

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 21-03 )  
In the Matter of Audit of )  
CRC Insurance Services, Inc. )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of CRC Insurance Services, Inc., licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to CRC Insurance Services, Inc.
2. The audit report of CRC Insurance Services, Inc. (TA 21-03) has been transmitted to Robert Greenebaum, Compliance Officer, CRC 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 CRC Insurance Services, Inc. (TA 21-03) 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 December 9, 2021.

Dated this 9 day of December, 2021 at Anchorage, Alaska.



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

**PREMIUM TAX AUDIT OF**

**CRC Insurance Services, Inc.**

**Chicago, IL**

**Alaska License #11142**

**TA 21-03**

**As of December 31, 2020**

**Issued by**

**DIVISION OF INSURANCE**

**DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC**

**DEVELOPMENT**

**STATE OF ALASKA**



**FINAL REPORT:**  
**December 9, 2021**

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December 9, 2021

Lori K Wing-Heier  
Director, Division of Insurance  
Department of Commerce, Community and Economic Development  
550 West 7<sup>th</sup> 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 CRC Insurance Services, Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

**CRC 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 second premium tax audit of CRC Insurance Services, Inc. conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

CRC Insurance Services, Inc. (the broker) is an Alaska licensed surplus lines broker based in Chicago, 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 nonadmitted business for policy effective dates occurring between January 1, 2019 and December 31, 2020.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Location. 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 1,101, 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 2019 second quarter report was filed on September 4, 2019, after the due date of September 3, 2019. The remaining seven original quarterly reports with accompanying forms were filed on time. The broker also filed two annual tax reports for wet marine & transportation policies and these were filed on time.

*Results:* Failed (9 reports passed & 1 failed, error rate 10%)

*Recommendation:* It is recommended the broker revise Alaska specific written procedures to include the due dates for each quarter and the required location to file the reports in OPTins (Online Premium Tax for Insurance) through the NAIC. It is further recommended the broker not wait to file until just before the due date.

*The broker's response:* CRC Surplus Lines Tax has implemented a secondary review to ensure that all filings are completed timely and before the deadline. Since 2019, CRC Surplus Lines has shifted the filings, payments, and processing to a more competent tax filer and feel that these errors will not continue.

**2. Verify the accuracy of the premium calculation**

**AS 21.34.180**

*Comments:* The premium was calculated incorrectly for nine policies and endorsements in the audit files.

- Broker fee included in premium on policies and endorsements – 7. The division will not require amended quarterly reports but they can choose to file the amended reports for a refund of the tax and fees in order to refund the insureds.
- Inspection fee not included in premium – 1. The policy is expired so the division will not require an amended report.
- Premium not accurate based upon evidence of insurance – 1. The quarterly report will need to be amended to correct the premium.

Total accuracy errors: 9 within 8 distinct files

These errors affect two additional audit tests:

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

*Results:* Failed (42 files passed & 8 failed, error rate 16%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed, which correctly identifies which fees are to be included in premium and subject to premium tax and filing fees.



*The broker's response:* CRC Surplus Lines tax has implemented a secondary review to ensure that all premium is correct. Should the premium be incorrect, the policy file will be sent back to the CRC Insurance producer to correct the invoice and policy file. CRC Surplus Lines has also requested that CRC Internal Review add this to their annual policy file review.

**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 and Quarterly Reports filed with the division:

- Insured address incorrect on initial and endorsements – 36
- Insured name incorrect as dba only was reported – 6
- Description of subject does not match what the insured does or the type of insurance written – 2
- Effective and Expire dates incorrect – 1
- Lloyd's syndicates not provided until the division staff requested them – 2
- Location of risk shows a state other than Alaska but confirmed Alaska is location of risk – 2
- Transaction incorrectly identified as endorsement – 1
- Producing broker license # incorrect – 12
- Insurance company incorrect – 1

Total accuracy errors: 63 within 31 distinct files

For the two-year audit period, there were 22 amended reports and 648 errors amongst all the reports filed. It takes hours for the division staff to identify the problems, write up the issues, and confirm the corrections with each subsequent report filed.

*Results:* Failed (29 files passed & 31 failed, error rate 62%)

*Recommendations:* It is recommended the broker revise Alaska specific written procedures to include instructions on how to fill out the transaction report. Partial instructions are already part of the broker's procedures. 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. Some of the above issues have been corrected on the reports at the end of the audit.

*The broker's response:* Similar to the response to Item 1, CRC Surplus Lines has added this to the secondary review, updated the procedures, and feel that this will not continue to happen with the change in staff.

**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:* The 2019 second quarter tax and filing fee payments were received on September 4, 2019, after the due date of September 3, 2019. The remaining seven original quarter payments were paid on time and by ACH. The two annual taxes for wet marine & transportation were paid

on time and by ACH. Due to some of the additional amended reports filed, there were two additional due dates for the payment of amended taxes and fees and these were paid on time.

