

## **How to Prepare for a Statutory Examination by the Connecticut Insurance Department**

In compliance with Section 38a -14 of the Connecticut General Statutes (CGS), at least every 5 years the Financial Regulation Division of the Connecticut Insurance Department (the Division) is required to perform a full scope, comprehensive financial examination of each domestic insurance company, health care center, and domestic fraternal benefit society.

The examination is based on guidelines from the National Association of Insurance Commissioners (NAIC) as included in the Financial Examiners Handbook and the CGS.

### **Highlights of an Examination:**

An examination covers the years since the prior examination and includes items such as:

#### **1. Standard Record Requests:**

To assist in preparing for an examination, initial “standard” record requests will be sent to the Company prior to the examination commencing. The requests cover items such as:

- Company Ownership and Organization
- Corporate Planning
- Company Culture
- Internal/External Audit
- Budgeting and Monitoring
- Financial Planning and Reporting
- Reinsurance
- Legal and Regulatory Requirements
- Code of Conduct
- Regulatory Actions and Compliant Handling
- Commitment and Contingencies
- Information Systems Questionnaire

#### **2. Understanding the Company:**

This includes:

- Gaining an understanding of the Company;
- Understanding the Corporate
- Governance Structure (including interviews with Company officials);
- Assessing the Adequacy of the Audit Function;
- Identifying Key Functional Activities and Sub-Activities; and
- Performing a Prospective Risk Review.

**3. Identifying Risks and Controls:**

Identifying inherent risks of the Company and identifying and evaluating controls in place to mitigate the inherent risks.

**4. Substantive Testing:**

Verification of balances reported in the statutory statements for compliance with NAIC and Connecticut guidelines. This includes a review of the Company's:

- Investments
- Premiums
- Claims and Reserves
- Reinsurance
- Expenses
- Taxes
- Intercompany Arrangements

**5. Actuarial:**

An actuarial review to evaluate the appropriateness of the methods and assumptions used in determining reserves and the adequacy of the resulting reserve amounts established.

**6. Information Systems (IS):**

An IS general controls review to evaluate the existing controls, policies and procedures established by the IS area in order to ascertain their effectiveness and to assist in assessing the degree of reliance which should be placed on internal controls during an examination.

**7. Examination Report and Management Letter:**

The end result of the examination will be an Examination Report (public document) and a Management Letter (confidential document) detailing the findings noted during the examination.

## **Efficiency of an Examination**

The following is essential for an efficient examination:

### **1. Company Contact:**

A main Company contact is essential for an examination to proceed in an expeditious manner. Duties of a contact include:

- The overall coordination of the examination;
- Assist in obtaining internal/external workpapers (including Sarbanes-Oxley documentation);
- Arrange and attend status meetings with the Division and appropriate Company personnel;
- Monitor outstanding record requests and following up with Company personnel; and
- Coordinate responses to examination findings.

### **2. Workpapers:**

The examination will utilize internal/external workpapers, including testing performed for compliance with Section 404 of Sarbanes-Oxley requirement to the extent possible to assist in reducing duplication of effort.

### **3. Data Files:**

Where information systems are used, data processing files supporting annual statement filings should be retained and be available for use with an audit software package utilized by the examiners. All support for entries, reconciliations and documents supporting adjustments to annual statement accounts should also be retained.

### **4. Logistics:**

The examination will be performed at the Company. The number of examiners is dependent on the size and complexity of an examination. The following basic requirements are needed for each examination:

- Individual working area for each examiner;
- Internet connectivity, phones and other standard supplies;
- Parking passes and IDs; and
- Access to a fax, printer and copy machine.