

## **Financial examination reference card**

### **Why does the Commissioner's Office do examinations?**

There are several reasons why we may examine your records. The primary and most important reason, however, is to protect the consumer by verifying you are complying with the law (RCW 48.03.020). This law grants us authority to examine your records, and RCW 48.03.030 requires licensees to "... make freely accessible to the commissioner the accounts, records, documents, and files in his or her possession or control relating to the subject of the examination, and shall otherwise facilitate the examination."

### **What is an examination?**

An examination is a review of your financial records to verify you have properly handled the consumer funds and transacted the business of insurance within the requirements of the law. The review can include elements verifying that:

- Coverage was placed
- Return premiums were properly refunded
- Separate premium account has been managed properly
- Required bonds have been secured and maintained in the proper amount

If you are a surplus line licensee, the examination often requires validating that certifications are appropriately filed and taxes are paid as required by RCW 48.15.

### **How will I know if my firm is being examined?**

Our agency representative will contact you by email and request documents and records for review. In addition, our examiner will follow-up with a call to discuss the examination process.

### **What records will the examiner look at?**

We will review financial records that will assist us in determining appropriate accounting for the fiduciary funds received and policy placement. The following are examples of records we might request:

- Bank statements and bank reconciliations for separate premium account(s) and operating account(s)
- Customer receipts for payment of premium
- Check registers for separate premium account(s) and operating account(s)
- Deposit receipts (itemized)
  - General ledger (comprehensive and detailed for separate premium account and all agency operating accounts)
  - Balance sheets and income statements/profit and loss for each month
- Accounts receivable and accounts payable records
  - Commission statements from insurance companies
  - Agency – insurer agreements

- Agency bill statements from surplus line brokers, MGAs, agencies and all other records demonstrating coverage placement
- Unearned commission and cancelled policy premium refunds
- Insurance producer and/or surplus line broker bond, if applicable
- Sweep reports from insurance companies
- Record of policies placed during the examination period (include insured client's name, insurance company/broker/agency name, premium amount, policy number, type and term of coverage)
- Statistics on business volume and premium (book of business) for insurance policies and bonds placed during the examination period (number of policies and total premium)
- Policy files (hard copy and electronic)
- Fee disclosure forms

**Will the examiner need records other than those listed above?**

Yes, our agency representative may ask to interview the business owner, the employees, insurance carriers, referring licensees, agencies you place insurance through, customers, or any other relevant parties to verify the consumer's interest is protected.

**What should I expect during the examination?**

Our representative will give you a brief overview of the examination process, and explain the period and scope the exam will cover. The examination process may take several weeks. The examiner may ask for additional information throughout the process.

**How will I know when the examination is complete?**

Our examiner will schedule a call to discuss the preliminary results of the examination. Any area of potential non-compliance will be further discussed at this time. An Examination Review Form may follow this call, requesting your acknowledgement of any areas of non-compliance, and your agreement to revise policies and procedures.

**What happens if I disagree with the examination findings?**

You have the right to present us additional information you believe addresses the concerns our representative identified. You must submit this information to us in a timely manner if you want us to consider it.

**What happens when the examination is complete?**

At the completion of the examination, you will receive an examination report by email. If there are no findings, the examination is closed and the examination process is complete. If the examination results in findings, a follow-up examination will be scheduled to confirm changes have been made to comply with the law and regulations.

In rare circumstances, our representative may refer the licensee for administrative action. When this occurs, we will explain this to the licensee.