

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 09-02 )  
In the Matter of Audit of )  
Alaskan General Insurance Agency LLC )  
\_\_\_\_\_ )

FINDINGS OF FACT

1. An audit report of Alaskan General Insurance Agency LLC, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Alaskan General Insurance Agency LLC.

2. The audit report of Alaskan General Insurance Agency LLC (TA 09-02) has been transmitted to George Chamblee, Compliance Officer, Alaskan General Insurance Agency LLC (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

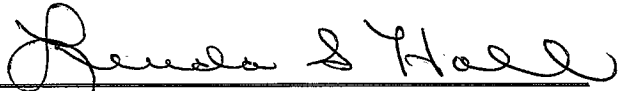
IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the audit report of Alaskan General Insurance Agency LLC (TA 09-02) 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 November 24, 2009.

Dated this 24<sup>th</sup> day of November, 2009 at Anchorage, Alaska.



Linda S. Hall, Director  
State of Alaska  
Division of Insurance

**PREMIUM TAX AUDIT OF**

**Alaskan General Insurance Agency LLC  
Anchorage, AK**

**TA 09-02**

**As of December 31, 2008**

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



**FINAL REPORT:  
November 24, 2009**

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November 24, 2009

Linda S. Hall, CPCU  
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) 21.06.130, the Alaska Division of Insurance performed a limited and targeted premium tax audit of Alaskan General Insurance Agency LLC (the broker) on August 10, 2009 through August 11, 2009, in the broker's Anchorage, AK office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

#### **Alaskan General Insurance Agency LLC**

### **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 the broker conducted by the Alaska Division of Insurance. The first premium tax audit was completed on June 20, 2006 and was narrower in scope than the current audit. The new tests are noted under methodology.

#### **Subject Matters Audited**

The broker is an Alaska licensed surplus lines broker based in Anchorage, AK. The division included in the current audit a review of the statutory compliance with monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness as well as required due diligence and disclosures and notifications to the insured.

#### **Time Frame**

The audit covered this broker's surplus lines business for the two years of January 1, 2007 through December 31, 2008.

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## METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker's office in Anchorage, AK. 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 and endorsements written during the audit period was 400, from which a sample of 50 files was selected for audit.

### *The following are the procedures steps for the audit:*

- 1) Verify that monthly premium reports and accompanying forms were filed on time.
  - i) Audit steps taken:
    - (1) Reviewed the monthly files sent to the Alaska Division of Insurance and verified the policy was included in the monthly filing based upon the effective date of the policy.
    - (2) Verified a statement of exempt premiums was filed when appropriate.
- 2) Verify the accuracy of the premium calculation
  - i) Audit steps taken:
    - (1) Reviewed policy, declaration page, and invoices to determine how they calculated the premium.
    - (2) Verified the correct premium was reported on the monthly reports as filed.
- 3) Verify the accuracy of all monthly reports filed.
  - i) Audit steps taken:
    - (1) Reviewed the policy & declaration pages in each file.
    - (2) If the effective date did not match the monthly 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 effective date may be a month or more prior to the actual book date or invoice date. In this case, the invoice date usually determined in which month the endorsement is required to be filed.
    - (3) Verified the monthly 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 multi-state allocation form was filed when appropriate.
- 4) If the placement is a multi-state placement, check the calculation and reasonableness of the methodology to allocate.
  - i) Audit steps taken:
    - (1) Verified the allocation of premium for each state is reasonable and the calculation is accurate.
- 5) Verify quarterly and annual premium tax reports were filed on time.
  - i) Audit steps taken:
    - (1) Confirmed when the quarterly and annual premium tax reports were mailed to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly and annual premium tax reports
  - i) Audit steps taken:

- (1) Verified the quarterly 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 made to 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 monthly reports as filed.

The next five tests are new for the premium tax audit process:

- 9) Review effort made to place insured with an admitted insurer
  - i) Audit steps taken:
    - (1) Verified an affidavit of due diligence was in the file and the declinations filled out. If it was marked as using 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, license number, and stamp required by statute AS 21.34.100(a) & (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 white lists 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 in each file there was a policyholder notice regarding nonrenewal and premium increase included with the policy or other evidence of insurance.

**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 that monthly premium reports and accompanying forms were filed on time  
AS 21.34.080 and .170, 3 AAC 25.090 and .100

*Comments:* All monthly reports were filed on time..

*Result:* Passed (error rate 0%)

2. Verify the accuracy of the premium calculation

AS 21.34.180

*Comments:* The premium was calculated correctly for every transaction in the audit files.

*Result:* Passed (error rate 0%)

3. Verify the accuracy of all monthly reports filed

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

*Comments:* Two reports of surplus lines transaction forms listed the wrong insurance company. The incorrect company was included on the quote, binder, and Jetfile, so that when time came to prepare the transaction form, the same error was perpetuated to the paperwork sent to the Alaska Division of Insurance.

