Q²

A newsletter of developments at QuasarSystems

We'd like to use this forum to inform you of changes and enhancements we've made to our systems. We continue to improve the processing and feel of *R², The Reinsurance Resolution.*

1998 R² User Group Meeting

In late August, we had our second annual User Group meeting. We had a very nice turnout from our clients, and we enjoyed spending a couple of days with all that attended. We missed seeing people from last year that wanted to attend, but weren't able to, Tom from Cologne and Lisa from IDS. The event was in downtown Milwaukee. It was gratifying to hear the positive feedback we were given on the city and the meeting.

Since everyone was flying in at different times the night before, we decided to meet in a nearby downtown bar/restaurant called the Safe House. We knew we were taking a chance by meeting there, because of the bar's reputation of embarrassing its guests. True to its name, the Safe House has an atmosphere of international intrigue. It's entrance is hidden. You must supply a password to gain entry. If you don't know the password, you must earn your entry. Some lucky persons snuck in early before the front guard started harassing the guests. Later arriving guests had to do a variety of things to gain admittance, such as don bunny ears and hop, act like monkeys or do the chicken dance. We even forgot to tell our illustrious leader, Doug , the password, so he charmed his way in by doing a hula dance in a grass skirt. Naturally, when this activity is going on in the well-hidden entrance, it is shown on monitors throughout the bar. (We wouldn't want anyone to miss it). That night afforded us the opportunity to meet one another in a non-business environment. The next couple of days were for business.

This year we demonstrated the Windows versions of R². We broke into smaller groups for hands-on demonstrations of systems and talks on specialized topics such as retention management. We had a problem solving session where we created groups of four to five people and had problems for each group to solve. Each group consisted of experienced and inexperienced users. It certainly was fun to see that each group was learning different techniques from each other.

Ken demonstrated how he performs version testing on each new version of the transaction programs. This was followed by Janet giving a talk on ad-hoc reporting.

Manderville Corbin from Barbados Mutual spoke to a group of Direct company administrators. He discussed the scope of monthly procedures from beginning to end. Thanks Manderville!

Meanwhile, the Reinsurers got together for a discussion of various methods for Assumed and Retro reinsurance processing and backup.

We repeated a meeting format from last year where we leave the room and let our users discuss, complain, rant and rave, or whatever, without our influence. We realize that we leave ourselves open to criticism, but we do truly want honest opinions about our performance.

For the last session of the day, we came back and talked about future directions. Users could share, anonymously, anything they had discussed in the private meeting. We've taken to heart suggestions on how we can better serve our clients.

The user group meeting is first and foremost an opportunity for our clients to meet each other and discuss relevant issues. We are anxious to begin planning next year's event scheduled for the 19th - 20th of August. We hope that all of you attend.

Retention Management

In the past year many changes have occurred to the Retention Management (RM) Module. If you are a new user, you may want to refer to the previous RM article in Issue 2, Sept. 1994. The earlier article explains the logic behind the RM Module. This current article will emphasize new features.

In order to run RM effectively:
☞ The user should sort the Policy file (PO) and have the key file, T$posrt.idx, for the current PO in it's company directory.

☞ The previous period's R²RM database (R²RMmmyy.TAN or .QSI) file needs to be in the output directory, as specified in the Setup.cnf flag RM Directory.

☞ The current month's RM extract needs to be in the Company Directory.

☞ Retention Schedule (RS) keys should be coded for the necessary retention schedules. The default is XX0....., where XX is the two digit company code/directory code.

☞ Configuration File (CF) flags to meet the company's needs and requirements for reporting should be properly set.

"Over-retained" "Don't Bug me flag"

There is a flag on the R²RM database that tells the RM02 program to allow a life to be over-retained. There may be lives that are allowed to be over-retained either due to intentional exceptions or special underwriting programs on old business.

If this flag is "On", the policy or life will not appear as over-retained on the over-retention report. If a change occurs on the life, the policy will appear on the report during that month, and then will not appear on the over-retention report until another change occurs. For RM02 version 02p and later, only the policy accepted as over-retained must have the flag "On" in order for this flag to work effectively. Prior to version 02p all policies on the life had to have the flag "On".

During the viewing of the R²RM database, **Alt-R** will allow the user to toggle this flag On or Off. The flag appears on the right hand side of the screen under the R² retained amount. It will read "over-retained" if the flag is "On", otherwise the field will be blank.

Insured Separator

The R²RM database has a field that allows the user to separate policies that have the same R²RM key (Insured ID). In some cases an Insured ID could match on twins or other policies that are not truly the same person. In these cases the user either needs to fix the Insured ID (if not derived from the name and Birthdate) or set the Insured Separator to be different on these policies. Once set, this flag will be carried from month to month on the R²RM database, until changed by the user. This flag will be used when reporting on multiple policies and for all over-retained calculations.

