

4 MCAR 1

1 Department of Commerce

2 Insurance Division

3

4 Adopted Rules Requiring Annual Audited Financial Reports

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6 Rules as Adopted

7 4 MCAR S 1.9120 Authority. Rules 4 MCAR SS 1.9120-1.9136 are
8 promulgated by the Commissioner of Insurance under Minn. Stat.
9 SS 60A.031 and 60A.13.

10 4 MCAR S 1.9121 Purpose and scope. The purpose of 4 MCAR SS
11 1.9120-1.9136 is to improve the Minnesota insurance division's
12 surveillance of the financial condition of insurers by requiring
13 an annual examination by independent certified public
14 accountants of the financial statements reporting the financial
15 condition and the results of operations of insurers.

16 Rules 4 MCAR SS 1.9120-1.9136 shall not prohibit, preclude,
17 or in any way limit the commissioner from ordering, conducting,
18 or performing examinations of the practices, procedures,
19 financial condition, market conduct, and other aspects of the
20 operations of insurers.

21 Rules 4 MCAR SS 1.9120-1.9136 apply to all insurers
22 required under Minn. Stat. S 60A.13, subd. 3a to file a report
23 of their annual audit, except that insurers having direct
24 premiums written in this state of less than \$100,000 in any year
25 and having fewer than 500 policyholders in this state at the end
26 of any year are exempt from the provisions of 4 MCAR SS
27 1.9120-1.9136 for that year.

28 Insurers filing audited financial reports in another state
29 under the other state's requirements of audited financial
30 reports which have been found by the commissioner to be
31 substantially similar to these requirements are exempt from the
32 provisions of 4 MCAR SS 1.9120-1.9136 if:

33 A. A copy of the audited financial report, the evaluation of
34 accounting procedures, and systems of internal control report,
35 which are filed with the other state, are filed with the

B-10-82

1 commissioner in accordance with the filing dates specified in 4
2 MCAR S 1.9123 and 4 MCAR S 1.9130. Canadian insurers may submit
3 accountants' reports as filed with the Canadian Dominion
4 Department of Insurance; and

5 B. A copy of any notification of adverse financial condition
6 report filed with the other state is filed with the commissioner
7 within the time specified in 4 MCAR S 1.9129.

8 4 MCAR S 1.9122 Definitions.

9 A. Terms. Unless the context requires otherwise, the terms
10 defined in B.-G. have the meanings given them.

11 B. Accountant. "Accountant" and "independent public
12 accountant" mean an independent certified public accountant or
13 accounting firm in good standing with the American Institute of
14 Certified Public Accountants and in all states in which the
15 accountant or firm is licensed to practice. For Canadian and
16 British companies, the term means a Canadian-chartered or
17 British-chartered accountant.

18 C. Audited financial report. "Audited financial report"
19 includes those items specified in 4 MCAR S 1.9124.

20 D. Commissioner. "Commissioner" means the Commissioner of
21 Insurance of the State of Minnesota.

22 E. Examiner. "Examiner" means an examiner of the Insurance
23 Division of the Department of Commerce of the State of Minnesota.

24 F. Executive officer. "Executive officer" means any
25 individual whose duties relate to active participation in
26 control, supervision, and management of a person, whether
27 incorporated or unincorporated. The term includes a chairman of
28 the board, president, vice-president, treasurer, secretary,
29 controller, and any other individual performing in a similar
30 position.

31 G. Insurer. "Insurer" means a company required to have an
32 annual audit by Minn. Stat. S 60A.13, subd. 3a.

33 4 MCAR S 1.9123 Filing and extensions for filing of annual
34 audited financial reports. All insurers shall have an annual
35 audit by an independent certified public accountant and shall

1 file an audited financial report with the commissioner on or
2 before June 30 for the year ending December 31.

3 Extensions of the June 30 filing date may be granted by the
4 commissioner for 30-day periods upon a showing by the insurer
5 and its independent certified public accountant of the reasons
6 for requesting the extension and a determination by the
7 commissioner of good cause for the extension.

8 The request for extension must be submitted in writing not
9 less than ten days prior to the due date in sufficient detail to
10 permit the commissioner to make an informed decision with
11 respect to the requested extension.

12 4 MCAR S 1.9124 Contents of annual audited financial report.
13 The annual audited financial report shall report, in conformity
14 with statutory accounting practices required or permitted by the
15 commissioner of insurance of the state of domicile, the
16 financial condition of the insurer as of the end of the most
17 recent calendar year and the results of its operations, changes
18 in financial position, and changes in capital and surplus for
19 the year then ended.

