

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
PO BOX 110805
JUNEAU, AK 99811-0805

Order # TA 24-01)
In the Matter of Audit of)
Affinity Insurance Services Inc)
_____)

FINDINGS OF FACT

1. An audit report of Affinity Insurance Services Inc, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Affinity Insurance Services Inc.
2. The audit report of Affinity Insurance Services Inc (TA 24-01) has been transmitted to Kenneth Mackunis, Compliance Officer, Affinity Insurance 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 Affinity Insurance Services Inc (TA 24-01) 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 July 18, 2024.

Dated this 18th day of July, 2024 at Anchorage, Alaska.

DocuSigned by:

Lori Wing-Heier

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

PREMIUM TAX AUDIT OF

**Affinity Insurance Services Inc
Lincolnshire, IL
Alaska License #9435**

TA 24-01

As of December 31, 2023

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



**FINAL REPORT:
July 18, 2024**

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July 18, 2024

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

Affinity Insurance 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 third premium tax audit of Affinity Insurance Services Inc conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Affinity Insurance Services 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, 2022, and December 31, 2023.

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 on a timely basis with all data requests. The number of policies written during the audit period was 11, all of which were selected for audit. After the initial audit list was selected, a new transaction was filed with the division, which was not on their initial list. The new file was added to the audit. One of the initial files was flat cancelled and ended up as an endorsement to a policy term not part of the two-year audit period; thus, it was removed from the audit. The total files in the audit remained at 11.

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: Seven original quarterly reports were filed during the two-year audit period. The 4th Quarter 2023 report was filed after the due date even though the broker was aware of a transaction that needed to be filed prior to the due date. A late file report penalty was assessed.

Results: Failed (6 reports passed, 1 failed error rate 14%)

Recommendations: It is recommended the broker modify their procedures to ensure the transfer of documents between business areas within the organization is made prior to required due dates. Ensuring all business areas are aware of the due dates, should help with reports being filed on time. It is also recommended the broker reconsider the current process of waiting for back up documentation before a transaction is filed with Alaska.

The broker's response: Revised procedures ensuring required documentation within the organization prior to required due dates.

- | |
|---|
| 2. Verify the accuracy of the premium calculation
AS 21.34.180 |
|---|

Comments: The premium was calculated correctly for all policies in the audit.

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: Three files show several errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Transaction filed on late amended report – 2
- Lloyds syndicates were missing – 1
- The policy term end date was incorrect – 1

Total accuracy errors: 4 within 3 distinct files

These errors affect one additional audit test: Accuracy of Tax and Fee Payments.

Results: Failed (8 files passed & 3 failed, error rate 27%)

Recommendations: It is recommended the broker modify their Alaska specific written procedures to include information about what reports to run from their database to determine which policies must be reported. It is also recommended these reports are run close to the due date, even if the quarterly report is already filed, to ensure all transactions to be filed for the quarter are identified. It is also recommended the broker reconsider the current process of

waiting for back up documentation before a transaction is filed with Alaska. A second individual reviewing documents before submission should reduce the errors received by the division.

The broker's response: Implement report changes from admin system feed into Oracle system to ensure all policies are reported timely in the quarter they are identified. We also will have another person review closer to report due date to ensure all filings are captured on the quarterly report.

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
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Comments: Eleven quarterly payments were made during the two-year audit period. The 4th Quarter 2023 taxes and filing fees were paid after the due date. Late payment penalties were assessed at the time of receipt.

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

Recommendations: It is recommended the broker modify their procedures to ensure the transfer of documents between business areas within the organization is made prior to required due dates. Ensuring all business areas are aware of the due dates, should help with reports being filed on time. It is also recommended the broker reconsider the current process of waiting for back up documentation before a transaction is filed with Alaska.

The broker's response: Revised procedures ensuring required documentation within the organization prior to required due dates and reiterating the required due dates with each program within Affinity.

5. Verify tax and filing fees payments were made accurately AS 21.34.180, 3 AAC 21.550 - .570
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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 quarterly report accuracy 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
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Comments: The home state of the insured was evaluated for all policies and Alaska was the home state for them all.

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. The broker is also the producing broker so all declinations must be received prior to binding. The declinations were all received on time and the Affidavits were created within 15 days from 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: Three files have documentation showing the first evidence of insurance was provided to the insured after 30 days of binding.

Results: Failed (8 files passed & 3 failed, error rate 27%)

Recommendations: It is recommended the broker modify their Alaska specific written procedures to include the requirement the first evidence of insurance must be provided to the insured within 30 days of binding.

The broker's response: Revised procedures to include the requirement that the "first" evidence of insured must be provided to the insured within 30 days of binding.

9. Review required material facts located on evidence of insurance
AS 21.34.100(a)

Comments: Three files included a lack of 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 insured address – 2
- Policy missing premium amount – 1

Results: Failed (8 files passed & 3 failed, error rate 27%)

Recommendations: It is recommended the broker modify 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.

The broker's response: Revise procedures to include what material facts regarding the coverage, insured, insurer and broker must be on the evidence of insurance.

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

AS 21.34.100(e)

Comments: The evidence of insurance in the audit files were reviewed to ensure the disclosure statement was on each document. Where the insured's copy was unavailable, auditor relied upon the broker copy in the files. One file had two certificates of insurance that were missing the disclosure statement.

Results: Passed (10 files passed & 1 failed, error rate 9%)

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

The broker's response: Revise procedures to highlight that all evidence of insurance have the required disclosure statement.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker generally provides the notification to the insured. One file was not initially identified as surplus lines so the notification was missed. Here are 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: Passed (10 files passed & 1 failed, error rate 9%)

Recommendations: It is recommended the broker ensure their Alaska specific written procedures are followed that the Insured Notice of Surplus Lines Placement is sent at the time of quoting.

The broker's response: Revise procedures to highlight that the Insured Notice of Surplus Lines Placement is sent at the time of quoting.

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 Affinity Insurance 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) One quarterly report was initially filed after the due date.
- 2) Several quarterly reports were not accurate when filed.
- 3) Several evidence of insurance were not provided promptly to the insured.
- 4) The required material facts were missing from several 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 Affinity Insurance Services Inc be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

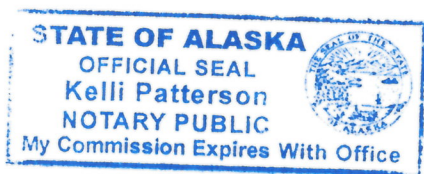
Affinity Insurance Services Inc
As of December 31, 2023
TA 24-01

Juneau, Alaska)
July 18, 2024)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2023, of Affinity Insurance Services Inc is true to the best of my knowledge and belief.

Rebecca Nesheim
Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 18 day of July, 2024



Kelli Patterson
Notary Public in and for Alaska

My Commission Expires with office