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.*

Program in Review
Qsre20p.exe

When doing research on policies, investigating the inforce files is always a good idea. To get a 'snapshot' of how the policy stands on the R² system, you can use the Windows menu option *View Policy Summary*. The program that makes this possible is Qsre20p.exe. The policy summary is divided into three parts, each distinguished by a header:

♣Under the first header comes the policy file **(PO)** information. Data such as *Status, Name, Age, Policy Date, Last Transaction Date*, and *Date of Birth* are listed here.

♣Under the second heading comes the coverage file **(RI)** information. For each coverage you will see the *Plan Code, Direct Face amount, Amount at Risk,* the *Inforce Date, Table Rating,* and *Number of Reinsurers*.

♣Under the third comes the **RE**, reinsurance file information. There is a line for each reinsurer involved with the policy. For each reinsurer, there is a list showing the *Ceded Face Amount, Ceded Amount at Risk, Facultative* or *Automatic Indicator, Treaty Key, Reinsurance Paid-to-Date,* and any *reinsurer specific rating*.

The policy summary allows you to search for a *name* as well as the *policy number*. A bonus of Qsre20p.exe is the ability to look at the trailers associated with the policy you are viewing.

This policy summary program is handy, but be aware that it requires a sorted index of the PO file to operate. If you do not have this index, you will be prompted to create it. To produce an index in Windows choose the Menu option: *Create Summary Index.* In DOS you run the batch file *Preval.bat*.

Language Files

Two new language files have recently been created for client-defined class and smoker codes. These two optional language files, located in the **Quasar** directory, contain 36 blank entries, to handle A-Z and 0-9. The language files only affect the text that appears on billing reports.

Class.Lge: The default classes defined in R² are Standard '**S**' and Preferred '**P**'. With Class.Lge, one can redefine these codes and/or add additional class types. The *Class* is stored in the transaction database and R² uses this file to report the proper description for client-specific class codes. If you do not provide a Class.lge file, then R² will report class *S – "Standard", P*

–" *Preferred",* or *"Class X"*, the letter '**X**' being the class provided

Example. "Class Z: Preferred Plus" is defined in Class.Lge. R² reports will produce subtotal lines with a description: "*Preferred Plus"* for Class Z policies.

Tobacco.Lge: The default smoker codes are *S - "Smoker", N - "Non-Smoker"* and *A - "Aggregate"*. With Tobacco.Lge, one can redefine these codes and/or add additional types. The **Tobacco Code** is stored in the transaction database and R² will use this file to report the proper description for client-specific fields. If you do not provide a Tobacco.lge file, then R² will report *Tobacco **X*** where '**X**' is the code provided.

Example "Smoke T: Tobacco User" is defined in Tobacco.Lge . R² reports will produce subtotal lines with a description: **Tobacco User** for Smoke Code T policies.

Note that the valuation programs use the Tobacco Code to determine which valuation mortality table to be used for a given policy. Thus, if you define Tobacco Codes other than those we have provided for (**N, S, A, T, C**) you will also have to create the corresponding valuation mortality tables for those combinations of table, sex and smoker codes.

Priors and Allocation

You may find yourself wide awake at night asking, 'How do prior policies on an insured affect allocation on a new policy?' This is a difficult topic. R^2 has a couple of ways to provide information on prior policies for an insured. You may provide this information in your extract - or you may code Reinsurance (RNS) Trailers. RNS Trailers allow you to provide information on amounts retained and ceded to any number of prior companies.

Prior RNS trailers, type '**P**' trailers, hold information on prior policies for an insured. Prior trailers may contain values for the ceding company and/or one or more reinsurers. We will call Priors coded for the ceding company *prior retained amounts*, and Priors coded for a reinsurer, *prior ceded amounts*.

Just how do these prior trailers affect allocation? They affect the face amount that a company may be allocated, taken from the highest allocation band(s) in which it participates. In the Treaty File, you can define how amounts get allocated in up to 5 bands. In our examples we show a hypothetical company that retains 25% of the first $2 million, while 3 reinsurers split the rest evenly. Above $2 million, the ceding company (CC) and Reinsurer 1 (R1) drop out. Above $3 million reinsurer 2, (R2), drops out. For simplicity, all reinsurers participate equally in any bands, though this need not be the case.

