

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 11-03)
In the Matter of Audit of)
Socius Insurance Services Inc)
_____)

FINDINGS OF FACT

1. An audit report of Socius Insurance Services Inc, licensed in the state of Alaska, has been issued by the State of Alaska, Division of Insurance to Socius Insurance Services Inc.
2. The audit report of Socius Insurance Services Inc (TA 11-03) has been transmitted to Carol Rizzo, Compliance Officer, Socius 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 Socius Insurance Services Inc (TA 11-03) 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 MARCH 27, 2012.

Dated this 27th day of MARCH, 2012 at Juneau, Alaska.



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

PREMIUM TAX AUDIT OF

**Socius Insurance Services Inc
San Francisco, CA**

TA 11-03

As of December 31, 2010

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



**FINAL REPORT:
March 27, 2012**

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DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Sean Parnell, Governor
Susan K. Bell, Commissioner
Linda S. Hall, Director

March 27, 2012

Linda S. Hall, CPCU
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 Socius Insurance Services Inc (the broker) on October 24, 2011 through October 25, 2011, in the broker's San Francisco, CA office. The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Socius 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 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 July 17, 2008.

Subject Matters Audited

The broker is an Alaska licensed surplus lines broker based in San Francisco, CA. The division included in the current audit a review of the statutory compliance with monthly filings, premium tax and filing fees payments, of 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, 2009 through December 31, 2010.

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METHODOLOGY

The tax auditor sent the call letter and initial data requests to Socius Insurance Services Inc's office in San Francisco, CA. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. Socius Insurance Services Inc complied on a timely basis with all data requests. The number of policies and endorsements written during the audit period was 30, so all policies were 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 reports 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 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 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 determines 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 a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the monthly filing based upon the effective date of the policy.
- 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 and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly and annual premium tax reports were sent 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 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 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 an Alaska 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

- | |
|--|
| <p>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</p> |
|--|

Comments: The broker only filed monthly reports when there was business written as required. Out of the 24 months of the audit period, 16 monthly reports were filed with two of them filed after the due date: May 2010 and November 2010 for which late filing penalties were assessed and paid prior to the audit.

Result: Passed (22 reports passed & 2 failed, error rate 8%)

Recommendation: It is recommended that the broker follow their written procedures to ensure future filings are filed by the due dates. Following the written procedures will ensure all reports are filed on time. For all policies effective 7/21/11, procedures will need to be revised to incorporate new law changes from monthly reports to quarterly reports as well as the change in due dates.

Socius Insurance Services Inc Response: Acknowledge that two reports were filed late. Processing delay, this was reported immediately upon discovery. Requested penalties already paid as stated. Every effort will be made to avoid this issue going forward.

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: One transaction was filed late after the original monthly report was filed for which a penalty was assessed prior to the audit. This error did not affect any other audit test based upon when the transaction was filed.

Result: Passed (29 files passed & 1 failed, error rate 3%)

Recommendations: It is recommended that the broker follow their written procedures for when initial or renewal policies as well as endorsements are to be reported to the Alaska Division of Insurance. Following the written procedures will ensure all transactions are filed in the correct month. For all policies effective 7/21/11, procedures will need to be revised to incorporate new law changes from monthly reports to quarterly reports.

Socius Insurance Services Inc Response: Acknowledge that one report was filed late. Processing delay, this was reported immediately upon discovery. Requested penalties already paid as stated. Every effort will be made to avoid this issue going forward.

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: The broker writes several multi-state policies. Three policies for one insured based in Alaska have exposure risk located in both Alaska and Washington yet 100% of the premium for these policies was reported to Alaska. The staff working on these policies misunderstood the requirement and was under the impression that unless it is a property coverage, for which premium can be definitively allocated between states, the premium should be reported to the home state of the insured, which was Alaska. These three policies with an allocated portion of Alaska risk would normally also be required to be amended. However, to go back and amend the taxes on a policy that has already expired and try to file the taxes in another state may be

difficult at this late date so we will anticipate that the allocation will be handled accurately going forward.

