Q2

A newsletter of developments at QuasarSystems

This forum is used to inform you of changes and enhancements we've made to our Reinsurance Administration System as we continue to improve the processing of *R² - The Reinsurance Resolution*.

Notify Trailers

Did you ever investigate a policy and wonder why you set up an RNS override trailer to specific treaties? Or have you tried to remember why you recaptured a couple of policies? You find the answer after spending a half hour digging through that pile of paper work sitting on your desk. Next time you do something special to a policy, just set up a *Notify* trailer on the system with a quick note to remind yourself.

Notify trailers were originally intended to be used by the preprocessor. The preprocessor would read the notify trailers and produce a report to "notify" the administrator to perform a task, such as extend a premium trailer, recapture a policy, or update the amount at risk before billing and valuation was run. *Notify* trailers are stored in the **anre01in.not** file found in the company area. While this is a useful purpose, the file may also be used to make general notes about the policy.

There are two places to view a *Notify* trailer: through the extracts using the data editor or via the policy summary. Notify trailers are viewed like all other trailers through the extract - click on the *trailer type* and the record is displayed if found. In the Policy Summary, (R² Menu → Inforce Files → Policy Summary → View Policy Summary) the *Notify* trailer will appear towards the bottom of the page after the summary of the policy information.

To create a *Notify* trailer, you go in through the preliminary extract (*anre01in.[syscode]*) or the billing extract (*anre01in.xtr*) and click on the *Notify* box. You have up to 160 characters to write a message – we suggest including the date the notify trailer was created and the initials of the person who created the trailer. A notify trailer can be created retroactively if you want to put one in for a policy that is already inforce.

Please talk to your client liaison if implementing the Notify trailers for reference purposes might work for you. ♣

Reinsurer-Specific Premium Trailers

It used to be that using *reinsurer-specific premium trailers* was an all or nothing deal. If you had one reinsurer with a premium rate different from the rest, you had to set up reinsurer-specific premium trailers for everyone. If you had four reinsurers, you needed a premium trailer for each one.

Now you can have your cake and eat it too! *Reinsurer-specific premium trailers* are controlled with a Configuration flag. This flag allows you to set up trailers for all reinsurers or to use a reinsurer-specific premium trailer and additional premium coding options, such as rate tables specified in the Plan Header or Treaty.

Example 1: Reinsurers **CD** and **EF** can use a rate table coded on the plan header but Reinsurer **AB** needs a specific premium rate. In this situation you would code the rate table on the plan header. Next you would code a *premium trailer* for this policy that specified **AB** in the **reinsurer** field.

Example 2: All the reinsurers use the same rate table to determine Frasierized premium calculations for a block of joint business except for Reinsurer **XY**. In this case you would set up two premium trailers. The first will contain the rates used by all reinsurers except **XY**; the **reinsurer** field will remain blank on the premium trailer layout. The second will contain the rates for Reinsurer **XY**, and the reinsurer field will be filled in as **XY**.

In either case, the transaction programs will produce a message alerting you of the situation.

If you have any business where you think you can implement this new option, please contact your client liaison for help. ♣

Valuation – Beyond Inforce Listings

R² Valuation Options

The R² system contains a valuation module for reporting on **ceded reserves** for reinsured business. There are many different ways to use the Valuation system, depending on the type of product and the type of reinsurance cession.

For traditional products, R² can calculate reserves using a specified *Interest Rate*, *Valuation Mortality Table*, and *Valuation Method*. Traditional products include most forms of Term Insurance, as well as Whole Life, Limited Pay Life, etc. Traditional valuation methods are available, such as: Yearly Renewable Term (YRT), Commisioners' Reserve Valuation Method - U.S. (CRVM), and Net Level Premium (NLP) calculation methods. R² provides for the coding and calculation of curtate, continuous and semi-continuous reserves within each of these methods.

In addition to the valuation of Life Insurance benefits, R² handles traditional tables and calculations for Waiver of Premium reserves and Accidental Death Benefit reserves. These reserves are typically calculated on a YRT or NLP basis (CRVM is specific to the base benefit). The underlying mortality table is that of the base coverage to which the rider is attached. In addition, we use either the 1952 Disability Table or the 1959 ADB table for the reserve calculations.

