

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

Order # TA 24-04)
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 24-04) has been transmitted to Matthew Chmel, 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 24-04) 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 April 28, 2025.

Dated this 28th day of April, 2025 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

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

TA 24-04

As of June 30, 2024

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



**FINAL REPORT:
April 28, 2025**

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April 28, 2025

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 second 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 and including July 1, 2022 and June 30, 2024.

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 number of policies written during the audit period was 59, from which a sample of 50 files were selected for audit. After receiving the audit files, it was determined two were wet marine and transportation policies and do not fall into surplus lines. These were removed from most audit tests as they are not subject to the surplus lines laws.

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 one policy due to a misstating of the percentage of risk located in the United States versus non-United States. An amended report was filed after the audit began to correct the premium and pay the additional tax and fees.

This error affects two additional audit tests:

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

Results: Passed (47 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended the broker ensure their Alaska specific written procedures are followed to calculate the premium subject to tax based on the United States risks only.

The broker's response: Error reviewed and confirmed and will provide feedback on the error to the team.

- 3. Verify the accuracy of all quarterly reports filed**
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: Several errors were noted on the Report of Surplus Lines Transactions and Quarterly Reports filed with the division:

- Transaction filed after the due date on an amended report – 3
- Endorsement filed in the wrong quarter – 1
- Policy meets the definition of wet marine and transportation and is not to be filed on a surplus lines quarterly report – 2

These errors affect one additional audit test:

1. Accuracy of Tax and Fee Payments

Results: Failed (44 files passed & 6 failed, error rate 12%) This is the only audit test for which the full 50 files are included in the error rate.

Recommendations: It is recommended the broker modify 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 current procedures have the due dates and how to determine in which quarter transactions should be reported, which should be followed. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker's response: Procedures were updated to reflect the same instructions as noted on the quarterly report tabs. A new tax type coding with procedures, log and tax engine will be implemented to account for policies that meet the definition of wet marine and transportation.

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| 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%)

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| 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 premium calculation and the quarterly report accuracy 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%)

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| 6. Verify the home state for insured is Alaska
AS 21.34.180 |
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Comments: The broker writes some multi-state policies. The home state of the insured was evaluated for all policies, and they were correctly identified as Alaska.

Results: Passed (error rate 0%)

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| 7. Review diligent search effort made to place insured with an admitted insurer
AS 21.34.020, 3 AAC 25.010 and .035 |
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Comments: The broker has elected to use the Affidavit of Due Diligence for documenting the diligent search by the producers as well as the Exempt Commercial Purchaser documentation, when applicable. The broker is the producer and broker involved in most of the policy transactions, which means the diligent search is required to be completed prior to binding and the documentation can be created up to 15 days from binding. Two affidavits show the declinations were more than 180 days prior to the effective date of the policies.

Results: Passed (46 files passed & 2 failed, error rate 4%)

Recommendations: It is recommended the broker modify their Alaska specific written procedures to ensure all diligent search is completed prior to binding, are current declinations, and the Affidavits of Due Diligence are created no later than 15 days from binding.

The broker's response: Guidance on diligent search requirements will be distributed to the appropriate personnel.

8. Review prompt delivery of evidence of insurance

AS 21.34.100(a) and 3 AAC 25.060

Comments: Twenty-eight files have problems with the prompt delivery of the first evidence of insurance provided to the insured. Here are the two problems identified:

- No documentation in the files, i.e. no copies of emails provided – 19
- Emails show the first evidence of insurance were sent beyond 30 days of binding – 9

Results: Failed (20 files passed & 28 failed, error rate 58%)

Recommendations: It is recommended the broker modify Alaska specific written procedures to include a step in the process to send the first evidence of insurance within 30 days of binding. Instead of waiting until all binders/policies are available, send the evidence of insurance to the insured when received.

The broker's response: Additional support and guidance on evidence of insurance and timely delivery will be distributed to the appropriate personnel.

9. Review required material facts located on evidence of insurance

AS 21.34.100(a)

Comments: All 48 files are missing at least one 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 and policy missing broker license # – 35
- Binder and policy, missing broker name – 4
- Binder missing insured address – 2
- Binder and policy missing premium tax amount – 46
- Binder and policy, missing location of risk – 4

Total errors: 91 within 48 distinct files

Results: Failed (error rate 100%)

Recommendations: It is recommended the broker create 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: Guidance on required material facts will be distributed to the appropriate personnel.

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

AS 21.34.100(e)

Comments: All 48 files have at least one problem with the required disclosure statement on the evidence of insurance. Where the insured's copy was unavailable, auditor relied upon the broker copy. The post binding notification that includes the disclosure language is currently sent with the invoice not the evidence of insurance, which does not meet the requirements. Here are the different problems found in the files:

- No disclosure on binder – 20
- No disclosure on dec - 45
- No disclosure on endorsement – 11
- Broker name missing – 4

Total disclosure errors: 80 within 48 distinct files

Results: Failed (error rate 100%)

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 disclosure statement should be located on or in front of the first page of the evidence of insurance so the insured will not miss it. The statement must be with the evidence of insurance. 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: We have created a one-page document for the SL Broker notices that need to be provided to the insured. We have posted internally and are providing to our client facing teams that have clients/risk in AK.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The majority of the audit files included the notification. However, the broker was unable to provide documentation the notification document was provided to the insured. Three 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 (3 files passed & 45 failed, error rate 94%)

Recommendations: It is recommended the broker modify Alaska specific written procedures to include the Alaska notification language in the quote or at the same time as the quote to the insured describing the surplus lines insurance company as required by statute. Documentation must be retained showing the notification was sent to the insured.

The broker's response: We have created a one-page document for the SL Broker notices that need to be provided to the insured. We have posted internally and are providing to our client facing teams that have clients/risk in AK.

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

Results: Failed (7 files passed & 41 failed, error rate 85%)

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: Guidance will be provided to the appropriate personnel on delivery of the legal wording notifications. We are publishing and distributing multiple ways to ensure saturation.

14. Additional Compliance Issues Identified

AS 21.27.350

Comments: The broker does not adequately maintain documentation as required by law for each action taken in an insurance transaction. Documentation was not provided for the audit files to show what occurred and when during the insurance transaction process.

The documentation must contain all notes, work papers, documents, and similar material, and be in sufficient detail that relevant events, the dates of those events, and all persons participating in those events can be identified. The documentation must include a record of each insurance contract procured, issued, or countersigned, together with the names of the insurers and insureds, the amount of premium paid or to be paid, and a statement of the subject of the insurance; the names of other licensees from whom business is accepted, and of persons to whom commissions or allowances are promised or paid; and a record of each investigation or adjustment undertaken or consummated, and a statement of the fee, commission, or other compensation received or to be received on account of the investigation or adjustment.

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 requests for additional information, but not all documentation requested was provided.

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

- 1) Several quarterly reports were not accurate when filed.
- 2) Prompt delivery did not occur for most of the transactions.
- 3) Material facts were missing on all evidence of insurance.
- 4) The disclosure statement was missing from most of the evidence of insurance.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in most files.
- 6) The Alaska Policyholder Notice was missing from most 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 June 30, 2024
TA 24-04

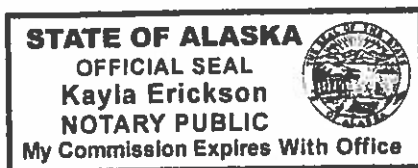
Juneau, Alaska)
April 28, 2025)
)
State of Alaska) ss.
First Judicial District)


I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2024, of Aon Risk Services Central Inc is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 28 day of April, 2025





Notary Public in and for Alaska

My Commission Expires with office