*Results:* Passed (11 payments passed & 1 failed, error rate 8%)

*Recommendations:* It is recommended the broker revise Alaska specific written procedures to include the due dates for each quarter and the required location to pay the taxes and filing fees in OPTins (Online Premium Tax for Insurance) through the NAIC. It is further recommended the broker not wait to file and pay until just before the due date.

*The broker's response:* Similar to the response to item 2, this has been included in our secondary review. CRC has a good understanding of the deadlines, as we regularly meet them. Furthermore, our new filing system will aid in understanding deadlines and meeting them well before the deadline.

**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 affects the accuracy of the tax and fee payments. These flow-through findings are addressed in the premium audit test.

*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. The home state of the insured was evaluated for all policies and correctly identified Alaska as the home state.

*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. There were six files with problems related to the diligent search.

- No documentation in file – 3
- Affidavit received after the 15 days required by law – 3

*Results:* Failed (44 files passed & 6 failed, error rate 12%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed. The current procedures require the Affidavit to be received and dated prior to binding without exception.

*The broker's response:* Similar to the response to Item 2, this has been included in our secondary review and requested that the CRC Internal Review team include this in their annual audit.

**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 evidence of insurance was provided to 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:* Two files showed the surplus lines broker license number was missing from the evidence of insurance. If the binder was missing any material facts, the policy sent within the 30 days from binding was evaluated.

*Results:* Passed (48 files passed & 2 failed, error rate 4%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed, which includes adding the surplus lines broker number to the evidence of insurance.

*The broker's response:* Similar to the response to Item 2, this has been included in our secondary review and requested that the CRC Internal Review team include this in their annual audit.

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

**AS 21.34.100(e)**

*Comments:* Twelve files have problems with the required disclosure statement on the evidence of insurance. Here are the different problems found in the files:

- No disclosure on binder – 2
- No disclosure on dec – 2
- No disclosure on endorsement – 13
- Disclosure less than 10 pt type on dec – 1
- Surplus lines broker name missing on dec – 1

Total disclosure errors: 19 within 12 distinct files

*Results:* Failed (38 files passed & 12 failed, error rate 24%)

*Recommendations:* It is recommended the broker ensure their Alaska specific written procedures are followed that all evidence of insurance including both premium and nonpremium bearing endorsements have the required disclosure statement and is at least 10 pt. type.

*The broker's response:* Similar to the response to Item 2, this has been included in our secondary review and requested that the CRC Internal Review team include this in their annual audit.

**11. Review notification for use of non-admitted insurer**

**AS 21.34.110**

*Comments:* The broker provides the notification to the insured with the quote. However, there were problems with missing notifications in 23 files and two were missing at least part of the 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 (25 files passed & 25 failed, error rate 50%)

*Recommendations:* It is recommended the broker revise their Alaska specific written procedures to include the notification language in the quote section of the procedures instead of the policy section. The notification can be a separate document or included on the quote.

*The broker's response:* Similar to the response to Item 2, this has been included in our secondary review and requested that the CRC Internal Review team include this in their annual audit.

**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:* Eight policies did not include the Alaska Policyholder Notice of premium increase and nonrenewal or the language was not sufficient to meet Alaska laws and Bulletin 08-06.

*Results:* Failed (42 files passed & 8 failed, error rate 16%)

*Recommendations:* It is recommended the broker revise their Alaska specific written procedures that includes the Alaska Policyholder Notice moving the information to the policy section identifying it as a required document to be included with the policy. The Notice must contain the language as laid out in Bulletin 08-06. The broker should contact the insurance company to include the notice when it is missing or is not the language in Bulletin 08-06.

*The broker's response:* Similar to the response to Item 2, this has been included in our secondary review and requested that the CRC Internal Review team include this in their annual audit.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of CRC 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) The due date for filing the quarterly reports and paying the taxes and fees is not being met consistently.
- 2) The premium calculation was incorrect in several files causing the insured to be either overbilled or underbilled.
- 3) The quarterly reports are usually not accurate when initially filed.
- 4) The diligent search in the admitted market was not documented in several of the files.
- 5) Many of the disclosures were missing from the evidence of insurance.
- 6) The required notification to the insured regarding the use of a nonadmitted insurer was not found in half the files.
- 7) The Alaska Policyholder Notice was 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 CRC Insurance Services, Inc. be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

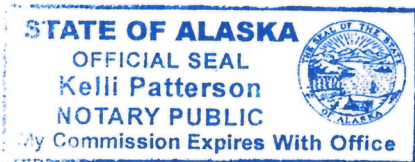
CRC Insurance Services, Inc.  
As of December 31, 2020  
TA 21-03

Juneau, Alaska )  
December 9, 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, 2020 of CRC 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 13 day of December, 2021



Kelli Patterson  
Notary Public in and for Alaska  
My Commission Expires with office