

## EXHIBIT C-1

### LOCKBOX 691 PROCESSING SPECIFICATIONS

#### A. Overview.

All authorized insurers pay a premium tax on gross direct premiums written, less allowable deductions. Foreign insurers doing business in Alabama may also be subject to an additional Retaliatory Tax when the retaliatory provision is applicable. Companies file quarterly estimated tax prepayments on May 15, August 15, and November 15, and an Annual Tax Report on or before March 1. In addition, Surplus Line Brokers place business with companies not licensed and authorized to write certain insurance and pay a separate 6.00 percent tax on these premiums, due on or before March 1, annually. No quarterly estimates are paid on Surplus Line Broker taxes.

There are approximately 1,600 companies filing one annual and three quarterly returns. Additionally, property and casualty insurers file two tax returns for each such period and foreign insurers file a retaliatory tax return. Thus there may be as many as 3,800 returns submitted with the annual filing in March and 2,300 returns filed each quarter. Approximately 900 surplus line brokers file an annual tax return. This volume is expected to remain steady from year to year. The amount of taxes and fees collected in FY 2011 was approximately \$274 million. A quarterly tax payment from a company can range from less than \$1.00 to over \$1,000,000.00. A large portion of the filings received may not include any payment. Companies with no tax liability still send their reports to the lockbox address, often in grouped packaging with other companies' filings and payments. These filings should be handled on the same basis as those filings that include payments.

Insurers are instructed to mail their tax filings, including all required documents and payment to the lockbox address. Many companies send their filings via courier express if they feel it will allow them to meet impending deadlines. The Bank must provide for both types of delivery; remittances must be quickly routed to proper lockbox processing assignment area. As the recipient of mail, the bank is responsible for returning all certified mail return cards to the originator. Return receipt cards should not be left attached to envelopes or included in items forwarded to the Department.

#### B. Processing Standards.

The Bank shall:

1. Collect mail from the assigned/established post office box as often as necessary, but not less than twice daily, to maximize the availability of funds in the State's account each day. It is assumed that multiple deposits must be made daily to achieve the optimal funds availability required.
2. Process remittances on **all** shifts and provide proper deposit/collection "cutoffs" in a fashion to achieve the **optimal availability** of funds within the parameters described in the State's funds availability schedule. Funds associated with remittances processed on Saturday are to be made available (usable funds) to the State on Monday (or the next business day). Those funds associated with remittances processed on Sunday are to receive at least ledger credit (preferably available credit) on Monday (or the next business day). It is expected that the bank will review these timetables in conjunction with the funds availability schedule on a continuous basis in order to ensure the State is receiving maximum funds availability.

NOTE: All bid responses must include a detailed funds availability schedule setting forth the funds availability parameters that will be provided to the State.

3. Verify checks/returns for the proper information:
  - a. Dollar amount:
    - Should the written and numeric figures not agree, the bank should process the return using the written amount.

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- Should the amount of the check not agree with the amount shown on the tax return, the amount of the check is to be utilized and the remittance processed to completion. The amount of the check must then be written and circled on the tax return.
  - Should any checks still be in question, the remittance should be processed to completion and a copy of the remittance forwarded under separate cover to the Department. Any Such remittances should not be included with the regular/routine processing.
- b. Date:
- Checks missing a date should be dated with the processing date by the bank.
  - Stale-dated checks (six months or more) should be returned to the Department unprocessed.
- c. Acceptable payee:
- State of Alabama.
  - Insurance Commissioner.
  - Department of Insurance.
  - Any reasonable deviation of the above.
- d. Blank payee:
- If a blank payee is received by the bank, write "Department of Insurance" and process to completion.
- e. No check enclosed:
- Envelopes received with no check (payment) are to be stamped "No Payment Enclosed." They should be processed the same as items containing checks but batched separately.
- f. Foreign checks:
- Only checks drawn on United States domiciled financial institutions are to be accepted. Foreign checks and the accompanying tax returns are to be forwarded to the Department unprocessed.
- g. Signature missing:
- Stamp "Refer to Maker" on the check and process to completion.
4. Properly endorse and deposit all checks other than those treated as exceptions in a timely fashion as discussed in the above specifications.
5. Batch checks in groups not to exceed 100 items.
6. Capture all data listed in the Data Capture Summary (Appendix A) and include it in daily transmissions of transactions processed utilizing the format detailed in the Data Transmission Format and File Layout Summary (Appendix B).
- NOTE: If only one check is received that covers multiple tax returns, each return must be **listed individually** and credited with its portion of the check. If the check and the tax returns do not balance, they are forwarded to the Department for handling.
7. Forward daily via overnight delivery all turnaround material to the Department at the address listed below.
- a. This packet of material must include:
- Tax Returns, including envelopes
  - Reports containing data captured from tax returns in accordance with Item 6 above.
  - Lockbox edit listing

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- Deposit ticket photocopies
  - All items that can not be processed (with explanations)
  - Return deposit items (for any amount)
- b. In addition, this daily envelope will contain:
- Miscellaneous exception items, such as envelopes that have unidentified checks or no checks at all. These exception items must be kept separate from the other material, but they may be in the same envelope.