This error affects three additional audit tests:

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

Result: Failed (27 files passed & 3 failed, error rate 10%)

Recommendations: It is recommended the broker revise their written procedures for how to determine the appropriate allocation between multiple states involved in policies to reflect the new Alaska statute for policies where Alaska is the home state of the insured. It is also recommended that the broker hold training sessions for staff who procure insurance with exposures in multiple states for allocation purposes as well as the complexity of the tax & fee calculations depending on the home state of the insured.

Socius Insurance Services Inc Response: One account with three policies were filed with home state instead of allocating according to exposure. As auditor states, it is too late to revise. Now with NRRA, Socius has created tighter guidelines for completing correct SLA forms.

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

AS 21.34.180, 3 AAC 21

Comments: The broker is not required to file quarterly tax reports. The two annual premium 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 broker is not required to file quarterly tax reports. The annual tax reports were accurate as filed. Other audit tests result in these tax reports not being accurate but the errors will be accounted for in their respective tests.

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: Although the broker was not required to pay quarterly tax during 2009 and 2010, they chose to make quarterly payments of tax for both these years. All payments were made on or before the required due date for the annual payments 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

Comments: All tax and fee payments made by the broker were accurate based upon the tax reports as filed. Other audit tests result in these tax payments not being accurate but the errors will be accounted for in their respective tests.

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 has elected to use the Affidavit of Due Diligence for documenting the diligent search. The broker assumes based upon industry standards that before a retailer even approaches their office to obtain quotes from a surplus lines carrier, they have already tried to place this business in the standard market and was not successful. Their procedures are currently consistent for all states in that once a policy is bound, the diligent search documentation is required for the account and must be satisfied in a very specific amount of time, usually 30 days, otherwise coverage will be cancelled. This process does not meet Alaska's law where the diligent search must be documented to the surplus lines broker prior to binding.

Nineteen files have problems with the documentation:

- Affidavits received after binding – 16
- Affidavit showed placement list but risk was not on placement list at the time the policy was bound or had a blank description; declinations not done - 4

Total errors: 20 within 19 distinct files

Results: Failed (11 files passed & 19 failed, error rate 63%)

Recommendations: It is recommended that the broker create written procedures to ensure all Affidavits of Due Diligence are received prior to binding including those with risks located on the placement list as required by Alaska law. If another form of documentation is maintained, there must be clear indications that the declinations were done before binding or an accurate description of how the risk is qualified on the placement list. The broker is in the process of creating a separate Alaska quote template that will contain all the necessary wording and have the appropriate Affidavit of Due Diligence forms attached.

Socius Insurance Services Inc Response: Working with Alaska Division of Insurance Tax Auditor to create a quote template acceptable to the State of Alaska law that will contain all the necessary wording and have the appropriate diligent search forms automatically attached, so the insured will receive this info during the quotation stage.

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

AS 21.34.100(e)

Comments: It was verified that twenty-six files included problems with the required disclosure stamp on the evidence of insurance. Several policies included the stamp language as a separate

document buried within the policy on pages 18 or 20. After the prior audit, procedures were created to address this issue but did not include the final follow through of delivering the stamped evidence of insurance to the insured. Here are the different problems found in the files:

- No stamp on dec - 16
- No stamp on binder – 15
- No stamp on endorsement – 5
- Broker name not on dec – 10

Total disclosure errors: 46 within 26 distinct files

Results: Failed (4 files passed & 26 failed, error rate 87%)

Recommendations: It is recommended that the broker ensure written procedures are followed that all evidence of insurance provided to the insured and maintained in the files have the required disclosure stamp wording. The stamp should be located on the first page of the declaration so the insured will not miss it instead of buried within the policy. It is further recommended to revise the written procedures to include the stamp requirement on all premium bearing and non-premium bearing endorsements as they are also evidence of insurance. One additional recommendation is to add the broker's name to the stamp so that it will be included on all evidence of insurance as required by law.

Socius Insurance Services Inc Response: We had created a procedure after our last audit, but the final step was not tightened enough to be in compliance. The procedure will be modified to state the binder is to be sent back to the account handler to forward to retail broker for transmittal to the insured. The matter has been fully explained and rectified and will not be repeated in the future.

