

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 13-02)
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 13-02) 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 he 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 he 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 13-02) 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 31, 2013.

Dated this 31st day of May, 2013 at Anchorage, Alaska.



Bret S. Kolb, Director
State of Alaska
Division of Insurance

PREMIUM TAX AUDIT OF

Alaskan General Insurance Agency LLC

Anchorage, AK

Alaska License # 18125

TA 13-02

As of December 31, 2012

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:

May 31, 2013

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Commerce, Community,
and Economic Development

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May 31, 2013

Bret S. Kolb
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 Alaskan General Insurance Agency LLC on April 15, 2013 through April 16, 2013, 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 third premium tax audit of Alaskan General Insurance Agency LLC conducted by the Alaska Division of Insurance. The previous audit was completed on November 24, 2009.

Subject Matters Audited

Alaskan General Insurance Agency LLC (the broker) is an Alaska licensed surplus lines broker based in Anchorage, AK. The Division elected to audit their monthly filings, premium taxes paid, and filing fees paid, for accuracy and timeliness as well as required due diligence and disclosures to the insured. The broker recently merged with Brown & Riding and other entities to form a new corporation which is in the process of obtaining a new license number through the Alaska Division of Insurance. Once this is complete, the new entity will begin reporting all transactions written in the various offices under one Federal ID Number.

Time Frame

The audit covered this broker's surplus lines business for the years January 1, 2011 through December 31, 2012.

METHODOLOGY

The tax auditor sent the call letter and initial data requests to the broker. A list of all Alaska business transactions with nonadmitted insurers was requested for the period to be audited. The broker complied in the requested time frame with all data requests. The number of policies written during the audit period was 137, from which a sample of 50 files was selected for audit.

The following are the procedures steps for the audit:

- 1) Verify that monthly reports, quarterly reports, and accompanying forms were filed on time.
 - i) Audit steps taken:
 - (1) Reviewed the monthly and quarterly 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 and quarterly 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 or 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 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 or quarter the endorsement is required to be filed.
 - (3) Verified the monthly and 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 a statement of exempt premiums was filed when appropriate.
 - (5) Verified the policy was included in the monthly or quarterly 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 tax and annual premium tax reports were filed on time.
 - i) Audit steps taken:
 - (1) Confirmed when the quarterly tax and annual premium tax reports were sent to the Alaska Division of Insurance.
- 6) Verify the accuracy of the quarterly tax and annual premium tax reports
 - i) Audit steps taken:
 - (1) Verified the quarterly tax 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, binder or cover note.

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 reports, quarterly reports and accompanying forms were filed on time
AS 21.34.080 and .170, 3 AAC 25.090 and .100

Comments: During the two audit years, 14 monthly reports were required to be filed and six quarterly reports. During the new law transition period up through 12/31/12, there were two monthly reports filed late that will be considered findings. As 10 monthly reports were not required to be filed, they will be considered part of the error rate calculation as passed.

Results: Passed (28 reports passed & 2 failed, error rate 7%)

Recommendation: It is recommended that the broker modify their written procedures for when transactions are required to be filed with the Alaska Division of Insurance. These procedures should include the report due dates. Beginning January 1, 2013, all transactions are to be reported on Quarterly Reports.

Broker response: Our written procedures are being modified to include the new reporting dates of June 1st, September 1st, December 1st and March 1st for our Quarterly Reports. In addition, we have two in house suspense systems established to assure the reports are completed and filed with the Alaska Division of Insurance before the established due dates.

2. Verify the accuracy of the premium calculation

AS 21.34.180

Comments: The premium was calculated correctly for all transactions in the audit

Results: Passed (error rate 0%)

3. Verify the accuracy of all monthly reports and quarterly reports filed

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

Comments: All monthly reports and quarterly reports filed were accurately filed based upon the insured's files.

Results: Passed (error rate 0%)

4. Verify the multi-state placements are filed correctly

AS 21.34.180

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

Results: N/A

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The four tax reports required to be filed during the audit period were filed on time.

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The four tax reports required to be filed during the audit period were accurate when filed.