20 The annual audited financial report shall include all of
21 the following:

22 A. A report of an independent certified public accountant;

23 B. A balance sheet reporting admitted assets, liabilities,
24 capital, and surplus;

25 C. A statement of gain or loss from operations;

26 D. A statement of changes in financial position;

27 E. A statement of changes in capital and surplus;

28 F. Any notes to financial statements. These notes shall be
29 those required by generally accepted accounting principles and
30 shall include:

31 1. a reconciliation of differences, if any, between the
32 audited statutory financial statements and the annual statement
33 filed under Minn. Stat. S 60A.13, subd. 1 with a written
34 description of the nature of these differences; and

35 2. a narrative explanation of all significant
36 intercompany transactions and balances; and

1 G. Supplementary information which includes any additional
2 information which the commissioner may from time to time require
3 to be disclosed.

4 The financial statements included in the audited financial
5 report shall be prepared in a form and using language and
6 groupings substantially the same as the relevant sections of the
7 annual statement of the insurer filed with the commissioner.

8 The financial statement shall be comparative, presenting
9 the amounts as of December 31 of the current year and the
10 amounts as of the immediately preceding December 31. In the
11 first year in which an insurer is required to file an audited
12 financial report, the comparative data may be omitted.

13 The amounts may be rounded to the nearest thousand dollars,
14 and all insignificant amounts may be combined.

15 4 MCAR S 1.9125 Designation of independent certified public
16 accountant. Each insurer required by 4 MCAR S 1.9123 to file an
17 annual audited financial report must notify the commissioner in
18 writing of the name and address of the certified public
19 accountant or accounting firm retained to conduct the annual
20 audit within 60 days after becoming subject to the annual audit
21 requirement.

22 Insurers not retaining an independent certified public
23 accountant on the effective date of this rule shall register the
24 name and address of their retained certified public accountant
25 not less than six months before the date when the first
26 certification is to be filed.

27 The insurer shall obtain from the accountant a letter which
28 states that the accountant is aware of the provisions that
29 relate to accounting and financial matters in the insurance laws
30 and the rules of the insurance division of the state of domicile.
31 The letter shall affirm that opinions on the financial
32 statements will be expressed in terms of their conformity to the
33 statutory accounting practices prescribed or otherwise permitted
34 by that division, unless exceptions to these practices are
35 appropriate. The letter shall specify all exceptions believed
36 to be appropriate. A copy of this letter shall be filed with

1 the commissioner.

2 If an accountant who was not the accountant for the
3 immediately preceding filed audited financial report is engaged
4 to audit the insurer's financial statements, the insurer shall
5 notify the division of this event within 30 days of the date the
6 accountant is engaged. The insurer shall also furnish the
7 commissioner with a separate letter stating whether in the 24
8 months preceding this engagement there were any disagreements
9 with the former accountant on any matter of accounting
10 principles or practices, financial statement disclosure, or
11 auditing scope or procedure, which, if not resolved to the
12 satisfaction of the former accountant, would have caused him to
13 make reference to the subject matter of the disagreement in
14 connection with his opinion. The insurer shall also in writing
15 request the former accountant to furnish a letter addressed to
16 the insurer stating whether the accountant agrees with the
17 statements contained in the insurer's letter and, if not,
18 stating the reasons that he does not agree. The insurer shall
19 furnish this responsive letter from the former accountant to the
20 commissioner together with its own.

21 4 MCAR S 1.9126 Qualifications of independent certified public
22 accountant. The commissioner shall not recognize any person or
23 firm as an independent certified public accountant that is not
24 in good standing with the American Institute of Certified Public
25 Accountants and in all states in which the accountant is
26 licensed to practice, or for a Canadian or British company, that
27 is not a chartered accountant.

28 Except as otherwise provided, a certified public accountant
29 shall be recognized as independent as long as he or she conforms
30 to the standards of his or her profession.

31 The commissioner, after notice and hearing under Minn.
32 Stat. ch. 15, may find that the accountant is not independent
33 for purposes of expressing an opinion on the financial
34 statements in the annual audited financial report. The
35 commissioner may require the insurer to replace the accountant
36 with another whose relationship with the insurer is independent

1 within the meaning of this rule.

2 4 MCAR S 1.9127 Consolidated or combined audits. Upon written
3 application and for specified periods, the commissioner may
4 permit an insurer to file audited consolidated or combined
5 financial statements in lieu of separate annual audited
6 financial statements. In such cases, the report shall include
7 an organization chart of the companies together with a columnar
8 consolidating or combining worksheet.

