

.....CPS BULLETIN.....

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Introduction

As Winter changes to Spring it can only mean one thing - it's time for another issue of the **CPS Bulletin**.

Our first article in this issue covers some of the advantages to establishing and maintaining a Local Area Network (LAN) in an office. A LAN will allow computers in the office to pass information back-and-forth using shared directories instead of having to store all information on each computer. The article also addresses a new generation of wireless LAN's that may be appropriate for certain offices.

The second article provides a general overview of the Gramm-Leach-Bliley Act that becomes effective in most states on July 1, 2001. In this article, we explain some of the more important features of the Act as well as provide information about what fraternal will need to consider in order to comply by the effective date.

This issue and all prior issues of **CPS Bulletin** can be viewed by visiting our web site at www.cpsincorp.com. The newsletter is in pdf format so that it can be read online or easily printed. If you would like us to e-mail future issues of the newsletter to you, please let us know your e-mail address and we can arrange to make that happen.

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To LAN Or Not To LAN

Imagine that you work in a small to medium sized office that employs half a dozen to twenty people. For example, you may be a physician in private practice, a partner in a law firm or an officer of a small fraternal benefit society. Over the last couple of years, you've increased the use of computers in your office so that, in addition to using PC's for basic office functions like word-processing and spreadsheets, you now have a PC based administration system and also perform bookkeeping on the PC. How can these PC's be connected to one another so that information can flow freely between them?

A LAN is a Local Area Network. It provides a means for communication between computers. It is often established by having a central PC (known as a server) that is connected to each of the PC's in the office. Data stored on certain directories on the server can be shared by all users, as opposed to having to store all data on each computer.

What are the advantages of using a LAN in your office?

- A LAN ensures the integrity of the data. Clearly, if more than one copy of a database were to exist on each computer in your office, you could have different versions of the database that could lead to information conflicts. This is especially true if more than one person is authorized to update a database.
- It provides the ability to share physical resources (hardware). If you had a LAN, all the computers in the office could, for example, use one or two printers instead of each person having to have their own printer.
- A LAN provides the ability to share programs

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(software). Some software programs require large amounts of memory to store them and it would be wasteful to install those programs on each computer.

- It provides the ability to backup files centrally. Many people find backing-up files to be a chore and hence this necessary task is often neglected. By networking the computers through the use of a LAN, this function can be performed centrally on a regular basis.
- A LAN facilitates the exchange of information between colleagues. Having a LAN means no more copying files onto diskettes! The LAN can be set up to limit user access to certain directories so that access and privacy are still protected. For example, only those individuals that are involved with preparing the payroll would have access to the directory where the payroll software resides on the server.
- It makes it easier to enhance security of data through hardware and software devices. For example, even if you have anti-virus software on your machine, it has to be continuously updated to recognize new viruses. Again, this chore is more easily handled through the use of a LAN.
- A LAN eases access to information via hand-held devices such as a Palm.
- Connecting to the Internet through a LAN could save money since separate Internet or phone accounts would not be needed for each computer. By connecting to the Internet through the LAN, the network administrator can periodically check to see whether employees were visiting non-work related web sites.

What are the principal disadvantages of a LAN?

- A LAN will cause some loss of independence. In some applications, if a person were editing a database, he or she would lock it to prevent others from updating it at the same time. Similarly, if one person wanted to print a lengthy document, other people would have to wait to use the printer.
- There is the cost of installing and maintaining the network, as well as the initial investment in the equipment needed to set-up the LAN.

- There is the initial disruption that may occur in order to construct the network.

These days there is a new generation of wireless networking. Unlike a traditional LAN that requires wires to be laid throughout the office to connect one computer to another, the wireless LAN uses receivers to send data from computer-to-computer. Such networks usually do not do away with all physical wiring, but much of it may be replaced with wireless transmissions. Wireless networks are especially useful in very old offices that are not conducive to running wires throughout the building.

While the initial investment in equipment for a wireless LAN might be higher than the cost of a regular, wired LAN, the overall installation expenses and life-cycle costs can be significantly lower. Long-term cost benefits are greatest in offices that require frequent physical moves and changes.

Additionally, wireless LAN systems can be configured in a variety of office situations to meet the needs of specific applications. Layouts can be easily changed; these can range from peer-to-peer networks suitable for a small number of users to full infrastructure networks of many users that enable roaming over a broad area.

It is generally assumed that a regular, wired LAN is more secure than a wireless LAN because in wireless communication data is transmitted through the airwaves, thus allowing an intruder to possibly "catch" the data with a receiver from a distance. However, in wireless LANs, the data is encrypted before it is sent to its destination, thus making it difficult to capture the data in its entirety.

Most companies find that once the initial installation of a LAN (whether wired or wireless) is complete, the advantages of such a setup exceeds the disadvantages.