Results: 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 21.550 - .570

Comments: The 10 payments for taxes and fees required during the audit period 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 21.550 - .570

Comments: The 10 payments for taxes and fees required during the audit period were made accurately.

Results: Passed (error rate 0%)

9. Review 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. One file showed documentation the Affidavit was received after binding. Although several files showed the request to bind was sent to the company prior to receipt of the Affidavit, the Affidavit was received prior to the actual binding of the policy.

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

Recommendations: It is recommended that the broker follow their written procedures per the checklist 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. This should include not sending a request to bind until the Affidavit is received.

Broker response: Our Surplus Lines Checklist has been modified to include a check box under the Underwriter's responsibility section to NOT bind until the Affidavit is received from the broker and date stamped. This is for our in house non-admitted markets. We have also included a new check box under the Underwriter's responsibility section to NOT request binding from an outside market until the Affidavit is received from the broker and date stamped.

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

AS 21.34.100(e)

Comments: Although the broker made tremendous improvement from the prior audit on this procedure test, two files still demonstrated a problem with the required disclosure stamp on the evidence of insurance.

- No stamp on binder – 1
- No stamp on endorsement – 1

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

Recommendations: It is recommended that the broker ensure the written procedures continue to be followed. It is also recommended the broker modifies the written procedures to include endorsements need to have the disclosure stamp. The checklist already includes the other evidence of insurance required to have the stamp.

Broker response: Our Surplus Lines Checklist has been modified to include under the Typist's responsibility section that all endorsements issued after the effective date of the policy must be stamped using our Surplus Lines Stamp outlining AS 21.34.100.

11. Review notification for use of non-admitted insurer
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AS 21.34.110

Comments: The broker generally includes the notification that the insurance is being placed with a company that is not regulated by the Alaska Division of Insurance in their quote or indication as well as the binder. However, there were five files where there was no documentation the notification was provided to the insured.

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

Recommendations: It is recommended that the broker follow their written procedures to use the appropriate quote templates for nonadmitted placements that include the notification. Checklist items should be thoroughly read and not just signed off on items if not accurately completed as the checklist is the broker's written procedures.

Broker response: After our last audit we created a non-admitted Package template, a Property template and an Earthquake template. In reviewing the five accounts which did not contain disclosure wording as required by (Alaska Surplus Lines Notice To Applicant AS 21.34.110) it was noted that two of the files were Umbrella policies and one was a General Liability policy. We have created a General Liability and Umbrella non-admitted template with the proper Notice To Applicant included.

In house audits initiated after the prior audit will be modified to include a review by the office manager to determine if established procedures are being followed. If errors are found, procedures will be reviewed and corrective action taken.

Lastly, the underwriting staff has been instructed to strictly follow our written procedures and to always use our Surplus Lines Checklist when quoting, binding and issuing a non-admitted policy. The checklist should be thoroughly read and followed. We have zero tolerance for unintentional errors when complying with Alaska State 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: All files included the Alaska Policyholder Notice.

Results: Passed (error rate 0%)

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Alaskan General Insurance Agency LLC. The auditor tested 13 standards focusing on the broker's filing of monthly reports, quarterly reports, and tax reports and the subsequent payment of premium taxes and filing fees as well as due diligence, disclosure 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 Alaskan General Insurance Agency LLC's management and staff.

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

- 1) The required notification to the insured regarding the use of a nonadmitted insurer was not found in several files

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. Due to the aforementioned merger, Alaskan General Insurance Agency LLC will not be re-audited.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

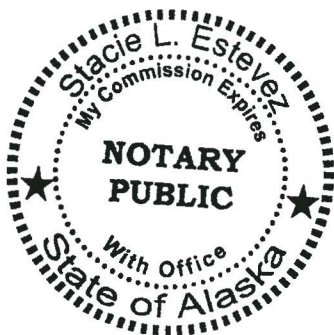
Alaskan General Insurance Agency LLC
As of December 31, 2012
TA 13-02

Juneau, Alaska)
May 31, 2013)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2012 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 7th day of June, 2013



Stacie Estevez
Notary Public in and for Alaska
My Commission Expires with office