

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

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SENATE BILL 613

Pensions & Retirement and Insurance Committee Substitute Adopted 4/30/97

Short Title: Insurance Company Audits and Exams.

(Public)

Sponsors:

Referred to:

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 examination of any insurer whenever the Commissioner deems it to be prudent for the protection of policyholders but shall at a minimum conduct ~~an~~ a regular 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.~~

1 (a) The NAIC model rule requiring annual audited financial reports as provided
2 for in the annual statement instructions is incorporated into this section by reference,
3 except as specified in subsections (b) through (g) of this section.

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

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

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

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

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

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

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

42 (g) An audit performed by a certified public accountant under this section shall be
43 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 regular 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
10 Commissioner in the examination. The insurer that is examined shall pay the persons
11 retained for their services under this subsection. The payments by an insurer under this
12 subsection for any regular examination shall not exceed fifty thousand dollars (\$50,000).
13 If any examination is requested by an insurer and not initiated by the Commissioner, the
14 Commissioner may retain the types of professionals and specialists named in this
15 subsection and in accordance with this subsection; and there shall be no limit on the
16 payments by the insurer under this subsection."

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