not included in premium – 1
- US portion of premium incorrect as 100% of premium reported when there was Non-US premiums part of the policies – 3

These errors affect two additional audit tests:

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

Results: Passed (40 files passed & 4 failed, error rate 9%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all fees are identified as taxable or nontaxable. When filing policies that include Non-US premiums, if the split percentage is unknown at the time of filing, 100% can be reported as US premium but once the percentage is known, an amended report will need to be filed to reduce the premium amounts reported.

The broker's response: Broker will reinforce its policies and procedures regarding taxation of fees. Currently our tax tool identifies fees as taxable or non-taxable and is reviewed on a regular basis. We will request clarifying documents in the future in these situations. We take the position in those instances without support that 100% of the premium is taxable to the home state.

- | | |
|--|---|
| 3. Verify the accuracy of all quarterly reports filed | 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:

- Policy type code mismatch between the initial policy and endorsements – 1
- Producing broker and license number incorrect – 43
- Insured name incorrect – 2
- Insured address incorrect – 6
- Policy not filed with Alaska – 1

- Filed on amended report after the due date – 7
- Filed as endorsement but was initial policy – 1
- Policy number incorrect – 1
- Filed in wrong Quarterly Report – 4

Total accuracy errors: 66 within 37 distinct files

These errors affect one additional audit test:

1. Accuracy of Tax and Fee Payments

The broker filed 22 amended Quarterly Reports for the eight quarters in the audit. It takes hours for the division staff to identify the problems, write up the issues, and confirm the corrections with each subsequent report filed.

One endorsement was filed using an incorrect invoice date but it was filed in the correct quarter. This will not be a finding for this audit but it will need to be fixed in the future.

Results: Failed (7 files passed & 37 failed, error rate 84%)

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: Broker agrees with the recommendation. Aon has adopted Alaska's suggestion for procedure changes and we have updated our internal systems. In addition, updates have been made to internal reference information for Alaska. We have added an additional review for the report submissions as well.

**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. The errors found during the audit in the premium calculation, quarterly report accuracy and home state of the insured affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

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 as well as policies with Non-US premium. The home state of the insured was evaluated for all policies. One policy's insured is not headquartered in Alaska and there was premium in the headquarters state. Per the NRRA (Nonadmitted and Reinsurance Reform Act of 2010), AS 21.34.900(8) and AS 21.34.180, Alaska is not the home state of the insured. The broker amended the affected quarterly reports to remove the transaction.

This error affects two additional audit tests:

2. Accuracy of Quarterly Reports
3. Accuracy of Tax and Fee Payments

Results: Passed (44 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended the broker create written procedures for how to determine the home state of the insured and to apply the process for each policy. When the headquarters of the insured is based outside of Alaska, as long as 100% of the risk is located out of the state in which the headquarters reside and the largest percentage of taxable premium is allocated to Alaska then Alaska is considered the home state for that policy.

The broker's response: Broker will reinforce its policies and procedures regarding the home state determination. Aon has a standard process for determining home state, on occasion there are clerical errors made due to failure to request the necessary information. Steps below:

1. Determine the Headquartered state of the insured shown on the policy, i.e., the state where the nexus of business decisions are made.
2. If there is risk in the insured's headquartered state covered by the policy, then that state is determined to be the Home State
3. Otherwise, the state with largest assigned premium on the policy is determined to be the Home State
4. If there is a group of insureds, then first determine the individual insured entity with the largest premium on the policy (this is called the Affiliated Group Rule)
5. Then using that insured entity, follow steps 1-3

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 but predominantly the insureds qualify as an Exempt Commercial Purchaser (ECP) requiring a document signed by the insured confirming they understand the surplus lines placement. One ECP document was received after the 15 days from binding. One Affidavit shows the admitted market diligent search was conducted seven months after binding.

Results: Passed (42 files passed & 2 failed, error rate 4.5%)

Recommendations: It is recommended the broker modify their written procedures to ensure all admitted market diligent search is completed prior to binding and that the documentation is received or created within 15 days from binding.

The broker's response: Broker will reinforce its policies and procedures regarding the diligent search requirement. Aon recognizes the need for declinations to be acquired prior to entering the non-admitted market. We will endeavor to verify all data prior to reporting and requesting the correct information from the Brokers on the placement. A reminder reinforcing these policies and procedures will be disseminated across the organization.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: Twenty-three files show the evidence of insurance was provided to the insured after the required 30 days of binding or there was no documentation in the file.

Results: Failed (21 files passed & 23 failed, error rate 52%)

Recommendations: It is recommended the broker modify their written procedures to ensure evidence of insurance is provided to the insured no later than 30 days from binding. When the policy is not available, a binder, cover note, confirmation of coverage or similar document must be provided to the insured.