NOTE: All items processed after the lockbox edit list and electronic file cutoff time must be included in the next day's deposit. Only items listed on the lockbox edit list and included in the electronic file will be batched and mailed to the Department in the current day material envelope.

8. Notify the Department via e-mail of any data transmissions (as described in Item 6 above) available for download. Data transmissions should include only those items processed before the cutoff time established in the State's funds availability schedule and included on the lockbox edit list. All items processed after the cutoff time must be included in the next day's transmission in the data capture report referred to in Item 6 above must be faxed or e-mailed on a daily basis to a designee within the Department. The current designee for receipt is:

Name: Ann Strickland  
Fax: 334-240-3194  
Email: Ann.Strickland@insurance.alabama.gov

10. Process Return Checks as follows:
- a. Automatically redeposit all return items one time.
  - b. If check is returned a second time the check should be charged to the State's account and returned to the Department.
  - c. Notification must be given by telephone to the State Treasurer's Office and the Department on any check over \$2,500 which is to be returned to the State.
11. Reconcile both check and invoice totals daily, prior to making the deposits.

**APPENDIX A**

**Data capture summary**

Copies of all tax returns to be processed using lockbox services are located on the Alabama Insurance Department website at [www.aldoi.gov](http://www.aldoi.gov). Under Companies, click on the arrow of the dropdown box and then click on Forms. The forms are under the Domestic Insurance Companies, Foreign Insurance Companies, Non-Profit Hospitalization, Surplus Lines Brokers, Purchasing Groups and Risk Retention Companies tabs. There are thirty-one (31) different fields of information that are captured, though no one form contains every field of information.

During the year, each insurance company and risk retention group will file three (3) quarterly returns and one (1) annual return in addition to an Audit and Examination Transmittal Form. Additionally, property and casualty insurers file two tax returns for each period and foreign insurers file an annual retaliatory tax return. The data capture pertaining to the Audit and Examination Transmittal Form must be completed in a manner that will permit its transmission separately from the data pertaining to tax returns.

Additionally, each Surplus Line Broker must file Form ID-15 annually and Purchasing Groups that place business directly with nonadmitted companies must file Form ID-14 within thirty days of the placement.

**APPENDIX B**

**Data Transmission Format and File Layout Summary**

The following transmission formats and file layouts must be used to transmit all data captured.

*Note: Deviations from the below described transmission formats and file layouts are not permitted.*

**Transmission Formats**

Daily transmissions for each data capture must be made using one of the transmission methods listed below.

1. E-mail.
2. A secure File Transfer Protocol (FTP) to a Transmission Control Protocol (TCP) or Internet Protocol (IP).
3. Via twisted pair telephone line and modem utilizing some form of security software. e.g. Crosstalk 3.01.

**File Layouts**

**Tax Return Data Capture**

File Type: Variable Record Length  
 Data Type: Text  
 Delimiter: Semi-colon

Parsed File Layout for Company

NAIC	QTR	PDATE	INSTYPE	INSFORM
01234	1	03122002	PA	B

YDATE	FAL5	FAM5	FAM25	GL	GL50
2002	0000000.00	0000000.00	000000000.00	000000000.00	000000000.00

OH	MMP	EGP	TOP	9N10	MHLD
00000000000.00	00000000.00	00000000.00	00000000000.00	000000000.00	000000000.00

AOB	AOBR%	GPTD	ADV	AHIP	EXAM
00000000000.00	00.0	00000000000.00	000000.00	00000000.00	0000000.00

FT	GFA	TOTDED	CAPCO	LQTP	LPYO
0000000.00	000000.00	00000000.00	00000000.00	00000000.00	0000000.00

NETPREM (SL/PG)	AMTPD
0000000000.00	0000000000.00

**APPENDIX B (con't)**

Parsed File Layout for Licensee

<b>NAIC</b>	<b>QTR</b>	<b>PDATE</b>	<b>INSTYPE</b>	<b>INFORM</b>
A012345	1	03122002	PA	B

<b>YDATE</b>	<b>FAL5</b>	<b>FAM5</b>	<b>FAM25</b>	<b>GL</b>	<b>GL50</b>
2002	0000000.00	0000000.00	000000000.00	000000000.00	000000000.00

<b>OH</b>	<b>MMP</b>	<b>EGP</b>	<b>TOP</b>	<b>9N10</b>	<b>MHLD</b>
00000000000.00	00000000.00	00000000.00	00000000000.00	000000000.00	000000000.00

<b>AOB</b>	<b>AOBR%</b>	<b>GPTD</b>	<b>ADV</b>	<b>AHIP</b>	<b>EXAM</b>
00000000000.00	00.0	00000000000.00	000000.00	00000000.00	0000000.00

<b>FT</b>	<b>GFA</b>	<b>TOTDED</b>	<b>CAPCO</b>	<b>LQTP</b>	<b>LPYO</b>
0000000.00	000000.00	00000000.00	00000000.00	00000000.00	0000000.00

<b>NETPREM (SL/PG)</b>	<b>AMTPD</b>
0000000000.00	0000000000.00