During the viewing of the R²RM, **Alt-U** will allow the user to set this flag to any desired numerical value. The flag appears on the right hand side of the R²RM key. If the insured separator is set to an *, the user may want to run RM03 to clear the * and set it to a blank. The preprocessor can be programed to use this flag when setting prior retained reinsurance trailers.

Another possible use of this flag is when a particular plan does not affect the retention calculation. The user can mark policies with this plan as a different life and therefore, will be excluded from retention calculations on all other coverages for this life.

Retention Management Output

There is a database and several reports generated by the RM Module. Following is a list of reports and a brief description of each report.

Retention Management

R²RMmmyy.QSI

A new database is built each month (mmyy = database month and year). The RM database contains important information for combining lives and determining if a life is over-retained. Underwriting Departments may use the RM database for determining if a new policy is facultative and what the current retention and ceded amounts are for that life. A user can use the RM database to create ad-hoc reports by life. These reports are very helpful when researching over-retained policies.

Retention Management Reports

anRM01.OUT

This report shows a quick glimpse of what policies are changing from last month's database to the current month's database and what type of change is occurring. New Business will also be shown in this report. This report is by policy number, not by life. Since this report is similar to anRM02.CHG the user may want to only use this report for investigating a problem.

anRM02.CHG

This report shows changes occurring since last month on persons with multiple policies. This report is similar to anRM01.OUT but is by life not by policy.

◇ Administrators may use this report to identify lives with changes in policy status or face amounts in order to determine if the change requires any adjustment in retention on another policy on the life.

◇ The administrator may also want to investigate terminations in comparison with new issues on a given life, to verify that conversions are properly identified and processed.

anRM02.RET

This report shows lives that are over-retained. This report should be checked in detail and the administrator should determine how to fix the policies so they are not over-retained.

◇ Some companies may accept certain amounts or exceptional cases to actually be over-retained. If this is so, the life should be marked as "Don't Bug Me" on the R²RM database.

◇ Some lives may be over-retained due to improper coding of the Insured ID or due to matching Insured ID's on lives that are not identical (i.e. twins). The administrator will want to mark the *Insured Separator* to keep these lives separate in future reporting.

◇ Some lives could have been issued incorrectly and amounts that were retained may need to be ceded. The administrator would need to do a manual

override or reissue on the policy and either fix the prior reinsurance trailer or create a reinsurance trailer to properly cede the life.

anRM02.OUT

This report shows all lives with multiple policies. This report can be very large and is usually not printed. Normally this report serves as a source for researching lives and for Underwriters wanting to see how much retention and reinsurance a life already has inforce, or for other research and reporting needs.

anRM02.ERR

This error report will show the user any errors that occurred while running RM02. These errors should be investigated and resolved.
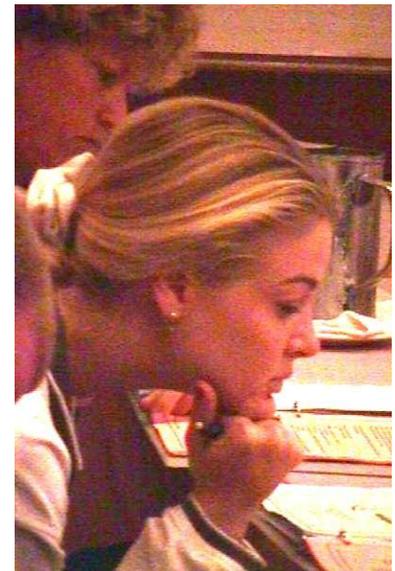
Questions and Answers

Q: *Who is Frasier and what has he done to my reserves?*

A: Well, we can't answer the first part (except for 'No, he's not the TV character'), but we can give you some information on Frasierized reserves.

We introduced Frasierized reserves for Joint Second-to-Die (STD) policies in 1997. Many companies use this method for valuation of STD policies. The method consists of looking up valuation mortality tables for each of the two insured lives and projecting a joint mortality that reflects the continuation of at least one of the two insureds. This results in very low probabilities of termination of the Joint status (i.e. both insureds dying) in the early years. This mortality curve then rises steeply in the later years.

This is the default valuation method for Second-to-Die plans which are coded with an Insurance Type 'J' in the Plan Header. Various companies using this method have provided formulas and sample calculations to us, and we have verified that the method we are using is consistent with their specifications. Some of our clients have special valuation methods that they use instead of this method. Such special calculations can be included in the valuation

system, but the modifications

would be chargeable to that client company.