For Universal Life (flexible premium) products, the traditional methods are usually replaced by a single method: YRT reserves. Direct reserves for flexible premium products are usually complex calculations using the past and future premium patterns, as well as current accumulation accounts, current and guaranteed interest crediting rates as well as current and guaranteed mortality and expense charges. The choice of YRT reserves for reinsurance eliminates the need to know all of the direct policy information, and instead calculate the reserve liability based on the current amount of risk, using the interest and mortality rates and methods coded for each reinsurer.

R² can calculate a Monthly Renewable Term (MRT) option for cessions of flexible premium policies where premiums are paid to the reinsurer on a monthly, rather than annual, basis. In addition, for certain benefits and riders, the Net Premium can be specified as a percentage of the Gross Premium, with the reserve being one-half of the Net Premium.

Where Valuation Options Can Be Coded In R²

The simplest method for coding reserves is to use the Plan Header (PH) file, screen 3, to code the *Valuation Table*, *Method*, *Type* and *Interest rate*. These specify the default assumptions to be used in Reserve calculations, unless overridden. To vary any of these assumptions by reinsurer, you can code screen 5 of the Treaty (TY) file. There are similar fields on the TY for *Valuation Table*, *Method*, *Type* and *Interest rate*. Anything coded on the TY in this area will override the PH values.

For United States Valuation: R² has the ability to calculate Reserves on both Statutory and Tax bases. Each of these bases has some special logic and an additional file that may override both the PH and TY coding. The typical use of these overrides is to specify the Interest Rate to be used based on the Issue Year of each policy. For Statutory reserves, the **1986 Dynamic Interest Rate Model Law** specifies a maximum

Valuation – Beyond Inforce Listings

valuation interest rate allowed. The **Statutory Reserve [sys]SR** file is coded with these overrides.

For Tax Reserves, the IRS & Treasury Department specify the minimum valuation interest rates to be used. The **Tax Reserve [sys]TR** file is coded with these overrides.

If the Interest Rate determined from the coding in the PH and TY does not comply with the maximum or minimum so specified, the rate from the *SR* or *TR* file will be used. These two files should be updated annually, prior to running the first valuation reports for the new year. This is typically at the end of the first month or end of the first quarter, depending on the frequency of reporting.

The next most common override is to specify Mortality Tables to be used for Statutory or Tax reserves. These are also coded in the SR and TR files. For traditional products, a change in the Statutory Valuation table is usually accompanied by a change in premium rates, and therefore would be covered by creating a new product and a new Plan Code in PH. Products like Universal Life, which are ceded based on current risk

amount and using a YRT basis would be more likely to use the *Mortality Table* overrides in the SR and TR files. If you would like more information on how these overrides work, please contact your Client Liaison.

Joint Valuation Formulas

R^2 has the ability to calculate "Frasierized" reserves for joint (Second-to-Die) products. These formulas are standard, and can be used with any of the traditional valuation methods (YRT, CRVM, NLP). Variations may be programmed to handle company-specific Frasierized reserves when table rating and flat extras are involved. Most companies simply use a YRT basis for Joint reserves calculated in this manner.

User-defined Reserves

There are still other reinsurance situations where the products are coinsured, but the reserve calculation does not fit into any of the traditional methods. We provide a special program which can read a User-created file of Reserves and Net Premiums by policy and use these in lieu of our calculated reserves. This program can update the reserve fields on our

valuation databases, and include these specialized reserves in the regular Valuation Reports. The Reserves extract is designed to load whatever values the Client needs, with little or no additional programming needed by QuasarSystems. If you have a need for such a file, contact your Client Liaison. ♣

Next issue: Details on coding valuation reserves on a plan and treaty level.

User Group 2006

The site is set, the invitations have been sent - preparation for User Group 2006 is well underway!

This year's User Group Meeting will focus on coding new products, helpful output files, error resolution, and system queries. The popular client-liaison meeting will also be available to attendees.

New this year is the meeting's date. User Group will be held **July 26-28, 2006**. If you would like information, please visit our website (www.qsi-r2.com) or email us (usergroup@qsi-r2.com). The registration deadline is May 31st 2006. ♣

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.

We would be delighted to answer any questions you might have. If you would like a back issue of Q²please send an email to us at Q2@qsi-r2.com. The main topics of past issues were:

The current version of the Electronic Output Viewing Package is 02b.

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