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

*Recommendations:* It is recommended that the broker create a written procedure to ensure all steps in the lifecycle of a policy are accurate. A checklist is one way to be consistent through the processing of a policy.

*Alaskan General Response 11/3/2009:* A check list has been created asking the question "is the correct non-admitted carrier listed in Jetfile and indicated on the quotation." It also asks the question "is the nonadmitted carrier an eligible non-admitted carrier in Alaska and listed on the white paper." Further down on the check list the Typing Department is asked again "is the correct carrier listed in Jetfile" prior to the policy being typed. If the correct carrier is entered in Jetfile the correct non-admitted carrier will be listed on the policy and the correct company will be reported in our monthly Surplus Lines Report to the Alaska Division of Insurance.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

*Comments:* The broker does not write any multi-state policies.

*Result:* N/A

5. Verify quarterly and annual premium tax reports were filed on time

AS 21.34.180, 3 AAC 21

*Comments:* The broker was required to file quarterly tax reports for both years. All tax reports were filed on time.

*Result:* Passed (error rate 0%)



6. Verify the accuracy of the quarterly and annual premium tax reports

AS 21.34.180, 3 AAC 21

*Comments:* The tax reports were all filed accurately and there were no errors through the audit tests that affected the accuracy of the reports.

*Result:* 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

*Comments:* All payments were made on time and by ACH.

*Results:* Passed (error rate 0%)

8. Verify tax and filing fees payments were made accurately

AS 21.34.180, 3 AAC 21

*Comments:* The tax and fee payments were all made accurately and there were no errors through the audit tests that affected the accuracy of the payments.

*Results:* Passed (error rate 0%)

9. Review effort made to place insured with an admitted insurer

AS 21.34.020, 3 AAC 25.030 and .035

*Comments:* The broker requires their producers to use the Affidavit of Due Diligence to document the diligent search. The majority of files provide evidence the broker is very cognizant of the requirement to have documentation prior to binding as shown in emails between the broker and the producers. However, two files show the Affidavits were received after binding coverage.

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

*Recommendations:* It is recommended that the broker follow their procedures of confirming the diligent search of the admitted market was complete prior to binding by securing the necessary documentation. A checklist would help facilitate this confirmation.

*Alaskan General Response 11/3/2009:* A check list has been created listing the requirement that coverage cannot be bound until an Affidavit Of Due Diligence is received confirming the diligent search of the admitted market was completed prior to binding coverage per AS 21.34.020, 3 AAC 25.030 and .035.

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

**AS 21.34.100(a) & (e)**

*Comments:* The broker is usually very consistent in stamping all evidence of insurance, both premium bearing and non-premium bearing. However, there were problems with the stamping requirements and other information required on evidence of insurance by statute:

1. Two policy files included endorsements without the stamp required by statute.
2. One declaration included the required stamp but so many of the words were faded out to such a degree the entire stamp was illegible and thus does not meet statutory requirements.
3. Seven policy files did not have either the surplus lines broker name or their license number on the evidence of insurance.
4. Forty-three policy files did not have the license number on the evidence of insurance.  
(Includes #1 and #2 above)

*Results:* Failed (error rate 100%)

*Recommendations:* It is recommended the broker create written procedures to ensure all required stamps, broker name, and broker license number per statute are present and legible on all evidences of insurance. A checklist would help verify the requirements.

*Alaskan General Response 11/3/2009:* We had new stamps made in ten point font with the required information per Alaska Surplus Lines Law AS 21.34 indicating there is no coverage under the Alaska Insurance Guaranty Association Act AS 21.80. The stamp also list Alaskan General Insurance Agency and our Surplus Lines Broker #18125 as required by AS 21.34.100. The checklist we created requires that the binder, policy and certificate of insurance and all other evidence of insurance be stamped. The checklist reminds our personnel several times during different stages of paper flow that the stamp is required.

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

**AS 21.34.110**

*Comments:* Disclosure notifications to the insured were not found in 48 files. The broker assumes the producer is informing the insured. By statute, a copy of the notification is required to be maintained in the file in the broker's office. Two files included a copy of the notification from the producer to the insured.

*Results:* Failed (2 files passed & 48 failed, error rate 96%)

*Recommendations:* It is recommended that the broker create written procedures to maintain a copy of the required notification to the insured about the surplus lines insurance company as required by statute. One possibility is for the broker to include a statement on their quote with the three points required as part of the disclosure notification per statute.

*Alaskan General Response 11/3/2009:* We have created a special quote template in our Jetfile system for non-admitted quotation which includes the required wording for (Alaska Surplus

Lines Notice to Applicant AS 21.34.110). Our Surplus Lines Checklist will require that our non-admitted template be used to comply with AS 21.34.110.

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 companies.

