

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 13-04)
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 13-04) has been transmitted to John C 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 he 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 he 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 13-04) 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 November 21, 2013.

Dated this 21 day of November, 2013 at Anchorage, Alaska.



Bret S. Kolb, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

**Griffin Underwriting Services
Div of Cochrane Griffin & Co Inc
Bellevue, Washington
Alaska License #8034**

TA 13-04

As of December 31, 2012

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



**FINAL REPORT:
November 21, 2013**

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

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November 21, 2013

Bret S. Kolb
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) 21.06.130, the Alaska Division of Insurance performed a limited and targeted premium tax audit of Griffin Underwriting Services (the broker). The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance (the Division).

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 and the premium tax regulations 3 AAC 21.550 – 570. This is the second premium tax audit of Griffin Underwriting Services conducted by the Alaska Division of Insurance. The first premium tax audit was completed on July 16, 2010.

Subject Matters Audited

Griffin Underwriting Services is an Alaska licensed surplus lines broker based in Bellevue, WA. This broker is ranked number one in total transaction volume among all Alaska licensed surplus lines brokers. The Division elected to audit their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness required diligent search, disclosures and notifications to the insured.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2011 through December 31, 2012.

METHODOLOGY

The tax auditor sent the call letter and initial data requests to Griffin Underwriting Services' office in Bellevue, WA. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Griffin Underwriting Services complied on a timely basis with all data requests. The number of policies written during the audit period was 1,999, from which a sample of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly reports, quarterly reports, and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly and 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, declaration page, 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 all monthly and quarterly reports filed.
 - i) Audit steps taken:
 - (1) Reviewed the policy, declaration, and endorsement pages in each file.
 - (2) If the effective date did not match the monthly or 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 month or quarter the endorsement is required to be filed.
 - (3) Verified the monthly and 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 a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the monthly or quarterly filing based upon the effective date of the policy.
 - (6) Confirmed which state is the home state of the insured to determine if the filing in Alaska was appropriate.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology used to allocate.
 - i) Audit steps taken:
 - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
 - (2) Verified the multi-state allocation form was filed when appropriate.
- 5) Verify quarterly tax and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly tax and annual premium tax reports were sent to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly tax and annual premium tax reports
 - i) Audit steps taken:

- (1) Verified the quarterly tax and annual premium tax reports as filed with the division were accurately filled out to reflect the correct premiums, taxes and fees.
- 7) 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
- 8) Verify tax and filing fees payments were made accurately
 - i) Audit steps taken:
 - (1) Confirmed if the tax and fee payments matched the tax reports as filed.
- 9) 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 the declinations completed. If 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
- 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 stamp required by statute AS 21.34.100(e) is present and legible.
- 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.

Acceptable Error Rate:

The Broker's acceptable error rate for the above referenced standards and tests must be less than 10%. During the audit, the auditor determined that one policy should not have been filed with Alaska due to the home state of the insured. Instead of replacing this policy, it will be taken out of the denominator when calculating the error rate for several of the procedure tests.

PREMIUM TAX AUDIT

- | |
|--|
| 1. Verify that monthly reports, quarterly reports and accompanying forms were filed on time
<b style="text-align: right;">AS 21.34.080 and .170, 3 AAC 25.090 and .100 |
|--|

Comments: During the two audit years, 19 monthly premium reports were required to be filed and six quarterly reports. All 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 in the audit files. Premium for this policy did not include a company inspection fee when the transaction was filed with the Division. However, the insured was charged the correct taxes and filing fees as the invoiced premium included the company fee. Amended monthly reports and annual tax report for 2011 will be required to adjust for the missing fees. Additional tax and filing fees will be due to the Division on the company fees.

The broker continued to use "policy fee" to describe their broker fee on evidence of insurance. The prior audit response to the same issue stated the broker was changing it to AK policy fee (non-taxed) and AK carrier fee (taxed).

