

December 15, 1997

TO:

All Illinois Domestic Property and Casualty Companies and Inter-Insurance Exchanges

FROM:

Robert W. Flaws, Chief Examiner

RE:

On-site Financial Examinations (CB #97-8)

The Illinois Department of Insurance conducts on-site financial examinations of all domestic insurance companies on a periodic basis. As part of the examination effort, the examiners usually employ EDP audit software when performing audit work on specific items. In order to facilitate these EDP applications, the examiners will request data files from the company under examination in an electronic format. These data files are most often those files which support the values recorded in the Annual Statement and related documents.

Each property and casualty company under examination should be prepared to supply the financial examiners with copies of company data files needed for the audit. These data files will be returned to the company at the conclusion of the on-site audit work. In order that these files be available, each company should save and store copies of all electronic data files used in preparation of the annual statement values and related documents at each year end, in anticipation of a financial examination.

In the past, some files requested by the examination staff had to be reconstructed by the company's data processing department at great expense in terms of processing time and audit delay.

Attached is a listing (generic) of files which should be saved in anticipation of requests by the Illinois Department's examiners. Please view this list as a minimum requirement for data files.

Property and Casualty Company Files

All written premium transactions for the years under examination.

All transactions associated with paid contract claims and loss reserves for the period under examination.

All transactions associated with premium and agents' balances for the entire period under examination.

Data files which support values and transactions reported in Schedule D of the Annual Statement.

All data files which support the following items: Reinsurance recoverable on paid and unpaid losses;

Liability for unearned premiums

When your company has been notified of a regularly schedule financial examination, the following items should be produced and made available to the Insurance Department's computer audit specialist:

A narrative description of each data processing system that contributes financial data to the Company's Annual Statement;

A summary of the internal controls within each system;

An organizational chart of your data processing department.

New examination standards outlined in the current version of the NAIC Examination Handbook mandate an expanded review of all company data processing systems.