The broker's response: Broker will reinforce its policies and procedures regarding the evidence of insurance requirement. Updates have been made to internal reference information for Alaska.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: All 44 files failed the material facts requirement as the broker license number was missing on binders and policies. If the binder was missing facts, the policy sent within the 30 days from binding was evaluated.

Results: Failed (error rate 100%)

Recommendations: It is recommended the broker create Alaska specific written procedures to ensure all material facts regarding the coverage, insured, insurer, and broker are on evidence of insurance. Review statute for details.

The broker's response: Broker will reinforce its policies and procedures with respect to including all material facts on the evidence of insurance. We will create a separate page to identify the filing broker and producing broker to submit on audit documents. A reminder reinforcing these policies and procedures will be disseminated across the organization.

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

AS 21.34.100(e)

Comments: Eleven files included problems with the required disclosure statement on the evidence of insurance. The broker attaches a separate document to the front of each evidence of insurance that contains the disclosure statement when provided to the insured. 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 binder – 8
- Unable to determine if provided with policy – 1
- No disclosure on dec – 1
- No disclosure on endorsement – 1

Results: Failed (33 files passed & 11 failed, error rate 25%)

Recommendations: It is recommended the broker revise their written procedures to ensure all evidence of insurance have the required disclosure statement. The disclosure statement should be located at the beginning of the evidence of insurance so the insured will not miss it. It is further recommended to revise the written procedures to include the disclosure statement on all premium bearing and non-premium bearing endorsements as they are also evidence of insurance.

The broker's response: Broker will reinforce its policies and procedures with respect to including the required disclosure statement(s) on the evidence of insurance. We are reviewing internally with the groups that place cover and meet with the client about delivering all of the appropriate notices during the broking and policy delivery process. We will also be submitting the notices to the client during the invoicing process and will deliver them again with the invoice. Lastly, we're working with our carrier relations team to discuss the notices with the carriers to ensure they are including them in the policies.

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 although their procedures identify what needs to be in a proposal to meet this requirement. 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 & 42 failed, error rate 95%)

Recommendations: It is recommended the broker ensure their written procedures are followed to include the notification language in the proposal or at the same time as the proposal to the insured describing the surplus lines insurance company as required by statute. The procedures provide for the language required in the proposal, which although generic, it meets Alaska statute requirements.

The broker's response: We are proposing a new notice to all insureds for all states as follows – “We/I hereby directed our licensed insurance broker to obtain insurance for risks that could not be obtained from, or would not be written by, companies licensed or admitted to transact business within the defined Home State determined at the time of invoicing. We were informed that the surplus lines insurer(s) is/are not subject to the regulations of the Home State but must be authorized to underwrite the stated business coverage placed. In addition, in the event of insolvency of the surplus lines insurer(s), losses will not be paid the state insurance guaranty fund. We further agree to pay the required surplus lines taxes and fees as determined applicable on this placement.”

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: Twenty-four policies did not include the Alaska Policyholder Notice of premium increase and nonrenewal.

Results: Failed (20 files passed & 24 failed, error rate 54.5%)

Recommendations: It is recommended the broker create Alaska specific written procedures to include a step to ensure policies contain the Alaska Policyholder Notice. Bulletin 08-06 should be reviewed for the exact wording. The broker should contact the insurance company to include the notice when it is missing.

The broker's response: Broker will reinforce its policies and procedures with respect to including the required disclosure statement(s) on the evidence of insurance. We are reviewing internally with the groups that place cover and meet with the client about delivering all of the appropriate notices during the broking and policy delivery process. We will also be submitting the notices to the client during the invoicing process and will deliver them again with the invoice. Lastly, we're working with our carrier relations team to discuss the notices with the carriers to ensure they are including them in the policies.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Aon Risk Services Central 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 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 premium amount was incorrect for several policies.
- 2) The quarterly reports are consistently not accurate when filed.
- 3) The evidence of insurance was not provided within the required 30 days from binding for the majority of files.
- 4) Many of the disclosure statements were missing from the evidence of insurance.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in the majority of the files
- 6) The Alaska Policyholder Notice was missing from the majority of files.

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

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Aon RISK SERVICES CENTRAL INC
As of December 31, 2019
TA 20-02

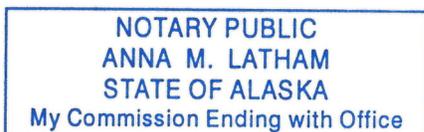
Juneau, Alaska)
November 3, 2021)
State of Alaska) ss.
First Judicial District)

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

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 5 day of November, 2021



Anna M. Latham
Notary Public in and for Alaska

My Commission Expires with office