

December 19,
2003

To: All Domestic Companies authorized to write Life and/or Accident and Health and Property and Casualty Insurance in Illinois (including Fraternal); also All Domestic Health Maintenance Organizations and Limited Health Service Organizations.

From: J. Anthony Clark, Director

Re: (CB #2003-06) Potential Conflicts of Interest between a company's Independent Certified Public Accountant and Appointed Actuary
Life and/or Accident and Health
Sara Ross (217) 782-9760

Property and Casualty

Reply To: Jeff Jackson (217) 524-7999
Tom Lurkins (217) 524-5942

Health Maintenance and Limited Health Service Organizations
Jeff Martin (217) 782-1798

The Department has become concerned that a potential conflict of interest may exist when a company appoints its independent accountant and its independent actuary from the same firm to prepare the company's Annual Audited Financial Report and the Annual Statement Reserve Actuarial Opinion, respectively. It is the Department's belief that the audit should necessarily include some independent review of loss reserves, rather than just acceptance or dependence on the company's actuarial opinion, even when it is prepared by an actuary who is independent of the company. If the independent audit firm and the actuary providing the annual statement opinion are not affiliated, the Department assumes that the audit firm performs appropriate testing and review of loss reserves to form an independent opinion. In cases where the company's appointed actuary for annual statement purposes is affiliated with the firm conducting the independent audit, the Department is seeking assurance that the audit does truly include some independent verification of loss reserve liabilities, beyond mere acceptance of the annual statement opinion prepared by the firm's affiliated actuary.

To address this issue the Department suggests that companies which may retain an actuary to provide the annual statement actuarial opinion from the same firm retained to conduct the independent audit discuss this with the appointed firm to consider whether a conflict indeed may exist and take necessary actions to eliminate any potential conflict of interest. Each domestic company is encouraged to act on this prior to submission of the 2003 annual statement reports and remain aware of this situation in future years.

Questions regarding this action should be directed to the above listed contacts.