

....CPS BULLETIN....

The Newsletter of CPS Actuaries and Computer Programming & Systems, Inc.

Volume 8, Issue 3

December / January 2008

Introduction

Happy new year to all of our loyal readers!

In this issue of **CPS Bulletin** we present our regular feature at this time of year of the changing requirements of the Annual Statement and its associated documentation. It is noteworthy that the relentless march towards paperless filing continues with the NAIC, NFCA and the State of CT joining the ranks of the e-filing fraternity. Bearing in mind the form filing changes outlined in the last issue of **CPS Bulletin** we are wondering how long it will be before paper filings of any description are completely eliminated.

The NAIC is focusing its energies on Corporate Governance for Insurers. Its new Model regulation addresses the application of section 404 of the Sarbanes-Oxley Act to insurers including Fraternal Benefit Societies. The Model regulation is long and multifaceted. While we have attempted to give you a preview in this issue's Regulatory Update, it deserves a much more comprehensive treatment which will be addressed in a forthcoming issue of **CPS Bulletin**.

Our computer article discusses what Blu-ray is and how that technology may affect the DVDs that we may watch in the next decade.

If you have any comments or suggestions, please contact us by visiting us at www.cpsincorp.com ❖

Checklists for Filing the Annual Statement

Again this year, **CPS Bulletin** is presenting a table to make your task of fulfilling the annual statement filing requirements a little bit easier. We have updated last year's list so the format is unchanged since 2006. The table is in the form of a separate pullout sheet to enable you to post it on the wall for easy reference.

The highlights of this year's changes are as follows:

- The NAIC, the NFCA and the State of CT have joined the ranks of the e-filers. Most states no longer require the filing of a hard copy of the annual statement by foreign insurers. Some of them do, however, require a signed and notarized Jurat page. These states have been marked on the pullout sheet with (Jurat) in the Annual Statement column.
- There are a number of additional questions in the general interrogatories. A series of questions relate to the insurer's code of ethics, which must be in written form. This is the beginning of a much greater focus by the NAIC of management conduct and ethics (see the Regulatory Update).
- Note 20 (Other Items) of the Notes to the Financial Statements requires some degree of assessment of sub-prime risk exposure.
- A number of states have added to the check-list several items regarding the "reasonableness and/or consistency of assumptions". Most of you do not have to worry about those, since they relate to NAIC guidelines XXXV and XXXVI regarding equity linked life and annuity products.

As last year, we denoted the different requirements for domestic and foreign insurers by "XX - d" and "XX - f" respectively. Because of space considerations, we have included in the table primarily the states that are of interest to our clients.

INSIDE THIS ISSUE

- 1 Introduction
- 1 Checklists for Filing the Annual Statement
- 3 Blu-Ray vs HD DVD Round 1
- 4 Regulatory Update
- 4 Interest Rate Monitor
- 4 About CPS

See **Checklists** on page 2

Checklists *continued from page 1*

The table should only be used as a guide. When filing the Annual Statement, you should refer to the materials sent by each state or check its website.

Other notes:

- IN requires foreign insurers to file: (1) Certificate of Advertising Compliance, (2) Supplement to the IN Health Exhibit (NIL return is required) and (3) IN Fee and Retaliatory Fee Statement
- IL Domestic Insurers are required to submit (1) Investment Supplements under sections 126.20 and 131.2, (2) reserve affidavit and three-year reserve comparison, (3) an extra copy of the Actuarial Opinion for the IL actuaries, (4) a Management Contract Supplement (Form 141.3), and (5) a Privilege & Retaliatory Tax Statement.
- All NJ insurers must submit (1) Medicare Supplement and (2) Annual Statement fees, which only apply if no NJ business is written. NIL return for both items is nevertheless required.
- WI requires the following additional filings: (1) Compulsory & Security surplus calculations (e-file), (2) Agents commission on WI business, (3) Fraternal Schedule of Fees (OCI 27-013), (4) Fraternal expenditures, activities and programs, and (5) Health Insurance Risk Sharing Assessment Form (e-file).
- VT requires foreign insurers to file an (1) Annual Statement Supplement for A&H lines of business and (2) Annual and Retaliatory Fee calculation.
- ME has special requirements for health insurers: (1) Advertising certification, (2) Annual report supplement (rule 945), (3) Health insurance annual data report (rule 940), (4) Mandated Benefit Experience Report, and (5) Supplemental health insurance report. Further filings are required by TPAs, HMOs and Managing General Agents.
- Although the ME checklist implies otherwise, the Supplemental Compensation Exhibit should be e-mailed to tracy.e.cunningham@maine.gov.
- VA requires numerous filings by health insurers in addition to those stated in our pull-out table. Please contact CPS for further details. For life insurers VA requires a Report of Encumbered Assets and an

Analysis of Capital and Surplus Investments Report (if not filed in state of domicile).

