

DEMYSTIFYING **THE NORTH CAROLINA DEPARTMENT OF INSURANCE AGENCY EXAMINATION**



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What is a North Carolina Department of Insurance (NCDOI) agency examination?

In North Carolina, the Commissioner of Insurance has authority to examine the activities, operations, financial condition, and business affairs of all persons transacting the business of insurance in this State to ensure they are following insurance statutes and rules. The Commissioner designates an agency audit team in the Agent Services Division of NCDOI to conduct administrative agency examinations. The agency auditors work in teams of two and are assigned to primarily work in one of four regional territories which cover the entire State.

There are three (3) types of agency examinations:

- 1. Random or routine** – These examinations occur when the audit team is located in a particular area and notes the existence of an ongoing agency business, which has not been visited within the last three (3) years. The audit team will make either an unsolicited call upon this agency or contact them in advance to let them know a date that they will appear in the agency. In either case, the audit team will then proceed to conduct an audit/examination in order to determine how well the agency serves its customers. The agency principal may request the audit team to perform the examination at a later scheduled time for these routine, random audits. A random audit becomes a targeted audit if the audit team finds potential statutory and regulatory violations.
- 2. Targeted or assigned** – These examinations occur when the Agency Examination Supervisor/Deputy Commissioner directs the audit team to a particular agency to conduct an examination immediately. An agency is considered targeted if a complaint is registered from any source, agents, consumers or insurers. The agency audit team conducts a full and complete examination for targeted agencies.
- 3. Follow-up or compliance** – These examinations occur only after a random or targeted examination has been completed and a report containing significant errors or violations of statute/rule has been submitted to the Department for action. At the direction of the Agency Examination Supervisor/Deputy Commissioner, a follow-up examination will be scheduled in order to ensure full compliance with the identified statute or rule cited during the original audit.

What records must be maintained by the agency and produced upon request of the NCDOI?

Pursuant to NC General Statute §58-2-185 “All companies, agents, or brokers doing any kind of insurance business in this State must make and keep a full and correct record of the business done by them, showing the number, date, term, amount insured, premiums, and the persons to whom issued, of every policy or certificate or renewal. Information from these records must be furnished to the Commissioner on demand, and the original books of records shall be open to the inspection of the Commissioner when demanded.” An agency is required to retain such records for a five year period. These records may be kept in either paper or electronic format as long as they can be readily produced upon the request of NCDOI.



What are some steps that might be taken if the audit team findings indicate there are serious concerns such as financial or record-keeping mismanagement?

Actions vary according to the severity of the concerns noted in the agency examination report following the NCDOI agency examination:

Minor Inconsistencies: The agency may be sent a warning letter outlining the areas of concern and requesting a corrective plan of action from the agent.

Serious Concerns: NCDOI has the authority to request an informal conference to discuss the concerns and for the agency principal to offer additional documentation regarding any allegation. If the agency principal does not appear at this informal proceeding, the Department proceeds with an administrative hearing that may result in a license revocation. In many cases, the agency is given a chance to make the necessary modifications based on the plans laid out in the informal conference. Based on findings, the Agent Services Division may refer cases to the Criminal Investigations Division for them to review and handle as they deem appropriate.

What happens if it appears an agency is financially insolvent?

If any division of the NCDOI receives an allegation of financial insolvency relative to a North Carolina insurance agency, they immediately refer the matter to the Agent Services Division to implement the Financially Impaired Agency Policy which requires:

- Notification to the Consumer Services Group of NCDOI in order to make them aware of possible impact on North Carolina consumers;
- Dispatch of an agency examination team immediately to the agency to report initial findings to the Agency Examination Supervisor/Deputy Commissioner;
- Agency audit team will conduct the targeted agency examination and prepare a report referencing the findings;

- The Agency Examination Supervisor and/or Deputy Commissioner of the Agent Services Division will notify the Deputy Commissioner of the Criminal Investigations Division if the agency audit team's assessment reflect allegations of potential criminal activity;
- Agency Examination Supervisor will be responsible for placing on notice all affected companies and requesting the following of all companies:
 1. Place company personnel in the agency within 48 hours of notification to service customers and audit the agency books along with the audit team from the Agent Services Division. The audit team will remain in the agency until all concerns are resolved;
 2. Place a sign on the agency door with instructions, the company's telephone number, and the name of the company's contact person;
 3. Provide an accounting and documentation relative to misappropriation of monies to the Deputy Commissioner of the Agent Services Division within ten (10) calendar days;
 4. Provide the Administrative Deputy Commissioner and/or Agency Examination Supervisor of the Agent Services Division with a list of all customers and subsequently, copies of letters sent to customers regarding the matter.

Can an agency conduct their own audit to self-assess any issues or possible violations of insurance statutes and rules?

An agency can conduct an audit similar to the NCDOL routine or random audit by assembling either an internal/external agency audit team with accounting and insurance expertise to conduct the audit. This agency audit team should have access to agency principal/owner(s) and staff to conduct interviews in order to gather the necessary information to complete the audit. The audit may be conducted utilizing the following six-step audit process:



1. Gather Appropriate Documentation

The agency principal or office manager should gather relevant information needed for the audit process.

2. Discuss Scope of the Examination

The audit team assembled by the agency should discuss the audit scope and prepare a strategy, including an estimated timeframe, to complete their audit.

3. Conduct an Audit Interview

The audit team should set up a meeting with the agency principal/owner(s) and office manager to conduct an interview and discuss the scope and process for the audit. The audit team should elicit from the agency principal/owner(s) pertinent information that will be reviewed during the audit process and included in the audit report. The audit team should also inquire if the agency principal/owner(s) has any specific areas of concern to share that they would like reviewed during the audit process.

4. Conduct the Agency Audit

The audit team should use all the information gathered during the previous steps of the audit process to conduct the audit. This includes a detailed review of financial documents, policy files, licensing/appointment status of agency staff, agency procedures, internal controls, and compliance with applicable insurance regulations. Any unusual trends or relationships discovered during the audit process should be questioned and responses disclosed in the audit report. All material in support of unusual trends or discrepancies should be documented and clearly labeled as exhibits to the audit report.

5. Draft an Audit Report

The audit team should prepare a written report detailing the findings of the audit. The audit report should include accounting concerns, premium remittance issues, rating classification errors, non-compliance with North Carolina insurance regulations observed, and any other discrepancies noted during the audit process. The audit report should also include recommended solutions to any issues or problems described in the report along with a suggested time frame for corrective actions to be implemented.

6. Conduct a Closing Interview

The audit team should provide a copy of the audit report to the agency principal/owner(s) and deliver a verbal executive summary including any adverse findings along with their recommendations. The agency principal/owner(s) may request further explanation of audit findings or provide clarification/corrections to any information contained in the report. The audit team should solicit a response from the agency principal/owner(s) on whether they agree or disagree with any issues or problems cited in the report and if they plan to implement corrective actions. The audit report is then updated to include the information gathered in the closing interview and finalized.

Are there any resources available to IIANC members that the audit team can use to conduct this self-assessment agency audit?

To assist IIANC members, a Self-Assessment Agency Audit Guide detailing the six-step audit process for their self-assembled audit team to use with an addendum of relevant insurance regulations and other resources is available on the IIANC website www.iianc.com under Agency Management Resources.



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