

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

Order # TA 24-03)
In the Matter of Audit of)
Safebuilt Insurance Services LLC)
_____)

FINDINGS OF FACT

1. An audit report of Safebuilt Insurance Services LLC, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Safebuilt Insurance Services LLC.
2. The audit report of Safebuilt Insurance Services LLC (TA 24-03) has been transmitted to Matthew Grossberg, Compliance Officer, Safebuilt Insurance Services 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 Safebuilt Insurance Services LLC (TA 24-03) 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 24th of September, 2024.

Dated this 24th day of September, 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

Safebuilt Insurance Services LLC

Carlsbad, CA

Alaska License #87771

TA 24-03

As of December 31, 2023

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:
September 24, 2024

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September 24, 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 Safebuilt Insurance Services LLC. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Safebuilt Insurance Services 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 first premium tax audit of Safebuilt Insurance Services LLC conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Safebuilt Insurance Services LLC (the broker) is an Alaska licensed surplus lines broker based in Carlsbad, CA. 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 Carlsbad, CA. 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 284, 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: Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division on the initial and endorsement transactions:

- Producer license name incorrect – 64
- Producer license # incorrect – 64
- Insured address incorrect, the location of risk used instead of insured's actual address – 5

Total accuracy errors: 133 within 50 distinct files

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

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. The quarterly report has a tab describing what data is expected in each field. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker's response: Please note, the items in questioned were all the same...agency name and we now know that we list the producing agent not the surplus lines broker. This will be implemented in our fourth quarter 2024 and forward reporting. In addition, the compliance manager will review the quarterly reports for accuracy prior to submission.

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 home state of the insured was evaluated for all policies and they were correctly identified as 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: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search by the producers. All Affidavits were received from producers 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: All files have documentation showing the first evidence of insurance was provided to the retailer for the insured within the 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 50 files had binders and policies that were missing several required material facts. 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 and policy missing broker license number – 50
- Binder missing premium amount – 50
- Binder missing premium tax amount – 50

Total errors: 150 within 50 distinct files

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

Recommendations: It is recommended the broker include the Alaska license number on the policy. It can be located on the disclosure notice with the AS 21.34.100(e) statement and surplus lines broker firm name.

The broker's response: The AK License number and Entity Name will be included on the policies beginning fourth quarter 2024.

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

AS 21.34.100(e)

Comments: All 50 binders in the files were missing the disclosure statement. In addition, two nonpremium bearing endorsements were also missing the statement.

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

Recommendations: It is recommended the broker ensure written procedures are followed that all evidence of insurance have the required disclosure statement. The disclosure statement should be located on the first page of the evidence of insurance or on a separate page in front 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: Due to the additional requirements from AK, our company will be eliminating the Binder document in all States. We issue the policies immediately and it's not needed or required. The disclosure notice has been updated and will be provided with the policy documents beginning fourth quarter 2024.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker did not provide the notification to the insured in all 50 files. The required three points of the notification are: 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 (50 files failed, error rate 100%)

Recommendations: It is recommended the broker ensure the notification is provided to the insured in the quote or at the same time as the quote describing the surplus lines insurance company as required by statute.

The broker's response: Notification AS 21.34.110 will be added as page one of the AK Diligent Effort forms. It will then appear immediately after the application documents. This will begin fourth quarter 2024.

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 did not include the complete Alaska Policyholder Notice of premium increase and nonrenewal. A partial notice was provided with 48 policies with the other part of the notice provided when there was a cancellation endorsement.

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

Recommendations: It is recommended the broker ensure policies include the full 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: The Alaska Policyholder Notice has been updated and will be provided with the policy documents beginning fourth quarter 2024.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Safebuilt Insurance Services 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.

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

- 1) The quarterly reports are consistently not accurate when filed.
- 2) Material facts were missing on evidence of insurance.
- 3) The disclosure statements were missing from the evidence of insurance.
- 4) The required notification to the insured regarding the use of a nonadmitted insurer was not found in any file.
- 5) The complete Alaska Policyholder Notice was missing from all 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 Safebuilt Insurance Services LLC be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

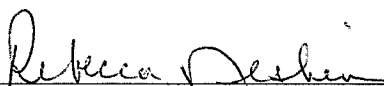
SAFEBUILT INSURANCE SERVICES LLC

As of December 31, 2023

TA 24-03

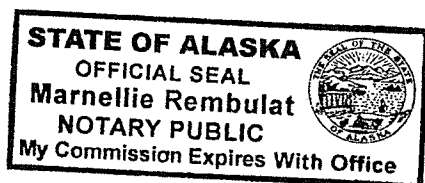
Juneau, Alaska)
September 24, 2024)
State of Alaska) ss.
First Judicial District)

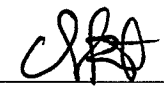
I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2023, of Safebuilt Insurance Services LLC is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 24th day of September, 2024





Notary Public in and for Alaska

My Commission Expires With Office