

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

Order # TA 24-02 )  
In the Matter of Audit of )  
Cochrane Agency Inc )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of Cochrane Agency Inc, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Cochrane Agency Inc.
2. The audit report of Cochrane Agency Inc (TA 24-02) has been transmitted to Thomas Cochrane, Compliance Officer, Cochrane Agency 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 Cochrane Agency Inc (TA 24-02) 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 May 16, 2024.

Dated this 16th day of May, 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**

**Cochrane Agency Inc  
Spokane, WA  
Alaska License #55860**

**TA 24-02**

**As of December 31, 2023**

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



**FINAL REPORT:  
May 16, 2024**

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May 16, 2024

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 Cochrane Agency Inc. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

### **Cochrane Agency 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 Cochrane Agency Inc conducted by the Alaska Division of Insurance (the division).

### **Subject Matters Audited**

Cochrane Agency Inc (the broker) is an Alaska licensed surplus lines broker based in Spokane, 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 January 1, 2022 and December 31, 2023.

## **METHODOLOGY**

The division sent the call letter and initial data requests to the broker's office in Spokane, 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 170, 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**

<b>1. Verify quarterly reports and accompanying forms were filed on time</b>	<b>AS 21.34.080 and .170, 3 AAC 25.090 and .100</b>
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*Comments:* The eight original quarterly reports with accompanying forms were filed on time.

*Results:* Passed (error rate 0%)

<b>2. Verify the accuracy of the premium calculation</b>	<b>AS 21.34.180</b>
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*Comments:* The premium was calculated correctly for all policies in the audit files.

*Results:* Passed (error rate 0%)

<b>3. Verify the accuracy of all quarterly reports filed</b>	<b>AS 21.34.080 and .170, 3 AAC 25.090 and .100</b>
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*Comments:* Multiple errors were noted on the Report of Surplus Lines Transaction forms and Quarterly Reports filed with the division:

- Insured name incorrect – 5
- Policy # incorrect – 1
- Policy term dates incorrect – 1
- Not identifying endorsement – 1
- Endorsement invoice date missing – 1
- Producer license # incorrect or missing – 2
- Insurance companies part of subscription policy missing – 2
- Lloyds syndicates missing – 2

Total accuracy errors: 15 within 7 distinct files

*Results:* Failed (43 files passed & 7 failed, error rate 14%)

*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. Two tabs on the quarterly report “Transaction Instructions” and “General Instructions” can be used as a starting point and be specific. A second individual reviewing documents before submission should reduce the number of errors received by the division.

*The broker’s response:* Cochrane Agency Inc has modified the Alaska Surplus Lines Filing and Payment written procedures to include how to fill out the transaction report with instructions for each data field requirement.



**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 all of them were 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. Fifteen Affidavits were received from producers after the 15 days from binding. The broker's quote and binder both referenced the diligent search documentation required to be provided within 15 days of inception in the Terms/Conditions. The templates have already been updated to reflect 15 days of binding instead of inception.

*Results:* Failed (35 files passed & 15 failed, error rate 30%)

*Recommendations:* It is recommended the broker ensure their surplus lines written procedures referencing all states are followed to ensure all Affidavits of Due Diligence are received no later than 15 days from binding. The broker can require the documentation prior to binding or before providing evidence of insurance to encourage the producers to provide the documentation on time.

*The broker's response:* Cochrane Agency Inc has updated quote and binder templates to amend the verbiage stating the diligent are required 15 days from binding in lieu of 15 days from inception.

**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:* Twenty files included a lack of required material facts on binders. Of these, 18 files show the policy was sent within the 30 days from binding and had all the required material facts. Only two policies were sent after the 30 days from binding. The two binders were missing the location of the risk.

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

*Recommendations:* It is recommended the broker create 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:* Cochrane Agency Inc recognizes the statute required for material facts to be included on the evidence of insurance. The two accounts referenced in the findings were company issued and not produced in-house, therefore Cochrane Agency Inc does not have control over the verbiage provided. Moving forward, we will do our best to catch these and communicate back with the carrier as to the requirements.

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

**AS 21.34.100(e)**

*Comments:* Twenty-three files included problems with the required disclosure statement on the evidence of insurance. Where the insured's copy was unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No disclosure on binder – 2
- No disclosure on dec – 1
- No disclosure on endorsement – 31
- Partial disclosure on dec – 8
- Disclosure illegible on dec – 2

Total disclosure errors: 43 within 23 distinct files

*Results:* Failed (27 files passed & 23 failed, error rate 46%)

*Recommendations:* It is recommended the broker modify their written procedures to ensure all evidence of insurance, including endorsements and certificates, have the required disclosure

statement and is legible. The disclosure statement preferably should be located on the first page of the evidence of insurance so the insured will not miss it.

*The broker's response:* Cochrane Agency Inc has modified our written procedures to ensure all evidence of insurance, including endorsements and certificates have the required disclosure statement. Additionally, Cochrane Agency Inc is in the process of ensuring the Policy and Endorsement Distribution Delivery tool is updated to ensure all documents include the disclosure automatically.

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

**AS 21.34.110**

*Comments:* The broker generally did not provide the notification to the insured until part way through the audit period when an automated process was implemented to add the notice to the quotes. Thirty files did not have 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 (20 files passed & 30 failed, error rate 60%)

*Recommendations:* It is recommended the broker modify their 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.

*The broker's response:* Cochrane Agency Inc has ensured that all quote templates have been updated to include the Alaska notification language as required by the statute automatically.

**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 policy did not include the Alaska Policyholder Notice of premium increase and nonrenewal.

*Results:* Passed (49 files passed & 1 failed, error rate 2%)

*Recommendations:* It is recommended the broker modify their 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:* When the Alaska Policyholder Notice is missing from the policy, Cochrane Agency Inc will contact the insurance company to include the notice.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a premium tax audit of Cochrane Agency 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) Several quarterly reports are not accurate when filed.
- 2) The diligent search in the admitted market was not documented on time in many of the files.
- 3) Many of the disclosure statements were missing, partially missing or illegible on the evidence of insurance.
- 4) The required notification to the insured regarding the use of a nonadmitted insurer was not found in many files.

The auditor reviewed the revised procedures. When the revised procedures are followed, the broker should be more compliant with Alaska laws.

### **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 Cochrane Agency Inc be re-audited within the next three years to ascertain compliance.

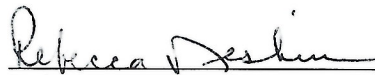
Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

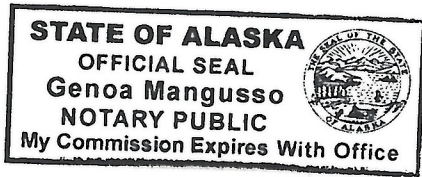
Cochrane Agency Inc  
As of December 31, 2023  
TA 24-02


Juneau, Alaska        )  
May 16, 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 Cochrane Agency Inc is true to the best of my knowledge and belief.

  
\_\_\_\_\_  
Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 16 day of May, 2024



  
\_\_\_\_\_  
Notary Public in and for Alaska  
My Commission Expires with office