9 Amounts shown on the audited consolidated or combined
10 financial statement shall be shown on the worksheet.

11 Amounts for each insurer subject to this rule shall be
12 stated separately.

13 Noninsurance operations may be shown on the worksheet on a
14 combined or individual basis.

15 Explanations of consolidating and eliminating entries shall
16 be included on the worksheet.

17 A reconciliation of any differences between the amounts
18 shown in the individual insurer columns of the worksheet and
19 comparable amounts shown on the annual statements of the
20 insurers shall be included on the worksheet.

21 4 MCAR S 1.9128 Scope of examination and report of independent
22 certified public accountant. Financial statements furnished
23 under 4 MCAR S 1.9124 shall be examined by an independent
24 certified public accountant. The examination of the insurer's
25 financial statements shall be conducted in accordance with
26 generally accepted auditing standards and consideration should
27 be given to such other procedures illustrated in the "Financial
28 Condition Examiners Handbook," in the 'Examiners Handbook,'
29 issued by the National Association of Insurance Commissioners
30 (Milwaukee, Wisconsin: 1976, as amended) as the independent
31 certified public accountant deems necessary.

32 4 MCAR S 1.9129 Notification of adverse financial condition.
33 The insurer required to furnish the annual audited financial
34 report shall require the independent certified public accountant
35 to immediately notify in writing an executive officer and all

1 directors of the insurer of the final determination by that
2 independent certified public accountant that the insurer has
3 materially misstated its financial condition as reported to the
4 commissioner as of the balance sheet date currently under
5 examination or that the insurer does not meet the minimum
6 capital and surplus requirement of Minn. Stat. S 60A.07 as of
7 that date.

8 Any executive officer or director of an insurer required to
9 file an annual audited financial report who received any
10 notification of adverse financial condition from the accountant
11 shall make a written report to the commissioner of the existence
12 of the materially misstated financial condition or the failure
13 to meet the minimum capital and surplus requirements of the
14 commissioner within three business days of the notification.

15 If the accountant becomes aware of facts which might have
16 affected this report subsequent to the date of the audited
17 financial report filed under this rule, the accountant shall
18 take the action prescribed by section AU561, volume 1 of the
19 'AICPA Professional Standards,' issued by the American Institute
20 of Certified Public Accountants.

21 4 MCAR S 1.9130 Evaluation of accounting procedures and system
22 of internal control. In addition to the annual audited
23 financial report, each insurer shall furnish the commissioner
24 with a report of the evaluation performed by the accountant, in
25 connection with the examination, of the accounting procedures of
26 the insurer and its system of internal control.

27 A report of the evaluation by the accountant of the
28 accounting procedures of the insurer and its system of internal
29 control, including any remedial action taken or proposed, shall
30 be filed annually by the insurer with the division within 60
31 days after the filing of the annual audited financial report.

32 This report on internal control shall be in the form
33 prescribed by generally accepted auditing standards.

34 4 MCAR S 1.9131 Definition, availability, and maintenance of
35 certified public accountant workpapers. Workpapers are the

1 records kept by the independent certified public accountant of
2 the procedures followed, the tests performed, the information
3 obtained, and the conclusions reached pertinent to the
4 examination of the financial statements of an insurer.

5 Workpapers may include work programs, analyses, memoranda,
6 letters of confirmation and representation, management letters,
7 abstracts of company documents, and schedules or commentaries
8 prepared or obtained by the independent certified public
9 accountant in the course of the examination of the financial
10 statements of an insurer and which support his opinion.

11 Every insurer required to file an audited financial report
12 shall require the accountant, through the insurer, to make
13 available for review by the examiners the workpapers prepared in
14 the conduct of the examination. The insurer shall require that
15 the accountant retain the audit workpapers for a period of not
16 less than five years after the period reported upon.

17 In the conduct of the periodic review by the examiners, it
18 shall be agreed that photocopies of pertinent audit workpapers
19 may be made and retained by the insurance division. These
20 copies shall be part of the commissioner's workpapers.

21 4 MCAR S 1.9132 Exemptions. Upon written application of any
22 insurer, the commissioner may grant an exemption from compliance
23 with the provisions of 4 MCAR SS 1.9120-1.9136 if the
24 commissioner finds, upon review of the application, that
25 compliance would constitute a financial hardship upon the
26 insurer. An exemption may be granted at any time and from time
27 to time for specified periods. Within ten days from a denial of
28 an insurer's written request for an exemption, the insurer may
29 request in writing a hearing on its application for an
30 exemption. This hearing shall be held in accordance with Minn.
31 Stat. ch. 15.

