

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

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SENATE BILL 613

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

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Short Title: Insurance Company Audits and Exams.

(Public)

Sponsors:

Referred to:

April 1, 1997

A BILL TO BE ENTITLED

1 AN ACT TO AMEND PROVISIONS IN THE INSURANCE LAWS DEALING WITH
2 EXAMINATIONS OF INSURANCE COMPANIES AND AUDITS OF THEIR
3 FINANCIAL STATEMENTS.
4

5 The General Assembly of North Carolina enacts:

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

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

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

16 "**§ 58-2-205. CPA audits of financial statements.**

17 ~~The Commissioner is authorized to adopt rules to provide for audits and opinions of~~
18 ~~insurers' financial statements by certified public accountants. Such rules shall be in~~

1 ~~accordance with the NAIC model rule that requires audited financial reports, as amended.~~

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

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

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

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

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

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

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

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

1 (g) An audit performed by a certified public accountant under this section shall be
2 staffed by managerial staff experienced in the areas of insurance auditing and accounting
3 and by a majority or an equal number of nonmanagerial staff experienced in the areas of
4 insurance auditing and accounting.

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

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

7 "(k) ~~When making an examination,~~ For any regular examination of an insurer, if the
8 Commissioner determines that appropriated resources within the Department are
9 insufficient to properly conduct or complete the examination, the Commissioner may
10 retain attorneys, appraisers, ~~independent~~—actuaries, ~~independent~~—certified public
11 accountants, or other professionals and specialists as ~~examiners.~~—to assist the
12 Commissioner in the examination. The insurer that is examined shall pay the persons
13 retained for their services under this subsection. The payments by an insurer under this
14 subsection for any regular examination shall not exceed fifty thousand dollars (\$50,000).
15 If any examination is requested by an insurer and not initiated by the Commissioner, the
16 Commissioner may retain the types of professionals and specialists named in this
17 subsection and in accordance with this subsection; and there shall be no limit on the
18 payments by the insurer under this subsection."

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