

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

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SENATE BILL 613

Short Title: Insurance Company Audits and Exams.

(Public)

Sponsors: Senator Miller.

Referred to: Pensions & Retirement and Insurance.

April 1, 1997

A BILL TO BE ENTITLED

AN ACT TO AMEND PROVISIONS IN THE INSURANCE LAWS DEALING WITH
EXAMINATIONS OF INSURANCE COMPANIES AND AUDITS OF THEIR
FINANCIAL STATEMENTS.

The General Assembly of North Carolina enacts:

Section 1. G.S. 58-2-131(d) reads as rewritten:

"(d) The Commissioner may conduct ~~an~~ a regular examination of any insurer whenever the Commissioner deems it to be prudent for the protection of policyholders but shall at a minimum conduct an examination of every domestic insurer not less frequently than once every ~~three~~ five years. In scheduling and determining the nature, scope, and frequency of examinations, the Commissioner shall consider such matters as the results of financial statement analyses and ratios, changes in management or ownership, actuarial opinions, reports of independent certified public accountants, and other criteria as set forth in the NAIC Examiners' Handbook."

Section 2. G.S. 58-2-205 reads as rewritten:

"§ 58-2-205. CPA audits of financial statements.

~~The Commissioner is authorized to adopt rules to provide for audits and opinions of insurers' financial statements by certified public accountants. Such rules shall be in accordance with the NAIC model rule that requires audited financial reports, as amended.~~

(a) The NAIC model rule requiring annual audited financial reports as provided

1 for in the annual statement instructions is incorporated into this section by reference,
2 except as specified in subsections (b) through (g) of this section.

3 (b) The annual audited financial report shall be filed with the Commissioner on or
4 before May 10 for the previous calendar year. Two copies of this report shall be filed
5 with the Chief Examiner in the Field Audit Section of the Department. An extension of
6 the May 10 filing date may be granted by the Commissioner for a period of up to 45 days.
7 The request for extension must be submitted in writing no sooner than 15 days before the
8 due date.

9 (c) This requirement applies to all insurers; provided that insurers having direct
10 premiums written in North Carolina of less than two hundred fifty thousand dollars
11 (\$250,000) in any year and having less than 500 policyholders in North Carolina at the
12 end of any year are exempt from this requirement for that year unless the Commissioner
13 makes a specific finding that compliance is necessary for the Commissioner to carry out
14 his or her statutory responsibilities.

15 (d) Certified public accountants that intend to practice pursuant to the provisions
16 of the annual statement instructions shall file a notice to that effect with the
17 Commissioner by October 1 of each year. The Commissioner may reject the filing if the
18 certified public accountant does not meet the requirements. The filing shall contain a
19 statement from the certified public accountant affirming that the certified public
20 accountant is aware of and will comply with the provisions of the annual statement
21 instructions related to the definition, availability, and maintenance of certified public
22 accountant workpapers and evidence of the certified public accountant's expertise in the
23 areas of insurance auditing and insurance accounting. This evidence shall also
24 demonstrate experience in the areas of insurance auditing and insurance accounting for
25 the certified public accountant's staff members who are assigned to the audit.

26 (e) The certified public accountant may be deemed to be experienced in the areas
27 of insurance auditing and accounting if the office filing with the Department pursuant to
28 this section has existing audit clients in the insurance industry.

29 (f) The staff assigned to an audit under this section may be considered by the
30 Commissioner to be experienced in the areas of insurance auditing and accounting if they
31 meet the following criteria:

32 (1) Managerial staff that has been assigned or has had responsibility for
33 audit engagements in the insurance industry in an amount averaging at
34 least thirty percent (30%) of its chargeable time during the last three
35 years.

36 (2) Nonmanagerial staff that has been assigned or has had responsibility for
37 audit engagements in the insurance industry in an amount averaging at
38 least fifteen percent (15%) of its chargeable time during the last three
39 years or during the staff members' periods of employment if employed
40 fewer than three years.

41 (g) An audit performed by a certified public accountant under this section shall be
42 staffed by managerial staff experienced in the areas of insurance auditing and accounting

1 and by a majority or an equal number of nonmanagerial staff experienced in the areas of
2 insurance auditing and accounting.

3 (h) As used in this section, 'insurance' includes financial services."

4 Section 3. G.S. 58-2-131(k) reads as rewritten:

5 "(k) ~~When making an examination,~~ For any examination of an insurer, if the
6 Commissioner determines that appropriated resources within the Department are
7 insufficient to properly conduct or complete the examination, the Commissioner may
8 retain attorneys, appraisers, ~~independent~~—actuaries, ~~independent~~—certified public
9 accountants, or other professionals and specialists ~~as examiners~~ to assist the Commissioner
10 in the examination. The insurer that is examined shall pay the persons retained for their
11 services under this subsection. The payments by an insurer under this subsection for any
12 regular examination shall not exceed one hundred thousand dollars (\$100,000)."

13 Section 4. This act becomes effective October 1, 1997, and applies to audits or
14 examinations conducted on or after that date.