*Results:* Passed (error rate 0%)

13. Review notice regarding nonrenewal and premium increase

3 AAC 25.050

*Comments:* The broker attaches a copy of the Alaska Policyholder Notice to the policy but a copy is not included in the file nor is it included in the list of forms that goes out with the policy so there is no proof the notice was provided to the insured. Four policies included the notification from the insurance company and one policy had an outdated version of the notification. The remaining 45 files failed this test.

*Results:* Failed (5 files passed & 45 failed, error rate 90%)

*Recommendations:* It is recommended that the broker create written procedures to ensure all policies sent to the insured include the nonrenewal and premium increase notification. It is the responsibility of the insurance company to include the notice as part of the policy and the broker's responsibility to ensure the notice is included. A checklist of all policy forms should be used when the policy is received from the carrier, as well as for the policies the broker generates. If the broker sends additional forms such as this notification, it should be included on the checklist and the list of forms for the insured, or a copy maintained in the file.

*Alaskan General Response 11/3/2009:* We have contacted all our in house non-admitted carriers and the Alaska Policyholder Notice 3 AAC 25.050 has been provided for each carrier. All outside non-admitted carrier quotations will be checked to ensure the form is listed and rechecked prior to delivery to the insured if the policy is bound and issued by the outside carrier. All non-admitted policies both in house and outside will have the Alaska Policyholder Notice listed and a copy retained for our file. Our newly created Surplus Lines Check List covers the Alaska Policyholder Notice for quoting and policy issuance. Lastly our Typing Department has created a non-admitted forms list for each of our in house carriers and a general checklist for our outside non-admitted carriers. A copy of the checklist will be retained in each file.

### **Quality Control**

*Comments:* The policies appear to not be checked for accuracy when received from the insurance company. One policy declaration shows an admitted company instead of a surplus lines insurance company.

Two other policy files show the intermediary the broker worked with had the correct insurance company listed on all the correspondence and evidence of insurance they sent but the broker

missed this and used the wrong insurance company on the quote and binder as well as the report of surplus lines transaction form. When the declaration was received, it showed the correct insurance company. This error went through an assistant, typist and accountant and no one questioned it.

*Recommendations:* It is recommended that the broker improve the quality control process by including a checklist for various parts of a transaction. I.e., confirm every evidence of insurance shows the correct insurance company, all required notifications completed, all parts of the policy were provided by the company, etc. When there is a change of the insurance carrier, such as when a mistake is made, a correction must be provided to the insured per statute AS 21.34.100(c): "The broker shall promptly issue and deliver to the insured or the producing broker an appropriate substitute for or endorsement of the original document, accurately showing the current status of the coverage and the insurer's responsibility."

*Alaskan General Response 11/3/2009:* We have implemented a checklist which covers quoting, binding and typing. The check list covers the listing of the correct company and required notification. If a mistake does take place a correction will be provided to the insured per statute AS 21.34.100. We will promptly issue and deliver to the insured or the producing broker an appropriate substitute for or endorsement of the original document, accurately showing the current status of the coverage and the insurer's responsibility. Lastly a monthly audit will be conducted reviewing five non-admitted policies issued during that month to determine if we, as an office, are in compliance with all Surplus Lines Statutes.

## **SUMMARY AND SUBSEQUENT EVENTS**

### **Summary**

This was a follow-up to the premium tax audit of Alaskan General Insurance Agency LLC completed on June 20, 2006. 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 due diligence and notification requirements for using a non-admitted insurer. The prior recommendations were complied with and only minor errors were noted. There are new recommendations for the new tests of this audit.

The compliance officer and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with the broker's management and staff.

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

- 1) The quality control process is not fully developed permitting incorrect insurance companies on evidence of insurance provided to the insured.
- 2) The required notification to the insured regarding the use of a nonadmitted insurer was not found in most files

- 3) The Alaska Policyholder Notice for nonrenewal and premium increase was not found in most files.

**Re-Audit**

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Alaskan General Insurance Agency LLC be re-audited within the next three years to ascertain compliance.

Submitted by:  
Rebecca Nesheim  
Tax Auditor

Affidavit

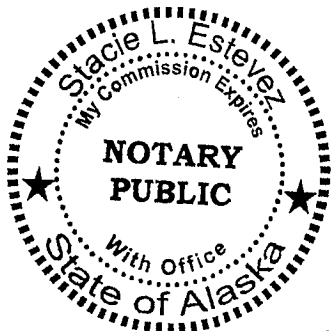
Alaskan General Insurance Agency LLC  
As of December 31, 2008  
TA 09-02

Juneau, Alaska )  
November 24, 2009 )  
State of Alaska ) ss.  
First Judicial District )

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2008 of Alaskan General Insurance Agency LLC is true to the best of my knowledge and belief.

Rebecca Nesheim  
Rebecca Nesheim  
Tax Auditor

SUBSCRIBED and SWORN to before me this 2 day of December, 2009



Stacie Estevez  
Notary Public in and for Alaska

My Commission Expires with office