

December 19, 1963

SUBJECT: INSURANCE

WITHDRAWN

Circular Letter 63-7

The National Association of Insurance Commissioners issued revised pages for its "Guide Lines" on June 11, 1964. These were not distributed to domestic insurers by the New York State Insurance Department and are therefore attached.

TO THE CHIEF EXECUTIVE OFFICER OF EACH DOMESTIC INSURER:

Dear Sir:

The National Association of Insurance Commissioners at its meeting in Seattle, Washington, in June, 1963 adopted "Procedural Guide Lines For Examination Of Accounts And Records Compiled By Electronic Data Processing Systems" which are now incorporated as Part D of the NAIC Examiners Handbook. This Department subscribes to such "Guide Lines" (a copy of which is enclosed for your information), and will expect domestic insurers to adopt procedures consistent therewith.

Item (a) of the Guide Lines requires insurers "to advise the home state insurance department of the initial installation of electronic equipment". In order to implement this requirement, I am requesting that your company complete and promptly return the enclosed Questionnaire Re Existing or Planned Data-Processing Installations or Applications.

In the event that the answers to all questions on the questionnaire are in the negative, you are requested to notify this Department promptly of any contemplated plan for installation of an electronic data-processing system or for employment of an independent service organization for electronic data-processing applications.

Very truly yours,

[SIGNATURE]

Acting Superintendent of Insurance

Enclosure

QUESTIONNAIRE

Re: Existing or Planned Electronic Data-Processing Installations or Applications

Name of Insuring Organization_____

Address_____

Please check "Yes" or "No", appending appropriate description where called for:

	Yes	No
1. Has your organization installed an electronic data-processing system or systems?	___	___
2. Does your organization employ an independent service organization for electronic data-processing applications?	___	___
3. Does your organization plan to install an electronic data-processing system or employ an independent service organization for electronic data-processing applications?	___	___

If the answer to any of the questions is "Yes", attach a brief description of the equipment, including, where applicable, name of manufacturer and model numbers or name and address of independent EDP service organization, and the target date for installation and/or use of the electronic data-processing system or applications.

Date _____

Name and title of officer responsible for preparation of questionnaire

NOTE: The completed questionnaire should be returned to Mr. Seymour Goodman, Chief of Life Bureau, at the above address.

NATIONAL ASSOCIATION of INSURANCE COMMISSIONERS

EXAMINERS HANDBOOK

Part D Pages D1-D3

Examination of Accounts and Records Compiled by Electronic Computers

PROCEDURAL GUIDE LINES FOR EXAMINATION OF ACCOUNTS AND RECORDS COMPILED BY ELECTRONIC COMPUTERS

(a) Insurers are to advise the home state insurance department of the initial installation of electronic equipment. Insurers must continue to meet the requirements set forth in items (b) through (h) below, and as long as they do so they are free to modify their data-handling procedures without advance notice to their home state insurance department.

(b) The data entering the accounting system as input, including transactions, should be printed out in appropriate sequence, or available for print-out in appropriate sequence to allow checking back to source data underlying that input.

(c) Examiners should be in a position to conduct an adequate examination without having to examine and evaluate flow charts, block diagrams, programs, and similar technical descriptions of data-processing systems. However, the insurer must, upon request, make available for reference and examination all such relevant material in its possession.

(d) The insurer must give the examiners an adequate audit trail by which to follow transactions from input to result. The insurers shall satisfy the examiners' requirements by either a step-by-step basis similar to what has been available under manual or card systems, or reconstruction of sample results from input on the basis of samples selected by examiners.

(e) The insurer must provide records for the examiners of the detail files as of each year-end covered by the examination, after reflecting all relevant transactions in the files. The insurer shall satisfy this requirement either by a prior print-out, or by the ability to print out at request of the examiners.

(f) Requests by examiners for print-outs of detailed data shall be kept on a reasonable basis so that the demands of examination will not nullify for the insurers the advantages of having converted to modern data-processing system.

(g) Adequate facilities and procedures for record retention should be provided to assure the safe and proper storage of printed listings, reports and applicable supporting documentation. These facilities and procedures should allow for reasonably easy access to the stored data as required.

(h) There should be a preliminary meeting between home state examiners and officials of the insurer for the purpose of arranging that appropriate data be available for examination. This discussion should be sufficiently in advance of the date as of which the examination is to be made to enable the insurer to prepare the necessary records and tabulations, in order to meet the requirements set forth by the examiners.

PRE-EXAMINATION DISCUSSION

Generally, the discussion should take place about six months prior to the date as of which examination is to be made. The actual timing may depend upon the availability of the persons concerned and the magnitude and complexity of the audit.

The main purpose of the discussion should be to advise the insurer of the requirements of the examiners with respect to work to be done and records to be made available for examination purposes. It might also serve to elicit certain fundamental information with respect to electronic applications for the purpose of a preliminary evaluation of auditability characteristics.