Q: *What about Frasierized premiums?*

A: We also have clients who use "Frasierized" premiums for their STD products. They have provided us with the formulas (which are essentially the same as the formulas for the Frasierized valuation mortality rates). In these cases, we usually add this calculation to that client's preprocessor program and create premium trailers for each STD policy. The client provides the basic (single life) premium tables and any information on how to handle table ratings and flat extras. We program the premium formulas and test some sample cases to be sure the premiums we are calculating are correct. Since this is a client specific program, the programming and testing of these modifications is chargeable to the client.

Q: *What about Guideline XXX and Deficiency Reserves?*

A: For those who have been following the interminable "Guideline XXX" debates, you know that in the context of Term insurance, the Unitary Valuation Method can sometimes lead to

reserves which are lower than they would otherwise be. Due to abuse

by a small number of companies (certainly none of our clients), the "XXX" approach is being promoted to prevent these abuses.

Unfortunately, the "XXX" approach has many unpleasant results, not the least of which would be to raise the price of Term insurance to consumers, with no concomitant increase in benefits. This may be the primary reason why it has been stalled for such a long time. There is also no evidence (to our knowledge) that the current reserving methodologies for Term insurance have resulted in any negative financial impact on direct writing companies or insurance consumers. In fact, the lack of "XXX" has been a benefit to consumers in bringing down the cost of Term insurance and producing a truly competitive environment in Life Insurance. As near as I can tell, "XXX" is a solution without a problem.

Our normal approach to Term Reserves is what could be called the "segmented" method. That is, we look at each period of level premiums as a segment, and determine reserves during that segment, using only the premiums payable during that level term period. This calculation can be on a Net Level Premium (NLP) or CRVM basis (in the initial segment, or any re-entry segment only).

The segmented method is the starting point for the "XXX" proposals, and has been the traditional method for Level

Term insurance for many years. For Annually Renewable Term, the segments are one year each,

so the reserves we calculate are simply YRT reserves.

The R² Valuation System does not calculate deficiency reserves, since in most cases, such reserves are not ceded to the reinsurer. The methods for determining "deficiency" reserves are many and varied, so we have not tried to include any of these in the Valuation system. Due to the "judgement" involved in setting the "XXX" reserves (at least according to the last draft proposal we have seen), we do not anticipate including "XXX" deficiency reserves in the Valuation System.

Q: *What about Unitary Valuation?*

A: Recently we added a Unitary Valuation method to the Valuation system. We had not done this earlier, because we did not feel it was appropriate in the context of Level Term Life Insurance with re-entry and Ultimate YRT premiums. The client requesting this needed to use it for a Graded Premium Whole Life plan. This product simulates Annually Renewable Term for an initial period (e.g. 10 years, 20 years) and then Level Premium Whole Life after that initial period.
Since this appears to be a valid method for this type of product, we decided to include these calculations at no charge to the

client. They are therefore available to all of our clients on Maintenance in the current release of the Valuation system.

In order to use this method, you create your premium tables for the product as 10 or 20 year select tables with the Ultimate rate at each Issue Age being the level rate (e.g. in year 11 or 21). The table type for this is "U", which tells the R² Transaction System to use the tabular premiums just as described. This "U" will also trigger the Unitary Valuation method, using the same premium pattern.

If you have any problems or questions with this method, please contact your client liaison.

Q: *What is EDI?*

A: EDI stands for Electronic Data Interchange. Ken and Jim were invited to attend a meeting of the EDI committee in early September. The EDI committee is composed of a dozen or so representatives from many major reinsurance companies (Allianz, AUL, CNA, Lincoln National, Sun Life, Swiss Re were at the meeting we attended). They've been working for the last five years to develop a new standard for electronic reporting.

The group was commissioned with developing an international standard that would be used for transmission of electronic data between all direct writers, reinsurers and retrocessionaires. The system they've developed allows more flexibility than the SOA guidelines that were developed a decade ago. We will go into greater depth of what this will mean to you in a future issue.

Q: *In the SOA file I have a transaction code of ZZ. What does this mean?*

A: Once upon a time, we had a client that needed a way to

differentiate reversal transactions from forward transactions, so that premium reversals could be identified by their administration system. We started by simply reversing the letters. However, while LP reversed to PL, CC couldn't as easily be switched. So we provided a method where the user could map transaction codes to be used on reversal transactions. Thus CC became ZZ. This company no longer requires the use of these reversal codes and neither does anyone else. *However, it appears that some of the conversion programs and files that translate the R2TXccdd.tan files to SOA files still include this configuration line. It is an easy edit to remove this configuration line. If you or any of your reinsurers are experiencing this reversal occurrence, please contact our offices to help you remove this.*

Thank you for your continued support and suggestions. We appreciate and welcome all your comments and questions. Please let us know if there are any topics you would like to see examined in greater detail.

For additional information on any option, you should first consult your documentation manual. We would be delighted to answer any questions you might have.

If you would like a back issue of Q² please give us a call. The main topics of past issues were:

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