

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

Order # TA 23-05)
In the Matter of Audit of)
Pacific International Underwriters Inc)
_____)

FINDINGS OF FACT

1. An audit report of Pacific International Underwriters Inc, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Pacific International Underwriters Inc.

2. The audit report of Pacific International Underwriters Inc (TA 23-05) has been transmitted to Jillian Fassburg, Compliance Officer, Pacific International Underwriters 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 Pacific International Underwriters Inc (TA 23-05) 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 14, 2023.

Dated this 14 day of December, 2023 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

Pacific International Underwriters Inc

Mill Creek, WA

Alaska License #7891

TA 23-05

As of June 30, 2023

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:
December 14, 2023

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December 14, 2023

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 Pacific International Underwriters Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Pacific International Underwriters 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 Pacific International Underwriters Inc conducted by the Alaska Division of Insurance (the division).

Subject Matters Audited

Pacific International Underwriters Inc (the broker) is an Alaska licensed surplus lines broker based in Mill Creek, WA. 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 July 1, 2021 and June 30, 2023.

METHODOLOGY

The division sent the call letter and initial data requests to the broker's office in Mill Creek, WA. 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 201, 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: Seven of the eight original quarterly reports with accompanying forms were filed on time. The 3rd Quarter 2022 report was filed late but the director of the Division of Insurance approved a waiver due to extenuating circumstances. This late filing will not be counted as a finding for this audit.

Results: Passed (error rate 0%)

Recommendation: It is recommended the broker modify their Alaska specific written procedures to include the due dates for each quarter. It is also recommended the broker cross train the submission process of reports with other staff in the office so all reports are filed on time regardless of circumstances.

The broker's response: We have updated our procedures for filing quarterly reports to include the due dates for each quarter. We are also beginning to cross train two additional employees to ensure all reports are filed on time regardless of circumstances.

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

- Endorsement not identified as an endorsement initially – 1
- Invoice date not provided initially – 1
- Insured address does not match evidence of insurance – 1
- Endorsement filed late on amended report – 2
- Endorsement filed with incorrect start and end policy dates – 1

Total accuracy errors: 6 within 4 distinct files

Results: Passed (46 files passed & 4 failed, error rate 8%)

Recommendations: It is recommended the broker modify their 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. A second individual reviewing documents before submission should reduce the number of errors received by the division.

The broker's response: We have amended our procedures to include specific instructions on how to fill out the transaction reports, including what data is entered into each field. We already have a procedure in place where a second person is reviewing the reports before they are filed but we will be more diligent in double checking for accuracy.

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 3rd Quarter 2022 payment of tax and filing fees was made after the due date. The director of the Division of Insurance approved a waiver due to extenuating circumstances. This late payment will not be counted as a finding for this audit. Due to amended reports in which additional tax and filing fees were due, there were a total of 11 payments required for the eight quarters. All payments were made by ACH.

Results: Passed (error rate 0%)

Recommendation: It is recommended the broker modify their Alaska specific written procedures to include the due dates for each quarter. It is also recommended the broker cross train the submission process of reports and payments with other staff in the office so all payments are made on time regardless of circumstances.

The broker's response: We have updated our procedures for filing quarterly reports to include the due dates for each quarter. We are also beginning to cross train two additional employees to ensure all reports are filed on time regardless of circumstances.

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 quarterly report accuracy affects the accuracy of the tax and fee payments. The flow-through findings are addressed in its respective 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. All policies were correctly identified with 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. 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 evidence of insurance was provided to the insured within 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: The binders used are insufficient as they do not have the insured addresses and some of the other material facts that are required per AS 21.34.100(a). However, for all audit files, the policy was provided within 30 days; therefore, statute requirements are being met. The binder should be modified to ensure it has all the material facts in case the policy is not available within 30 days.

Results: Passed (error rate 0%)

10. Review disclosures on evidence of insurance for use of non-admitted insurer
AS 21.34.100(e)

Comments: Five files had endorsements which did not have the disclosure statement on it. The majority were non-premium bearing endorsements.

Results: Failed (45 files passed & 5 failed, error rate 10%)

Recommendations: It is recommended the broker ensure their Alaska specific written procedures are followed that all evidence of insurance have the required disclosure statement. Evidence of insurance includes all premium and non-premium bearing endorsements.

The broker's response: We have resent the written instructions to all staff reminding them that all endorsements must be stamped with the disclosure statement, including non-premium bearing endorsements. Additionally, we will be holding a meeting with all staff members to remind them that the disclosure statement is mandatory on all evidence of insurance documents.

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 missing 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 (49 files passed & 1 failed, error rate 2%)

Recommendations: It is recommended the broker ensure their Alaska specific written procedures are followed to include the Alaska notification language with the quote or at the same time as the quote to the insured describing the surplus lines insurance company as required by statute.

The broker's response: We have written procedures in place and are meeting with all staff members to remind them to include the Alaska notification language (AS 21.34.110) with the quote describing the surplus lines insurance company as required by statute.

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: Five policies written through one insurance company had an incorrect Alaska Policyholder Notice of premium increase and nonrenewal. The broker had communicated the issue with the company in 2021 and the company fixed the notice in February 2022. The five policies were effective prior to the correction. The director of the Division of Insurance approved not failing this audit test as the insurance company was culpable in the broker failing the test.

Results: Passed (error rate 0%)

Recommendations: It is recommended the broker modify Alaska specific written procedures to include a step to ensure policies contain the Alaska Policyholder Notice and that it is accurate. 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 or incorrect.

The broker's response: We had contacted the insurance carrier (Northfield) about the incorrect wording they were using on their Alaska Policyholder Notice form and I was told they had already been made aware of the issue. The form has been corrected. I have reminded all staff members that all policies must include the Alaska Policyholder Notice as per Bulletin 08-06.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Pacific International Underwriters 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.

One significant issue arose during the audit that affects the service to the insured and compliance with Alaska statutes and regulations.

1) The disclosure language was missing from all non-premium bearing endorsements.

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 Pacific International Underwriters Inc be re-audited within the next three years to ascertain compliance.


Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit


Pacific International Underwriters Inc
As of June 30, 2023
TA 23-05

Juneau, Alaska)
December 14, 2023)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of June 30, 2023, of Pacific International Underwriters Inc is true to the best of my knowledge and belief.


Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 14 day of December, 2023


Notary Public in and for Alaska
My Commission Expires with office