The dynamic nature of electronic developments (present and future), the many different types of installations, configurations of equipment, and different systems of operations, all tailored to meet the specific requirements of the user, call for individual consideration of each company's installation and system of operation by the state of domicile of the insurer. In this connection, it would be most helpful to the insurer and the Department if the Department's representation can include persons qualified in the electronic area. Such persons should have specific training and education in this area, a necessary element for obtaining a better understanding of the application of electronic computers to insurance problems and the auditing needs of the examiners.

A pre-examination discussion might include information on the subjects in the following outline:

OUTLINE FOR DISCUSSION ON ELECTRONIC SYSTEMS AND PROCEDURES

A. NATURE OF EQUIPMENT

(1) A brief description of equipment now in use and number and nature of different processing centers within the company. (2) If an outside service bureau is employed, a brief description of equipment utilized and controls maintained

over records processed.

"PROCEDURAL GUIDE LINES FOR EXAMINATION OF ACCOUNTS AND RECORDS COMPILED BY ELECTRONIC DATA PROCESSING SYSTEMS"

* a) Insurers are to advise the home state insurance department of the initial installation of electronic equipment and of any subsequent major or radical change in such equipment. Insurers must continue to meet the requirements set forth in items (b) through (h) below, and as long as they do so they are free to modify their data-handling procedures without advance notice to their home state insurance department.

* Revised 6/11/64)
6465-1

(b) The data entering the accounting system as input, including transactions, should be printed out in appropriate sequence, or available for print-out in appropriate sequence to allow checking back to source data underlying that input.

(c) Examiners should be in a position to conduct an adequate examination without having to examine and evaluate flow charts, block diagrams, programs, and similar technical descriptions of data-processing systems. However, the insurer must, upon request, make available for reference and examination all such relevant material in its possession.

(d) The insurer must give the examiners an adequate audit trail by which to follow transactions from input to result. The insurer shall satisfy the examiners' requirements by either a step-by-step basis similar to what has been available under manual or card systems, or reconstruction of sample results from input on the basis of samples selected by examiners.

(e) The insurer must provide records for the examiners of the detail files as of each year-end covered by the examination, after reflecting all relevant transactions in the files. The insurer shall satisfy this requirement either by a prior print-out, or by the ability to print-out at request of the examiners.

(f) Requests by examiners for print-outs of detailed data shall be kept on a reasonable basis so that the demands of examination will not nullify for the insurers the advantages of having converted to modern data-processing systems.

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* The main purpose of the discussion should be to advise the insurer of the requirements of the examiners with respect to work to be done and records to be made available for examination purposes. Since such requirements may impose unusual programming and operating costs upon the insurer, it is desirable that deviation from such requirements be avoided, to the extent possible and consistent with the requirements of the examination. The discussion might also

serve to elicit information with respect to electronic applications for the purpose of a preliminary evaluation of auditability characteristics.

* (Revised 6/11/64)
6465-2

The dynamic nature of electronic developments (present and future), the many different types of installations, configurations of equipment, and different systems of operations, all tailored to meet the specific requirements of the user, call for individual consideration of each company's installation and system of operation by the state of domicile of the insurer. In this connection, it would be most helpful to the insurer and the Department if the Department's representation can include persons qualified in the electronic area. Such persons should have specific training and education in this area, a necessary element for obtaining a better understanding of the application of electronic computers to insurance problems and the auditing needs of the examiners.

A pre-examination discussion might include information on the subjects in the following outline:

OUTLINE FOR DISCUSSION ON ELECTRONIC SYSTEMS AND PROCEDURES

A. Nature of Equipment

(1) A brief description of equipment now in use and number and nature of different processing centers within the company. (2) If an outside service bureau is employed, a brief description of equipment utilized and controls maintained over records processed.

B. Organization of Electronic Operations

Give a brief description of the authorities and responsibilities for electronic operations, including electronic planning.

C. Applications of Electronic Operations

Review of the major jobs performed on electronic equipment, such as premium accounting, reserve determinations, loss accounting, etc., including the frequency of operation during the year. This review may involve discussion of:

B. ORGANIZATION OF ELECTRONIC OPERATIONS

Give a brief description of the authorities and responsibilities for electronic operations, including electronic planning.

C. APPLICATIONS OF ELECTRONIC OPERATIONS

Review of the major jobs performed on electronic equipment, such as premium accounting, reserve determinations, loss accounting, etc., including the frequency of operation during the year. This review may involve discussion of:

1. RECORDS

- a. Nature of data in the master or reference file and order of record keeping.
- b. Nature of data in transaction file applied to update master file and frequency of such updating.
- c. Sources of data for preparing transactions.

d. Provisions for machine listing of processed transactions.

2. AUDIT AND CONTROL

a. Systems checks and controls.

b. Provisions for adequate audit trails, including maintenance of visible records for spot checks.

c. Provision for inventory or cycle checks to reconcile master (basic detail) files with summary files, i.e., proof that summary file totals of master file records, by classification, agree with an inventory of such information contained in the master file.

d. Provision for audit by internal or outside auditor.

3. RETENTION PROCEDURES

a. Source data.

b. Punch cards and magnetic tapes.

c. Print-outs of records.

d. Programs.