Alaska Division of Insurance Response: It is recommended that the modified procedures include that all evidence of insurance not stamped at the time the surplus lines filer receives it, will be returned to the account handler after the appropriate stamp is applied to be transmitted to the insured.

11. Review notification for use of non-admitted insurer

AS 21.34.110

Comments: The broker currently does not provide notification to the insured that the insurer with whom the surplus lines broker places the insurance does not hold a certificate of authority issued by this state and is not subject to its supervision and, in the event of the insolvency of the surplus lines insurer, losses will not be covered under AS 21.80 (Alaska Insurance Guaranty Association Act). It is the brokers' responsibility to maintain in their file a copy of the notification that went to the insured either from them or a copy of what the producer gave to the insured since premium is not binding upon the insured until such notification is provided. Therefore all 30 files failed this test.

Results: Failed (error rate 100%)

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. Several possible locations for the notification are in the proposal or quote to the insured.

Socius Insurance Services Inc Response: To comply with this regulation, we have added another page to our templates permanently adding the appropriate disclosure language to our quotes.

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: Ten files did not have evidence of the required Alaska Policyholder Notice of nonrenewal and premium increase being sent to the insured as it was not included with the policy. Six files included the notice but it was an older version than required.

Results: Failed (24 files passed & 16 failed, error rate 53%)

Recommendations: It is recommended that the broker create 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 or include the notice. A step on a checklist is one way to ensure this document is reviewed.

Socius Insurance Services Inc Response: Entire staff has been made aware that even though we do not issue the policies, as the placing agent we must insure that the Alaska Policyholder Notice of Non-Renewal and Premium Increase must be placed at the front of the policy, back of page 1 or page two and the verbiage must be accurate.

Alaska Division of Insurance Response: It is not necessary for the Alaska Policyholder Notice to be placed at the front of the policy, back of page 1 or page two. As long as the verbiage is accurate and the notice included as part of the policy, the broker will be in compliance with Alaska laws.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a follow-up to the premium tax audit of Socius Insurance Services Inc completed on July 17, 2008. 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 compliance officer and staff were cooperative during the audit. The tax auditor appreciated this attitude and enjoyed working with Socius Insurance Services Inc's management and staff.

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

- 1) Although there was improvement in filing the monthly reports on time, there were still reports not filed on time for which penalties were assessed.
- 2) Multi-state policies continue to not be reported correctly, which affects the taxes assessed to the insured and paid to the respective states.
- 3) The diligent search of the admitted market is not being documented prior to binding.
- 4) The required disclosure stamp continues to be an issue as many stamps were missing from the evidence of insurance. The response to the prior audit disclosed the broker was going to add the wording to their binder template but it appears this did not occur.
- 5) The required notification to the insured regarding the use of a nonadmitted insurer was not found in any file. The response to the prior audit disclosed the broker was going to add the notification information to their quote template but it appears this did not occur.
- 6) The Alaska Policyholder Notice continues to not be sent to the insured or is outdated. It appears the "policy checklist" instituted after the prior audit was not effective.

Re-Audit

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

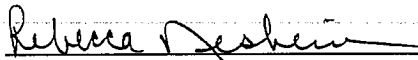
Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Socius Insurance Services Inc
As of December 31, 2010
TA 11-03

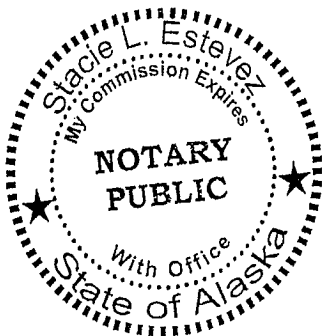
Juneau, Alaska)
March 27, 2012)
)
State of Alaska) ss.
First Judicial District)

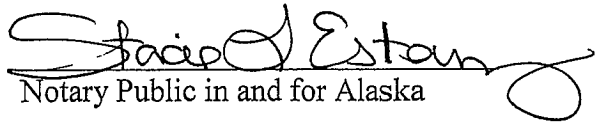
I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2010 of Socius Insurance Services Inc is true to the best of my knowledge and belief.



Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 27th day of March, 2012





Notary Public in and for Alaska
My Commission Expires with office