These errors affect three additional audit tests:

1. Accuracy of the Monthly Reports
2. Accuracy of Tax Reports
3. Accuracy of Tax and Fee Payments

Results: Passed (48 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended the broker confirm they are following their written procedures to ensure all company fees are included in the calculation of premium tax and filing fees. It is recommended they consider discontinuing using the term "policy fee" as the insured should have an accurate understanding of what fees they are being charged. Overhead costs maintained by the broker might better be described as a "broker fee."

Broker response: Our written procedures previously lacked state-specific detail, but they have now been expanded to include all state-specific steps required for each stage of the life of a policy. Furthermore, additional detail has been added to our Processing Quality Control Checklist to ensure those state-specific processes have been followed. Our system will be updated to reference the term "Broker Fee" in lieu of "Policy Fee" on all policy documentation.

3. Verify the accuracy of all monthly reports and quarterly reports filed

AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: One policy file included three transactions that were not filed with the Division. This included the policy and two subsequent endorsements. The broker amended several quarterly reports to file the three transactions on 10/14/2013. Additional taxes and filing fees will also be due on these transactions as of the next due date.

This error affects one additional audit test: Accuracy of Tax and Fee Payments

Results: Passed (48 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended that the broker create written procedures to include when initial or renewal policies as well as endorsements are to be reported to the Alaska Division of Insurance. The procedures should include a step-by-step process for how the reports are prepared and how to ensure all transactions are identified. A second individual reviewing documents before submission could reduce this type of omission.

Broker response: In recent months we have created a full-time position for a Compliance Officer, whose duty it has been to document her nationwide filing and reporting procedures, both for policy inception and endorsements. These procedures now include an additional "task" step that wasn't in use during the scope of this audit – a step which should assist in avoiding omissions when identifying transactions to be filed. We will also add to the procedures a final tax report double-check step by a second party prior to submitting.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker writes some multi-state policies. One policy effective 4/30/2012 covered risk located in two states: Washington and Alaska. The insured is headquartered in Washington and as some of the property covered by the policy is in Washington, that is considered the home state of the insured. Therefore, this policy should not have been filed with Alaska even though the majority of the risk is in Alaska. The broker will need to amend the quarterly report to delete this transaction and re-file in Washington. The Division will owe the broker taxes and filing fees on the policy.

This error affects two additional audit tests:

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

Results: Passed (49 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 as they do not handle very many of them. The home state of an insured is the State in which an insured maintains its principal place of business or, in the case of

an individual, the individual's principal residence. In the case where 100 percent of the insured risk is located out of that State, then the home state of the insured is considered to be the State to which the greatest percentage of the insured's taxable premium for that insurance contract is allocated.

Broker response: We will add a section to our written procedures outlining filing requirements for the rare multi-state policies we have, which will include the rules on how to determine Home State.

5. Verify quarterly and annual premium tax reports were filed on time
AS 21.34.180, 3 AAC 21.550 and .560

Comments: The two quarterly tax reports and two annual tax reports for the audit period were filed with the Division on time.

Results: Passed (error rate 0%)

6. Verify the accuracy of the quarterly tax and annual premium tax reports
AS 21.34.180, 3 AAC 21.550 and .560

Comments: The errors found during the audit in the premium calculation affect the accuracy of the annual tax report. This flow-through finding is addressed in its respective audit test.

Results: Passed (error rate 0%)

7. Verify if tax and filing fee payments were made on time and by ACH
AS 21.34.180, 3 AAC 21.550 - .570

Comments: All payments were made on or before the required due date and made by ACH.

Results: Passed (error rate 0%)

8. 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 reports as filed. The errors found during the audit in the premium calculation and multi-state premium affects the accuracy of the tax and fee payments. These flow-through findings are addressed in their respective audit tests.

Due to the company fees not included in premium, the broker owes additional tax and fees of \$6.75 and \$2.50 respectively. The tax and fees on the transactions not previously filed are \$96.04 and \$35.57 respectively. However, after the Washington policy is removed, the Division

will owe the broker taxes and fees of \$563.95 and \$208.87 respectively. Thus, the net is an amount due from the Division to the broker of tax and fees of \$461.16 and \$170.80 respectively after all amended reports are filed.