- The RI Contracted Insurance Producer Report must be filed only if the society has paid an RI producer more than \$100 in commissions for RI business in 2007 (NIL filing is required).

Some of our notation in the pullout table:

- An (H) after the document means that it is required for health insurers. Please note that AD&D is classified as health.
- The '*' symbol means that an additional copy of that item is required by the state actuarial bureau.
- The '#' symbol means that the item has to be filed with the insurer's state of domicile.
- The 'Δ' symbol means that a postmark date of March 1 is only acceptable via USPS. Private delivery must take place on or before March 1.
- The table refers to filings required by March 1, 2008. Additional filings may be required by March 15, 2008 and subsequent dates.
- We have excluded filings that are unlikely to be relevant to our clients, such as filings related to subsidiary structures and officers who hold stock in the insurance or management companies.
- NAIC fees are unchanged from last year. See www.naic.org/industry_filing_participation_fees.htm for the current scale. The NAIC no longer mails invoices - the onus is on the insurer to print the appropriate invoice and mail it with the payment to the NAIC by March 1.

We have included filings that in our experience are required by the regulators in practice and their absence is likely to evoke an inquiry. We are aware that additional documentation is often requested. For example, most states ask for Certificates of Compliance, Deposit and Valuation. Since few states regularly furnish these certificates, we only send these when they are readily available and have never been asked to supply the missing certificates. Also, we only provide a copy of the RBC Report when specifically asked for it; we would not recommend filing that report until a later date. ❖

Blu-Ray vs HD-DVD – Round 1

Many of our readers may recall a number of years ago the battle of VCR technologies between Sony's Betamax format and Panasonic's VHS format. As we all know, VCR technology won the battle despite the fact that the Sony Betamax was viewed by many to be the superior technology. VCR's have since been replaced by DVD players and now a new battle is brewing over the future of the DVD market, and in particular, the high definition DVD market. In one corner we have Sony (again) and its allies and in the other corner we have Toshiba and its supporters.

If you've been watching TV lately and you see an advertisement for a movie that is going to be released on DVD, at the end of the commercial the announcer now proclaims that the movie is available in Blu-ray and/or HD-DVD. The Blu-ray technology was developed by Sony and the HD-DVD is Toshiba's entry into the high definition market. Sony has allied itself with many illustrious names such as Samsung, Apple, Dell, Blockbuster and Target. Not to be outdone, Toshiba has Microsoft and Intel on its side. As you can see, both technologies have some major heavyweights behind them.

The reason for the development of the new technology is because of the move to see everything in high definition. Just a few years ago the change from VCR videos to DVD's made a major improvement in the quality of the picture you saw when you watched a movie on your TV; now, with the preponderance of new high definition TV's everywhere, there is a move to make the movies even clearer and more dazzling on your TV screen.

Why should anyone care which technology is going to be the next wave in high definition viewing? The main reason is that both formats are incompatible with each other and neither one plays on older DVD players. If you want to upgrade your DVD player to see in high definition, you do not want to end up with an obsolete system (anyone want to buy a Betamax system)? Moreover, the next personal computer that you purchase is likely to have one format or the other and may well influence your choice of hardware. Unfortunately, at this point, no one can tell which technology will ultimately win, although as discussed later, recent events are making one format the leader.

While Toshiba was first to market with its HD-DVD, at the

time of this writing, Sony seems to have (again) developed superior technology. Sony's high end VAIO PCs have Blu-ray drives which can also burn Blu-ray discs, a capability that Toshiba computers do not have. On December 27th 2007, Panasonic announced that the company has started shipping samples of the world's thinnest (9.5 mm height, which is only about 3/8ths of an inch) internal Blu-ray Disc (BD) drives to personal computer manufacturers. The new Blu-ray disc drive features double speed reading and writing for both write-once BD-R and rewritable BD-RE discs and their size will attract manufacturers striving to reduce the size of their machines.

