

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 13-03)
In the Matter of Audit of)
Swett & Crawford Corporation)
_____)

FINDINGS OF FACT

1. An audit report of Swett & Crawford Corporation, licensed in the State of Alaska, has been issued by the State of Alaska, Division of Insurance to Swett & Crawford Corporation.
2. The audit report of Swett & Crawford Corporation (TA 13-03) has been transmitted to Michael Hamby, Compliance Officer, Swett & Crawford Corporation (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 Swett & Crawford Corporation (TA 13-03) 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 October 23, 2013.

Dated this 23rd day of October, 2013 at Anchorage, Alaska.



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

PREMIUM TAX AUDIT OF

Swett & Crawford Corporation

Seattle, WA

Alaska License #24992

TA 13-03

As of December 31, 2012

Issued by

DIVISION OF INSURANCE

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC

DEVELOPMENT

STATE OF ALASKA



FINAL REPORT:
October 23, 2013

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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

**Department of Commerce, Community,
and Economic Development**

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October 23, 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 Swett & Crawford Corporation (the broker). The audit was conducted by Rebecca Nesheim, tax auditor for the Alaska Division of Insurance.

Swett & Crawford Corporation

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 Swett & Crawford Corporation conducted by the Alaska Division of Insurance. The second premium tax audit was completed on January 20, 2010.

Subject Matters Audited

Swett & Crawford Corporation is an Alaska licensed surplus lines broker based in Seattle, WA. The division included in the current audit a review of the statutory compliance with financial report filings, premium tax and filing fees payments, of accuracy and timeliness as well as required due diligence, disclosures and notifications to the insured.

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's office. 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 700, 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: The broker was required to file 22 monthly premium reports with two months not having any transactions per law effective prior to 7/21/11 and six quarterly reports with accompanying forms. One quarterly report was filed late with all other reports filed on time.

Results: Passed (29 reports passed & 1 failed, error rate 3%)

Recommendations: It is recommended the broker revise their written procedures to include the due dates for all reports. Beginning January 2013, only quarterly reports are required for all transactions.

Broker's Response: Our accounting department has updated their procedures regarding this issue. A copy of the revised procedures was provided.

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 monthly reports and quarterly reports filed

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

Comments: The reports filed were all accurate based upon the transaction information in the audit files.

Results: Passed (error rate 0%)

4. Verify the multi-state placements are filed correctly

AS 21.34.180

Comments: Two of the audit files included multi-state risks written after 7/21/11. They were correctly reported as 100% Alaska risk. When reporting these risks in reports, a list of the locations per state is necessary to meet Alaska statute requirements.

Results: Passed (error rate 0%)

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The broker was required to file two quarterly tax reports, two annual tax reports and two wet marine & transportation tax reports for the audit years. The 2011 annual premium tax report was filed late.

Results: Failed (5 reports passed & 1 report failed, error rate 17%)

Recommendations: It is recommended the broker ensure the written procedures include the due date for the only tax report still required after 12/31/12, the wet marine & transportation tax report.

Broker's Response: Our accounting department has updated their procedures regarding this issue. A copy of the revised procedures was provided.

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

AS 21.34.180, 3 AAC 21.550 and .560

Comments: The tax reports filed were all accurate based upon the transaction information in the audit files.

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: All payments were made on or before the required due date 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 21.550 - .570

Comments: All tax and fee payments made by the broker were accurate based upon the tax reports as filed.

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 from the producers. Six files have problems with that documentation:

- No documentation in file – 2
- Documentation received after binding – 2
- Automatic binding of renewal policy prior to documentation received - 2

Results: Failed (44 files passed & 6 failed, error rate 12%)

Recommendations: It is recommended that the broker ensure written procedures are followed requiring documentation of the diligent search be received prior to binding.

Broker's Response: All of our procedures have been updated and now highlight that absolutely no account can be requested bound by the quoting carrier without the hardcopy of the agents due diligence in file.

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

AS 21.34.100(e)

Comments: Thirty-one files demonstrated a problem with the required disclosure stamp on the evidence of insurance. Since the insured's copy is unavailable, auditor relied upon the broker copy. Here are the different problems found in the files:

- No stamp on binder – 1
- No stamp on endorsement – 2
- Broker name not on dec – 19
- Broker name not on binder – 1
- Broker name not on endorsement - 14

Total disclosure errors: 37 within 31 distinct files

Results: Failed (19 files passed & 31 failed, error rate 62%)

Recommendations: It is recommended that the broker modify their written procedures to ensure all evidence of insurance has the required disclosure stamp and the broker name on the documents.

Broker's Response: Our written procedures have been updated to include verification that disclosure stamps are on all evidence of insurance and policies. Our name has been added to the disclosure stamp to ensure that we are in compliance with the regulations.

11. Review notification for use of non-admitted insurer

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 with the quotes and it is received back signed. However, there was one file where there was no evidence it was sent to the producer and there was no signed copy in the file

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

Recommendations: It is recommended that the broker ensure their written procedures are followed to provide the notification to the insured.

Broker's Response: In the future we will be more diligent in ensuring that our written procedures are followed.

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 required Alaska Policyholder Notice of nonrenewal and premium increase; however, six were an older version than required.

Results: Failed (44 files passed & 6 failed, error rate 12%)

Recommendations: It is recommended that the broker revise their written procedures to include a step in the processing of evidence of insurance to ensure the notice is the most current version as approved by the Division of Insurance. If the notice is outdated, the broker should contact the insurance company to replace the notice.

Broker's Response: Our written procedures have been revised to ensure that the most current Alaska policyholder notice is on the policy when it is issued by the carrier.

SUMMARY AND SUBSEQUENT EVENTS

Summary

This was a premium tax audit of Swett & Crawford Corporation. The auditor tested 13 standards focusing on the broker's filing of financial reports and the subsequent payment of premium taxes and filing fees as well as diligent search, disclosure, and notification requirements for using a non-admitted insurer.

The audit was conducted in the auditor's office as she received online access to 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) The diligent search in the admitted market was not documented in several of the files or was received after binding.
- 2) Several disclosure stamps and the broker's name were missing from the evidence of insurance.
- 3) The Alaska Policyholder Notice was outdated from several insurance companies yet was not followed up on by the broker.

Re-Audit

In closing, the auditor's recommended actions should help the broker correct the problems encountered. It is recommended that Swett & Crawford Corporation be re-audited within the next three years to ascertain compliance.

Submitted by:
Rebecca Nesheim
Tax Auditor

Affidavit

Swett & Crawford Corporation
As of December 31, 2012
TA 13-03

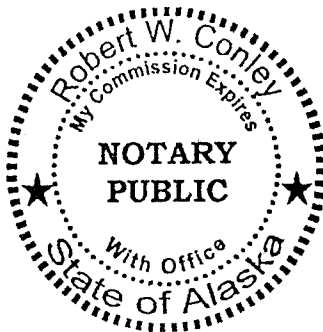
Juneau, Alaska)
October 23, 2013)
)
State of Alaska) ss.
First Judicial District)

I, being duly sworn, do verify that the report of premium tax audit as of December 31, 2012 of Swett & Crawford Corporation is true to the best of my knowledge and belief.

Rebecca Nesheim

Rebecca Nesheim
Tax Auditor

SUBSCRIBED and SWORN to before me this 25 day of October, 2013



Robert Conley

Notary Public in and for Alaska

My Commission Expires with office