

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
INSURANCE DIVISION

In the matter of the proposed
rules requiring annual audited
financial reports

STATEMENT OF NEED AND
REASONABLENESS OF
PROPOSED RULES

STATEMENT OF NEED AND AUTHORITY

Minn. Stat. § 60A.13, subd. 3a requires that every insurance company doing business in Minnesota, including fraternal beneficiary associations, reciprocal exchanges, and non-profit legal service plans shall have an annual audit of the financial activities of the most recently completed fiscal year performed by an independent certified public accountant. Minn. Stat. § 60A.13, subd. 4a empowers the Commissioner of Insurance to promulgate any rules which may be necessary to administer Minn. Stat. § 60A.13, subd. 3a.

These proposed rules requiring annual audited financial reports are based on the National Association of Insurance Commissioners (N.A.I.C.) model regulation which was adopted at its 1979 regular meeting. There was substantial support from insurance industry representatives for the adoption of the model rule by the N.A.I.C.

One of the principal responsibilities of the Commissioner of Insurance is to ascertain the financial condition of all licensed insurers. The public must have assurance that all licensed insurers have the financial resources to meet all obligations resulting from the insurance policies which it has issued. The statutes require all licensed insurers to file a detailed financial statement with the Commissioner annually. To verify the accuracy of the financial statements an examination is made by personnel of the regulatory agency.

All insurers licensed to write insurance in Minnesota are examined by staff personnel of the insurance department of their states of domicile. The vast majority of the regulatory agencies make an examination on a regular basis every three years. There are a few states that make examinations only once every four or five years. Inasmuch as the report of the examination takes an average of one year after the date of examination to be printed and furnished to the regulatory agencies in which the insurer is licensed, there will be four years in which the correctness of the insurer's financial statement may be in doubt.

The proposed rules implementing the statute requiring annual audited financial reports of all licensed insurers will fill the gap for the years between examinations and give the Commissioner considerable assurance as to the reliability of the filed statutory annual statements of the insurers. The rules specify the data which must be included in the annual audited financial report and set standards to be met by the Certified Public Accountant preparing that report, in order to assure that the data received by the Commissioner is meaningful and reliable.

The proposed rules should be adopted to improve regulation and to provide the general public with increased assurance as to the accuracy of the financial records of licensed insurers and that they will be able to pay the benefits provided in the policies issued by them.

FACTS ESTABLISHING REASONABLENESS

The proposed rules are based on and with very minor variations are identical to the model rule developed by a N.A.I.C. task force with considerable input from insurance industry representatives.

The model regulation was adopted by the N.A.I.C. at its regular meeting held in December, 1979 at Los Angeles, California. The regulation has been adopted by a number of states, including Wisconsin. In some instances the regulations adopted in these states differ somewhat from the N.A.I.C. model but agree on the basic principles and requirements.