On the other hand, the HD DVD camp claims that its stand-alone video players have outsold Blu-ray players in Europe's main markets by a margin of 3 to 1. This may partly be due to price with the stand-alone HD DVD devices selling for about one third of the price of the Blu-ray players. The HD DVD players currently retail for as low as \$150.

Sony is betting that superior marketing will make their Blu-ray format the surviving technology. Sony has created exclusive deals with Target and Blockbuster in order to promote their technology. Another important marketing tool is the video game market. Sony has already built Blu-ray into its Playstation 3 game console; this may be countered by Microsoft using HD DVD into its next generation Xbox 360 game console.

The technology that looks like it's gaining the most support is Blu-ray. On January 4th, 2008, Warner Brothers, which was the only remaining studio that was releasing DVDs in both formats, has decided to only release movie discs in the Blu-ray format starting in May, 2008. Warner Brothers made this decision because consumers have shown a stronger preference for Blu-ray discs. This decision may quicken the demise of the HD DVD format.

Our advice is that unless you are a gadget freak and must be one of the first to have any new technology, you may wish to wait until this summer before making a choice. By that time, the demise of the HD DVD format may be complete and we'll all be talking about Blu-ray disks instead of DVDs at that time. ❖

Regulatory Update

NAIC:

The NAIC has proposed a new Financial Reporting Model Regulation in order to improve the surveillance of financial reporting by Certified Public Accountants and management's Internal Controls. This is likely to be implemented in about two to three years time through adoption by various states.

The regulation tightens some of the dictates already in place and applies some of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. It will require the oversight of internal controls by an audit committee (which will comprise the whole Board if no audit committee is specifically appointed). The accountant must report to the audit committee significant accounting policies, alternative treatments of financial information within statutory accounting principles that have been discussed with management, and ramifications of the various alternatives.

For example, if a certain item may be amortized over a 3-year or a 10-year period, the accountant shall report that item of information to the audit committee,

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 40 years of client service. We offer a wide range of computer and actuarial services, including the following:

- Actuarial valuations
- Annual and quarterly statement preparation
- Policy administration software
- NAIC compliant illustration software
- Web site hosting, instant messaging, and e-mail
- Design, install and maintain local and wide area networks
- Hardware & software installation and upgrades

For more information regarding our services, please call us at **203-324-9203**, or visit our web site at **www.cpsincorp.com** ❖

CPS, Inc.

**NEW ADDRESS → 45 Church Street, Suite 201
Stamford, CT 06906**

inform them that it had been agreed with management to use the 3-year option and advise them of the implications of both options.

It prohibits directors and officers not only from making false or misleading statements to the accountant, but also from omitting any material fact.

As the model regulation currently reads, exemption is available to insurers who write less than \$1 million in premiums in the domicile state and have less than 1,000 certificate holders of directly written policies nationwide. This latter requirement will likely mean that almost all fraternal will not be exempt.

The accountant has to be qualified in this field and may not audit his own firm's work (such as consulting or actuarial practice). He must rotate off the audit after 5 years although the insurer may obtain relief from that provision on the basis of unusual circumstances.

NAIC:

The NAIC has updated its exam handbook to focus on the identification, understanding and assessment of the organization's business risks. It builds upon RBC requirements and other regulatory tools that seek to address risks specific to the operations of each insurer.

The focus is shifting from solvency at a specific point in time to a broader, more qualitative assessment of the risks inherent in each insurer's operations and the insurer's efforts to identify and mitigate such risks.

You may expect that future on site examinations will emphasize understanding of your key functional activities as well as the implementation of the new Financial Reporting Model Regulation. ❖

Interest Rate Monitor

The following are some key interest rate benchmarks:

<i>Benchmark</i>	<i>Current</i>	<i>3 Mths Ago</i>	<i>1 Year Ago</i>
Fed Funds	4.25%	4.75%	5.25%
Prime Rate	7.25%	7.75%	8.25%
30 yr Mortgage	5.79%	6.06%	5.75%
10 yr AAA B&F*	5.38%	5.63%	5.41%
5 yr AAA B&F*	4.64%	5.06%	5.18%

* B&F stands for Banking and Finance.

Source: www.bloomberg.com as of December 31, 2007.

