

## **Office of the Insurance Commissioner's Producer's Financial Examinations**

By Kathryn Brenda, CPA  
Lead Financial Examiner  
Office of the Insurance Commissioner

The Office of the Insurance Commissioner (OIC) conducts financial examinations to protect consumers by confirming producers are complying with Washington State insurance laws and regulations. The Producer Licensing and Oversight (PLO) program performs at least sixty financial examinations on licensed resident insurance agencies per year. Licensees are selected based on size, number of affiliations, geographical location, and examination history.

The financial examination primarily focuses on the accounting records maintained for the separate premium account, and the premium detail provided by the insured. The Examiner evaluates the licensee's policies and practices to process premium, and return premium, as well as the existence of adequate accounting records that provide an audit trail.

### **Scope of the Examination**

The Examination includes review for compliance of the insurance laws and regulation for the state of Washington, specifically:

- RCW 48.17.250 Insurance producer's bond,
- RCW 48.17.270 Compensation disclosure for insurance producers,
- RCW 48.17.470 Records of insurance producers,
- RCW 48.17.480 Reporting and accounting for premiums,
- RCW 48.17.600 Separation of premium funds,
- RCW 48.18.220 Receipt of premium to bind coverage—Contents of receipt,
- WAC 284-12-080 Requirement for separate accounts, and
- WAC 284-30-550 Receipts to be given.

### **Financial Examination Process**

If an agency is selected for a financial examination, the Designated Responsible Licensed Person (DRLP) will receive an email notification from the OIC. Most examinations are conducted remotely at the OIC. Financial documents are requested through secure email. Various documents are requested, including accounting records, bank statements, production reports, insurance company statements, and agency bill statements. A description of the requested items is provided with the examination notification. Questions about the data requested are encouraged to confirm that the Agency is only providing what is needed for the examination. Scheduling issues affecting data submission can be coordinated with the Examiner.

The examination process may take several weeks. The Examiner may ask for additional information throughout the process. If an item of non-compliance results, the DRLP will receive

an Examination Review Form indicating the area of non-compliance. At the conclusion of the examination, the DRLP will receive an Examination Report stating that the examination is complete, or that the agency has been scheduled for a re-examination. The purpose of a re-examination is to confirm corrective action is complete on any items of non-compliance identified during the initial examination.

## **Examination Areas of Emphasis**

### **1. Accounting Records for the Separate Premium Account**

An accounting system or accounting records must provide an audit trail for the separate premium account. The premium account should reflect insured fund balances of premium, which includes premium taxes, commissions and return premium (WAC 284-12-080). Accounting records provide detail from receipt to deposit of funds in the separate premium account, through the eventual payment of funds to entitled parties (insurer, broker, premium finance company or insured) as required by RCW 48.17.470, RCW 48.17.480, RCW 48.17.600, and WAC 284-12-080.

The Examiner will review the accounting records to determine the balance by insured in the separate premium account, and that premium is processed promptly. Licensees receive premium funds on behalf of an insured and fulfill their fiduciary duty, or obligation, by promptly accounting for and paying the premium funds to the entitled party. (RCW 48.17.600, RCW 48.17.480) The licensee is responsible for the balance in the premium account detailed by who owns, or is entitled, to the funds.

### **2. Return Premium**

The examination includes the review of premium returned to entitled parties for policy cancellations during the examination period to ensure prompt payment. (RCW 48.17.480(2) and WAC 284-12-080(5)) Prompt is considered to be within either a one-month operating cycle or approximately thirty days of either receiving the return premium money or taking a credit against what is owed to the insurer or broker.

### **3. Separation of Funds**

Both operating and premium accounts are reviewed to determine premium funds are kept separate from all other business and personal funds, with some exceptions. Additional funds may be added to the separate premium account for the purpose of advancing premium, establishing reserves for paying the return premiums, or for any contingencies as may arise in the business of receiving and transmitting premium or return premium funds. (RCW 48.17.600(2) and (3), plus WAC 284-12-080(2) and (4)).

#### **4. Other Areas of Review**

Bond Requirements - RCW 48.17.250 and RCW 48.15.070

The examination will include a review of policy placement and appointments. A bond is required for any Agency that places policies through insurers to whom the Agency is not appointed.

Compensation Disclosure – RCW 48.17.270 and WAC 284-17-625

If fees are charged, compensation disclosure forms are reviewed for compliance.

Customer Receipts - WAC 284-30-550

The examination includes a review of personal line customer receipts. The Agency must provide each insured a signed receipt containing the following:

- the date premium funds were received,
- the producer's name and address,
- the insured's name,
- the dollar amount received,
- the full legal name of the insurer or premium finance company to whom funds are due and,
- the policy or contract number.

Separate Premium Account Designation - RCW 48.17.600 and WAC 284-12-080(2) require all funds representing premium, as defined in RCW 48.18.170, received by a producer in his or her fiduciary capacity be deposited in one or more identifiable separate accounts. The separate premium account should state "Client Premium Fund" or "Client Premium Account".

#### **Common Finding of Non-Compliance**

The following are common findings of non-compliance with insurance laws and regulations of Washington State:

1. Accounting Records – An agency does not maintain accounting records that provide an audit trail as required by RCW 48.17.470, RCW 48.17.480, RCW 48.17.600, and WAC 284-12-080.
2. Return Premium Processing – An agency does not process premium returned due to cancellation to the insured as required by RCW 48.17.480.
3. Customer Receipts – An agency does not provide receipts as required by WAC 284-30-550.
4. Separate Account Designation – An agency's premium account is not separately identified from other business accounts in accordance with RCW 48.17.600 and WAC 284-12-080.

We have found that many findings can be corrected during the course of the examination especially findings for customer receipts and account designation. In those instances, a re-examination is not necessary.

### **Continuing Education**

As part of the examination process, we offer a one-hour continuing education presentation on financial examinations and compliance with insurance laws and regulation for the state of Washington.

### **Resources**

The Insurance Commissioner's website has additional information on the requirements of the separate premium account at <https://www.insurance.wa.gov/separate-premium-accounts> and other compliance issues at <https://www.insurance.wa.gov/compliance>.

We hope that our Financial Examinations are educational and informative. Our goal is compliance with Washington State insurance laws and regulations. It is important to note that the financial exam is not intended to determine compliance violations for which the agency will be immediately fined. If a licensee has compliance questions, Producer Licensing and Oversight can be reached at 360-725-7144. If you have specific Financial Examination questions, please contact Kathryn Breda at [KathrynB@oic.wa.gov](mailto:KathrynB@oic.wa.gov).