

# STATEMENT OF SCOPE

## Office of the Commissioner of Insurance

**Rule No.:** Agency 145 – Ins 50.01, 50.14 and 50.155

**Relating to:** Financial compilations and eligibility for small-size exemption

**Rule Type:** Permanent

### 1. Finding/nature of emergency:

NA

### 2. Detailed description of the objective of the proposed rule:

The proposed rule clarifies the financial compilations that the commissioner shall have access to when evaluating the financial condition of an insurer, specifically to clarify that certified public accountant workpapers are subject to Wis. Admin. Code § 50.14, that an insurer is required to provide for review at the request of the commissioner. The definition of work papers at Wis. Admin. Code § 50.01 (9), will also be amended for consistency with the changes to Wis. Admin. Code § 50.14. Additionally, the proposed rule will allow smaller insurers that are not part of a group to be eligible for the small-size exemption from internal audit functions under Wis. Admin. Code § 50.155.

### 3. Description of the existing policies relevant to the rule, new policies proposed to be included in the rule, and an analysis of policy alternatives:

The Commissioner seeks to clarify the required documents that insurers shall provide to the office of the commissioner of insurance including certified public accountant work papers from financial compilations regardless of why or when the work papers were created. Clarity will facilitate timely review of insurers financial condition, a primary responsibility of the Commissioner. The proposed rule will also address a gap in current regulation that does not recognize as an eligible insurer, total annual direct written and unaffiliated assumed premiums less than \$1,000,000,000, for a small-size exemption from internal audit requirements. The current rule limits the small-size exemption to an insurer that is part of a group of insurers, a result that was unintended by the Commissioner. The proposed rule will correct this oversight.

### 4. Detailed explanation of statutory authority for the rule (including the statutory citation and language):

The Commissioner has the general authority to promulgate rules necessary to administer and enforce Wis. Stats. Chs. 600 to 655, and as provided in Wis. Stats. § 601.41 (3) (a)., grants the Commissioner “rule-making authority” under Wis. Stat. § 227.11 (2) (a). Wisconsin statute § 601.42, the Commissioner “may prescribe reasonable minimum standards and techniques of accounting and data handling to ensure that timely and reliable information will exist and will be available.” Finally, Wis. Stat. § 623.02, provides that “[W]hen promulgating rules, the commissioner shall consider recommendation made by the National Association of Insurance Commissioners, generally accepted accounting principles both in the insurance industry and outside it, the requirements of the law and the needs of regulation including the detection of insolvency, the needs for information of insureds, investors and the public.”

### 5. Estimate of amount of time that state employees will spend developing the rule and of other resources necessary to develop the rule:

150 hours.

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**6. List with description of all entities that may be affected by the proposed rule:**

All insurers with total annual direct written and unaffiliated assumed premiums less than \$1,000,000,000.

**7. Summary and preliminary comparison with any existing or proposed federal regulation that is intended to address the activities to be regulated by the proposed rule:**

There is no existing federal regulation that is intended to address the changes that will be proposed in this rule.

**8. Anticipated economic impact of implementing the rule (note if the rule is likely to have a significant economic impact on small businesses):**

The changes will provide clarity to insurers regarding the documentation required to be provided to the Commissioner and will not have any economic impact to licensed insurers, agents or the general public but will improve the Commissioner's review of financial solvency. The proposed modification to include additional insurers from internal audit requirements will current economic burdens to eligible insurers without increasing costs or other economic impact to other licensed insurers, agents or the general public.

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Mark Afable, Commissioner of Insurance

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Date

September 30, 2020  
Date Submitted