

Frequently Asked Agency Examinations Questions

Q. What is the purpose of an agency examination?

A. The Agent Services Division protects the general public of North Carolina by ensuring that individuals representing the insurance industry have an adequate knowledge of the industry and possess the moral and ethical characteristics necessary to operate in a fiduciary capacity. When examiners enter an agency to conduct the audit, they verify that all agency employees are appropriately licensed, audit the agency's financials, and randomly review files to verify proper underwriting and rating.

Q. How does the Department decide which agents to audit?

A. There are 3 different types of agency examinations:

Random examinations occur when the examiner 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 examiner will make an unsolicited call upon this agency and proceed to conduct an audit/examination in order to determine how well the agency serves its customers. The principal may request the examiner to perform the examination at a later scheduled time for these routine, random audits. A random audit becomes a target audit if the examiner finds potential statutory and regulatory violations.

Targeted examinations occur when the Agency Examination Supervisor/Deputy Commissioner directs the examiner 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. Examiners conduct a full and complete examination for targeted agencies.

Follow-up examinations occur only after either one of the above examinations has been completed and a report containing significant errors or violations of statute or 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.

Q. How are agent's records reviewed?

A. All agency personnel licenses are inspected and verified with Department records. The examiner reviews a confidence level sampling of ten percent (10%) of all lines of business written in the agency. Also, the examiner reviews five (5) years or more of bank statements for the agent's premium account and reviews the reconciliation of premium receipts to deposits and remittance to the insurers.

Q. What are the most common problems found in an agency examination?

A.

- Financial record keeping
- Commingling of funds
- Charging service fees without proper notification to consumer
- Incomplete premium receipts given to customers
- Rating problems such as incorrect auto classes or homeowner protection classes

Q. What steps are taken if the examiner's findings indicate there are serious concerns such as financial or record-keeping mismanagement?

A. Actions vary according to the severity of the concerns:

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-The department has the authority to order an informal conference to discuss the concerns and for the agent to offer additional documentation regarding any allegation. If the agent does not appear at this informal proceeding, the Department proceeds with an administrative hearing that may result in the revocation of the agent's license. In many cases, the agency is given a chance to make the necessary modifications based on the plans laid out in the conference. Based on findings, the Division may refer cases to the Investigations Division for a criminal investigation.

Q. What happens if it appears the agency is financially insolvent?

A. If any division of the North Carolina Department of Insurance receives an allegation of financial insolvency relative to an insurance agency, that division immediately refers the matter to the Agent Services Division. The division implements the Financially Impaired Agency Policy:

- Notifies other Public Service Group Divisions and Senior Deputy
- Dispatch an examiner immediately to the agency to report initial findings to the Agency Examination Supervisor/Deputy Commissioner.
- Examiner will conduct an examination and prepare a report referencing the findings.
- The Agency Examination Supervisor and/or Administrative Deputy Commissioner of the Agent Services Division will notify the Deputy Commissioner of the Investigations Division if the agency examiner's assessment reflect allegations of potential criminal activity.
- Agency Examination Supervisor of the Agent Services Division will be responsible for placing on notice all affected companies. Agent Services Division will request 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 examiner from the Agent Services Division. The examiner 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 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.