32 Upon written application of any insurer, the commissioner
33 may permit an insurer to file annual audited financial reports
34 on some basis other than a calendar year basis for a specified
35 period. No exemption shall be granted until the insurer
36 presents an alternative method satisfying the purposes of this

1 rule. Within ten days from a denial of a written request for an
2 exemption, the insurer may request in writing a hearing on its
3 application. The hearing shall be held in accordance with Minn.
4 Stat. ch. 15.

5 4 MCAR S 1.9133 Reports prepared in accordance with generally
6 accepted accounting principles. With the commissioner's
7 approval, an insurer may comply with this rule by filing the
8 requisite reports which have been prepared in accordance with
9 generally accepted accounting principles if the notes to the
10 financial statements include a reconciliation of differences
11 between net income and capital and surplus on the annual
12 statement filed pursuant to Minn. Stat. S 60A.13, subd. 1 and
13 comparable totals on the audited financial statements, and a
14 written description of the nature of these differences.

15 4 MCAR S 1.9134 Examinations. The commissioner or a designated
16 representative shall determine the nature, scope, and frequency
17 of examinations under this rule conducted by examiners under
18 Minn. Stat. S 60A.031. These examinations may cover all aspects
19 of the insurer's assets, condition, affairs, and operations and
20 may include and be supplemented by audit procedures performed by
21 independent certified public accountants. Scheduling of
22 examinations will take into account all relevant matters with
23 respect to the insurer's condition, including results of the
24 National Association of Insurance Commissioner's Insurance
25 Regulatory Information System, changes in management, results of
26 market conduct examinations, and audited financial reports. The
27 type of examinations performed by examiners under this rule
28 shall be compliance examinations, targeted examinations, and
29 comprehensive examinations.

30 Compliance examinations will consist of a review of the
31 accountant's workpapers defined under 4 MCAR S 1.9131 and a
32 general review of the insurer's corporate affairs and insurance
33 operations to determine compliance with the Minnesota insurance
34 laws and the rules of the insurance division. The examiners may
35 perform alternative or additional examination procedures to

1 supplement those performed by the accountant when the examiners
2 determine that the procedures are necessary to verify the
3 financial condition of the insurer.

4 Targeted examinations may cover limited areas of the
5 insurer's operations as the commissioner may deem appropriate.

6 Comprehensive examinations will be performed when the
7 report of the accountant as provided for in 4 MCAR S 1.9128, the
8 notification required by 4 MCAR S 1.9129, the results of
9 compliance or targeted examinations, or other circumstances
10 indicate in the judgement of the commissioner or a designated
11 representative that a complete examination of the condition and
12 affairs of the insurer is necessary.

13 ~~Upon completion of each targeted, compliance, or~~
14 comprehensive examination, the examiner appointed by the
15 commissioner shall make a full and true report on the results of
16 the examination. Each report shall include a general
17 description of the audit procedures performed by the examiners
18 and the procedures of the accountant which the examiners may
19 have utilized to supplement their examination procedures and the
20 procedures which were performed by the registered independent
21 certified public accountant if included as a supplement to the
22 examination.

23 4 MCAR S 1.9135 Canadian and British companies.

24 A. Annual audited financial report. In the case of Canadian
25 and British insurers, the annual audited financial report means
26 the annual statement of total business on the form filed by
27 these companies with their domiciliary supervision authority and
28 duly audited by an independent chartered accountant.

29 B. Conformity letter. For these insurers, the letter
30 required in 4 MCAR S 1.9125 shall state that the accountant is
31 aware of the requirements relating to the annual audited
32 statement filed with the commissioner under 4 MCAR S 1.9123 and
33 shall affirm that the opinion expressed is in conformity with
34 those requirements.

35 4 MCAR S 1.9136 Insurers which are not required to file their

1 first audit on June 30, 1982. Notwithstanding the provisions of
2 4 MCAR S 1.9124 A.-F., an insurer which is not required pursuant
3 to Minn. Stat. S 60A.13, subd. 3a to file its first audit with
4 the commissioner on June 30, 1982, may for its annual filing due
5 on or before June 30, 1983, file:

6 A. A report of an independent certified public accountant;

7 B. A balance sheet reporting admitted assets, liabilities,
8 capital and surplus;

9 C. Any notes to financial statements. These notes shall be
10 those required by generally accepted accounting principles and
11 shall include:

12 1. a reconciliation of differences, if any, between the
13 audited statutory financial statements and the annual statement
14 filed under Minn. Stat. S 60A.13, subd. 1 with a written
15 description of the nature of these differences; and

16 2. a narrative explanation of all significant
17 intercompany balances.