



**STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004**

Circular Letter No. 30 (1998)
October 21, 1998

TO: All licensed life insurers, fraternal benefit societies, charitable and segregated gift annuity societies, employee welfare funds, retirement systems, viatical settlement licensees, governmental supplemental annuity funds, savings bank life insurance departments, property/casualty insurers, co-operative property/casualty insurers, financial guaranty insurers, mortgage guaranty insurers, reciprocal insurers, accident and health insurers, Article 43 Corporations, Public Health Law Article 44 health maintenance organizations and integrated delivery systems, municipal cooperative health benefit plans, accredited reinsurers, title insurers, the State Insurance Fund, the Medical Malpractice Insurance Association, the New York Property Insurance Association, the Motor Vehicle Accident Indemnification Corporation and rate service organizations; all hereinafter referred to as "licensees".

RE: Update on Year 2000

The Insurance Department continues to monitor the progress of licensees in addressing the Year 2000 problem. The Department has reviewed responses to Circular Letter No. 11 (1997) and to quarterly reports required thus far by Circular Letter No. 6 (1998) and has also assimilated certain Year 2000 data obtained from licensees. In addition, the Department has conducted, and will continue to conduct, on-site Year 2000 investigations. As a result of these initiatives, a number of recurring Year 2000 issues have come to the Department's attention.

The purpose of this circular letter is to address the recurring issues that have come to the Department's attention, communicate the Department's position regarding such issues, and provide feedback regarding the Year 2000 data obtained from licensees. Some of the recurring findings of our investigations are:

- Licensees should institute and/or improve communications to their Board of Directors. It is expected that the Board, or a committee of the Board, be advised of Year 2000 issues at least quarterly. At a minimum, the Board should be presented with details of the organization's overall progress in addressing Year 2000 and be informed when important benchmarks have not been met or are threatened.
- Licensees should develop contingency plans that address internal mission-critical systems as well as service providers and vendors on whom they depend for mission-critical functions. These plans should be reviewed and approved by the Board. Some licensees have informed us that their contingency plan

is "to make it" or to go to a manual system. The Department does not consider such options appropriate except in limited or exceptional circumstances. Each licensee should evaluate its unique circumstances and environment to develop appropriate contingency plans.

- In assessing the soundness and effectiveness of the Year 2000 plan, licensees should have an independent review of their compliance efforts. This can be accomplished by involving internal auditors, external auditors or outside consultants.
- Licensees should have their legal staff conduct a review of contracts and insurance coverages to assess exposure and liability in the event of Year 2000 failures.
- Licensees should perform Year 2000 due diligence with respect to large balance sheet exposures, including, but not limited to, large investment holdings, ownership and management of real estate, counterparties in derivative investments and fiduciary responsibilities as investment advisor, fund administrator, etc.
- Unlike other financial service industries that have been proactive in publicly communicating progress on Year 2000, the insurance industry's communications to date have been primarily passive – answering only those inquiries that have come to them. Maintaining one's reputation and sustaining consumer confidence are critical for all financial services firms. Uncertainty is counterproductive. We therefore advocate greater proactive communication on the Year 2000 issue with policyholders and other appropriate parties.

Based on Circular Letter responses, it is clear that the overwhelming majority of licensees plan to complete renovation of internal mission-critical systems, with testing substantially underway, by December 31, 1998. In general, 1999 is reserved for additional testing and certification and for completing compliance efforts with service providers and other third parties. Licensees are encouraged to apply additional resources, or otherwise enhance their plans, if they find they are not in this position.

All licensed life insurers, fraternal benefit societies, charitable and segregated gift annuity societies, employee welfare funds, retirement systems, viatical settlement companies, governmental supplemental annuity funds, savings bank life insurance departments, accredited life reinsurers and accredited accident and health reinsurer may direct any questions relating to this Circular Letter to:

Mr. Michael Maffei, Principal Insurance Examiner
Telephone (212) 480-4762

All licensed property/casualty insurers, co-operative property/casualty insurers, financial guaranty insurers, mortgage guaranty insurers, title insurers, reciprocal insurers, the State Insurance Fund, the Medical Malpractice Insurance Association, the New York Property Insurance Association, the Motor Vehicle Accident Indemnification Corporation, accredited property/casualty reinsurers and accredited title reinsurer may direct any questions relating to this Circular Letter to:

Mr. Leroy Kaalund, Associate Insurance Examiner
Telephone (212) 480-5198

All licensed accident and health insurers, Article 43 Corporations, Public Health Law Article 44 health maintenance organizations and integrated delivery systems and municipal cooperative health benefit plans may direct any questions relating to this Circular Letter to:

Ms. Kalo Daisy Wong, Senior Insurance Examiner
Telephone (212) 480-5244

All rate service organizations may direct any questions relating to this Circular Letter to:

Mr. Maurice Morgenstern, Supervising Insurance Examiner
Telephone (212) 480-5583

(SIGNED)

Martin F. Carus
Assist Deputy Superintendent
and Chief Examiner
Life Bureau

(SIGNED)

Mark Presser
Assist Deputy Superintendent
and Chief Examiner
Property Bureau

(SIGNED)

Fredric L. Bodner
Assist Deputy Superintendent
and Chief
Health Bureau