State	Annual Statement	Supp. Comp.Exh.	Filing Checklist	Postmarked or Received on March 1	Other Items	Mailing Address
CT - f	0	0	0	Δ	-Cert of Advertising Compliance (H)	Connecticut Insurance Dept. 153 Market Street Hartford, CT 06103
FL - f	0 (Jurat: e- filed)	0 (#)	0	Received	-Audited Financial Statements Exemption Affidavit	Florida Dept. of Financial Svcs 200 East Gaines Street Tallahassee, FL 32399-0327
IL - d	2	2	0	Postmark	See note in Newsletter	Paul Ebelherr Illinois Dept. of Insurance 320 West Washington Street Springfield, IL 62767-0001
IL - f	2	0	0	Postmark		
IN - f	0	0 (#)	0	Postmark	See note in Newsletter	Indiana Dept. of Insurance 311 W. Washington St. Suite 300 Indianapolis, IN 46204-2787
LA - f	0 (Jurat)	0	1	Postmark	- State Filing Fee	LA Dept of Ins., Attn Admin Svc 1702 North Third Street Baton Rouge, LA 70802
MA -d	2	2**	1	Received	-License Renewal Appl. -State Filing Fees.	Comm of MA Insurance Division Financial Surveillance Section One South Station Boston, MA 02110-2208
MA - f	1	0 (#)	1	Received	-License Renewal Appl. -State Filing Fees.	
MD - f	0 (Jurat)	0	0	Postmark	-License Renewal Appl. -State Filing Fees.	Maryland Ins. Administration 525 St. Paul Place Baltimore, MD 21202
ME - f	0	1	0	Postmark	For all insurers: Fraud & Abuse Report see note in Newsletter	Maine Bureau of Insurance 124 Northern Ave. Gardiner, ME 04345
MI - f	0	0 (#)	0	Received	FIS 0322 (H)	Office of Financial Evaluation Michigan Dept of Cons & Ind Svc 611 West Ottawa Street Lansing, MI 48933
NH - d	2	1	1	Postmark	-Premium Tax -State Filing fees	Don Lodge/Mary Verville New Hampshire Insurance Dept. 21 South Fruit Street, Suite 14 Concord, NH 03301
NH - f	0	0 (#)	0	Postmark	-Premium Tax -State Filing fees	
NJ - d	3	1	1	Received	See note in Newsletter	Kwame Asare New Jersey Insurance Dept 20 West State St., 10 th Floor Trenton, NJ 08608
NJ - f	0 (Jurat)	0 (#)	1	Received	See note in Newsletter	
NY - d	1+1*	1	1	Received	NY Supplement	Insurance Regulatory Systems New York State Ins. Dept.
NY - f	1	0	1	Received	NY Supplement	One Commerce Plaza Albany, NY 12257
OH -d	0	0	1	Received	INS7004. On Line: INS7140 & 7142	Susan Shidaker Ohio Dept. of Insurance 2100 Stella Court Columbus, OH 43215-1067
OH - f	0	0	1	Received	INS7004	
PA - d	2+1*	2+1*	0	Postmark		Financial Analysis Division Pennsylvania Ins. Dept Rm 1345 Strawberry Square Harrisburg, PA 17120
PA - f	0 (Jurat)	0 (#)	0	Postmark		
RI - f	0 (Jurat)	0 (#)	1	Postmark	-Contracted Insurance Producer Report -Premium Tax	R.I. Insurance Division 233 Richmond St., Suite 233 Providence, RI 02903-4233
SC - f	0	0 (#)	0	Received	- Cert Advert Compli(H) - Health Turnover Pool (H)	South Carolina Ins. Dept 1201 Main St., Suite 1000 Columbia, SC 29201
VA - f	1	0 (#)	0	Postmark	- License Renewal App - Cert. of Advertising Compliance (H)	Bureau of Ins./Fin Reg., 1 st Floor Mailroom, 1300 East Main Street Richmond, VA 23219
VT - f	0 (Jurat)	0 (#)	0	Received	See note in Newsletter	Vermont Insurance Division Company Lic.,89 Main Street Montpelier, VT 05620-3101
WI - f	1 (Jurat)	0 (#)	1	Received	See note in Newsletter	Office of Commissioner of Ins. 125 S. Webster Street Madison, WI 53702-3474