Results: Passed (error rate 0%)

9. Review 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. Instructions for how to fill out the Affidavit of Due Diligence are provided to the retail agents. The retail agents are not entering the description of risk as to how it is on the placement list as this is not on the instructions but while looking at the files, all risks were on the placement list. All diligent search efforts from the retail agents were received prior to binding.

Results: Passed (error rate 0%)

Recommendations: It is recommended that the broker modify the instructions for diligent search and filling out the affidavit to include providing a description of the risk as it is on the placement list. The newest form provided by the Division should be used if that continues to be the documentation the broker prefers.

Broker response: Our diligent search form completion checklist has been modified as suggested by the Division

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

AS 21.34.100(e)

Comments: Nine files demonstrated a problem with the required disclosure stamp on the evidence of insurance. Since the insured's copy is unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No stamp on binder – 3
- No stamp on endorsement – 9

Total disclosure errors: 12 within 9 distinct files

Results: Failed (40 files passed & 9 failed, error rate 18%)

Recommendations: It is recommended that the broker revise their written procedures to include all evidence of insurance must have the required disclosure stamp. Both premium bearing and non-premium bearing endorsements are also evidence of insurance.

Broker response: Griffin's written procedures have been updated to indicate that any document that leaves our Production Dept (quotes, binders, policies, endorsements, certificates of insurance) for an Alaska risk must include the appropriate disclosures.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker generally includes the notification that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance on their quote. However, there were four files with problems regarding the notification to the insured. One file did not include the notification document at all. Three files included the notification on the broker's copy but when the signed quote was received by the broker from the insured, the notification was missing off the quote. Per the broker, the "include annotations" box was not checked at the time the quote was sent to the retailer for the insured.

Results: Passed (45 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended that the broker revise their written procedures to include a step in the quote processing to ensure "include annotations" are checked so the notification will be included on the quote to the insured. Since the broker is a paperless office, these annotations become a critical component to add when the document itself does not include the necessary wording.

Broker response: Written procedures have already been updated to remind users to ensure "Include Annotations" is checked when sending any documentation that includes state-specific wordings. Our IT dept continues to research other methods of applying required notifications that could avoid possible user error.

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: One file included the Alaska Policyholder Notice but it was an older version than required. The broker adds the notice to policies when the company does not include their own form as part of the policy. It is the company's responsibility to include the notice and not the broker's.

Results: Passed (48 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended that the broker revise their written procedures to include a step in the processing of evidence of insurance to ensure the notice is included from the insurance company. If the notice is outdated or missing, the broker should contact the insurance

company to replace the notice. A step on a checklist is one way to ensure this document is reviewed.

Broker response: Until now, when an insurance company omitted the required Alaska Policyholder Notice on the policy, or has not provided a policy form to attach when issued from our office, we would attach our own form (AK-SL-01 8/08) so those policies would be in compliance. Instead, we will check with each carrier in advance to obtain the form we should use when issuing policies from our office. If a carrier-issued policy is received without the required wording, we will confer with the carrier to resolve the matter.

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 filing of monthly and annual tax reports and the subsequent payment of premium taxes and filing fees as well as diligent search, disclosure, and notification requirements for using a non-admitted insurer.

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) Several disclosure stamps were missing from the evidence of insurance.
- 2) The required notification to the insured regarding the use of a nonadmitted insurer was not found in several files

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Griffin Underwriting Services be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Griffin Underwriting Services
As of December 31, 2012
TA 13-04

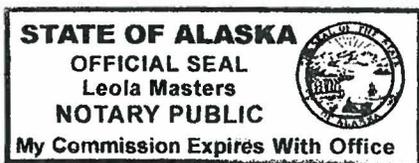
Juneau, Alaska)
November 21, 2013)
State of Alaska) ss.
First Judicial District)

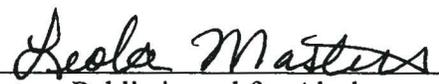
I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2012 of Griffin Underwriting Services is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 26th day of November, 2013





Notary Public in and for Alaska

My Commission Expires with office