Sample Treaty	CC	R1	R2	R3
Band 1 $0-$2,000,000	25%	25%	25%	25%
Band 2 $2,000,001-$3,000,000			50%	50%
Band 3 $3,000,001-$99,999,999				100%

Band by band, allocation is calculated with the same percentages as coded in the treaties, until a company's maximum allocation has been reached. For the rest of the band, the allocation is based pro-rata among the remaining companies. Let's try to clear this up a little bit with some examples.

Example 1:
With $300,000 prior retained, an insured is issued a new policy with a face amount of $200,000.

To determine allocation, we know that this policy is small enough to remain in Band 1. What effect does the prior retained amount have on allocation? The most that can be retained in Band 1 is normally $500,000, but there is a prior for $300,000, dropping the maximum Band 1 retention to $200,000.

Going strictly by the percentages, each of the four companies can be allocated $50,000 of face value. Since this is below the $200,000 retention left in Band 1, the prior trailer does not effect the final allocation.

Allocation	CC	R1	R2	R3
Prior	300K			
Band 1	50K	50K	50K	50K

Example 2:
With $440,000 prior retained, an insured is issued a new policy with a face amount of $1,140,000.

To determine allocation, we must note that only $60,000 can be retained because of the prior retained amount. (Therefore, the first $240,000 of the policy is split evenly, giving $60,000 each to CC, R1, R2, and R3.)

The remaining $900,000 can be split evenly between the three reinsurers. This results in a total allocation to each of them $360,000 of face value, within their Band 1 limit.

Allocation	CC	R1	R2	R3
Prior	440K			
Band 1	60K	360K	360K	360K

Priors and Allocation

Example 3:
With $470,000 prior retained, an insured is issued a new policy with a face amount of $2,000,000.

To determine allocation, note that the amount that can be allocated in Band 1 is $1,530,000. The reinsurers can receive $500,000 each, and the remaining $30,000 is retained. That leaves $470,000 for Band 2, which is split evenly between reinsurers R2 and R3.

Thus, our allocation in this example is $30,000 retained, $500,000 for R1, and a total of $735,000 each for R2 and R3.

Allocation	CC	R1	R2	R3
Prior	470K			
Band 1	30K	500K	500K	500K
Band 2			235K	235K
Total	30K	500K	735K	735K

Example 4:
Lets try a difficult one. With a prior ceded amount of $700,000 to reinsurer R2, an insured is issued a new policy with a face amount of $5,000,000.

There is disagreement in the industry whether a prior amount ceded to a reinsurer should affect the amount sent to that reinsurer. Treaties may be set up in such a way as to ignore prior amounts to a reinsurer. In this example, we assume that these prior amounts are relevant.

Prior amounts are taken from the highest band first, leaving lower levels unaffected if possible. In this case, the highest band that R2 participates in is Band 2. R2 could normally accept up to $500,000 in Band 2. Since the *prior ceded amount* is $200,000 higher than the Band 2 *maximum allocation*, Band 1 *maximum allocation* will be lowered by $200,000 for R2.

In Band 1, R^2 allows the first $1.8 million to be ceded $500,000 to CC, R1, and R3, with R2 reaching

its limit at $300,000. In Band 2, R^2 only permits $500,000 to be ceded to R3. The rest of the policy face is also allocated to R3 as part of the 3rd band.

Allocation	CC	R1	R2	R3
Prior			700K	
Band 1	500K	500K	300K	500K
Band 2				500K
Band 3				3,500K
Total	500K	500K	300K	1,350K

Questions and Answers

Q: We have DOS programs to convert the R^2 electronic files that we receive, but they are from a long time ago. Are there updates?

A: While the old DOS conversion programs should still work, we do have a Windows version of the Reinsurer conversion programs, referred to as the SOA package to convert to and read the SOA recommended formatted electronic files. We have started packaging them with version names. Our current version is QSI.SOAPackage.01e. We will be indicating the most recent version available on every future Q^2 issue. If you would like an update, please contact Heather Huff. She will be glad to send it to you.

User Group 2001
Invitations to attend the 2001 User Group Meeting were mailed during February. The meeting will be held on August 15th - August 17th, 2001. If you wish to attend the User Group Meeting and did not receive an invitation, please email us at UserGroup@qsi-r2.com or check our website at www.qsi-r2.com . Information about this year's User Group Meeting is located on the Events Calendar Page.

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 send an email to us at Q2@qsi-r2.com. The main topics of past issues were:

Please visit the Quasar Systems Booth during the LOMA convention, March 26-28th. Laura Mueller and Heather Huff will love it if you stop by.

Current SOA file manager version is 01e.