At CPS, we specialize in the installation and maintenance of LANs for organizations of all sizes and would be happy to discuss your particular situation with you at any time. ❖

The Gramm-Leach-Bliley Act

The Record of the United States Congress describes the Gramm-Leach-Bliley Act (“the Act”) as a law “to enhance competition in the financial services industry by providing a prudential framework for the affiliation of banks, securities firms, insurance companies, and other financial services providers, and for other purposes.” This article will not try and make sense out of that statement. Instead, it will provide an overview of what a fraternal benefit society should consider in order to comply with the Act.

Who are Gramm, Leach and Bliley?

These individuals are the Act’s sponsors. Phil Gramm is a Republican senator from Texas, Jim Leach is a Republican congressman from Iowa and Thomas Bliley, Jr. is a Republican congressman from Virginia.

Does this Act apply to fraternal benefit societies?

Yes. The Act is formally known as the “Financial Services Modernization Act of 1999”. It applies to fraternal benefit societies as well as insurance companies, banks and financial services firms.

What are some of the key provisions of the Act?

The Act repeals provisions of the 1933 Glass-Steagall Act that separated commercial and investment banking and prohibited banks, securities firms and insurance companies from affiliating. The Act makes improvements in the way financial institutions conduct business but it also requires changes in how information is handled. The following are, in our opinion, the two key provisions of the Act:

Affiliation: Banks, securities firms and insurance companies can affiliate within a new financial holding company.

Privacy: All financial institutions must disclose to their customers the policies and practices that will be used to protect the privacy of non-public information.

What does the Act specifically say about privacy?

The Act requires a financial institution to annually notify customers of their privacy policies. The institution must disclose how it shares a customer’s financial information with affiliates and non-affiliated third parties. The institution must offer the customer the ability to “opt-out” of these sharing practices.

What should be stated in your privacy policy?

The privacy policy must clearly state (1) the data that is collected, (2) the data that is disclosed, and (3) the third party vendors that receive this information.

How often must the consumer be notified of the privacy policy?

The privacy notice must be delivered when the customer relationship begins and annually thereafter.

Do notices have to be sent to policyholders that terminated membership?

The Act makes a distinction between a customer and a consumer. A customer is someone, such as a policyholder, which has an active relationship with your Society. A consumer may be a person that applied for membership with your Society but was denied or someone that had a prior relationship with your Society. You do not have to deliver privacy notices to consumers unless you plan to share their non-public information.

How does the Act define the term “non-public information”?

Non-public information means any personally identifiable information your Society may have collected from your customers. Information is considered financial if it is requested for the purpose of offering a financial product or service. Public information is defined as any information that your Society reasonably believes is lawfully made available to the general public.

In order to create a privacy policy, what items should specifically be addressed?

The following is a list of sample questions to help you assess your data sharing practices:

- How is information collected (e.g., applications, Internet, etc.)?
- Is this information public or non-public?
- Do you have any joint marketing agreements where customer data is collected or shared?
- Do you retain information on former customers and, if so, how do you use the data?
- Do you share information with third parties?

See **Gramm-Leach-Bliley** on page 4

Interest Rate Monitor

The following are some key interest rate benchmarks:

Benchmark	Current	3 Months Ago	1 Year Ago
Fed Funds	5.12%	6.50%	5.69%
Prime Rate	8.00%	9.50%	8.75%
30 yr mortg	6.65%	6.85%	7.98%

Source: www.bloomberg.com as of March 21, 2001.

Update on Pension Plans

Organizations with Qualified Retirement Plans: Since 1994, Congress has enacted numerous new laws affecting retirement plans. Due to this legislation, all plans must be re-stated entirely since the IRS has decided that there are enough changes to warrant a plan re-statement, rather than an amendment of only some plan provisions. Calendar year plans must be re-stated prior to December 31, 2001, although the IRS may provide additional time for certain IRS pre-approved plans (e.g., prototype documents). The re-stated plan must be filed with the IRS for a determination letter. If you fail to meet the deadline for re-stating the plan, the IRS can disqualify the plan and take away all of the pension plan's tax benefits. ❖

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 30 years of service to our clients. We offer a wide range of computer and actuarial services.

There are two major divisions that make up CPS. One is an actuarial consulting firm that specializes in the needs of fraternal benefit societies. The other is a computer consulting firm that primarily manages computer networks as an outside consultant for a variety of companies, and develops, hosts and maintains e-mail and web sites. For further information regarding our services, contact us at 203-324-9203, or visit our web site at www.cpsincorp.com. ❖

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- Do you outsource any of your business processes to third parties?
- Do you keep lists of customers that have "opted-out" of receiving marketing materials?

How could a customer opt-out of any sharing-practices you may be engaged in?

When you notify customers of your Society's privacy policy, you must also give them an easy way of opting-out of any non-public information sharing. The opt-out option must also be included in subsequent annual notices. Examples of easy ways to opt-out would be check-off boxes on the notice, toll-free phone numbers or web-based forms. You may not require that a customer write a letter requesting to opt-out.

If a customer opts-out, does that mean that the Society can no longer send marketing materials to them?

No. The Act applies only to the sharing of a customer's non-public financial information with nonaffiliated third parties. If a customer opts-out, they are opting out of that sharing only. Marketing and solicitation of your customers may continue as you see fit.

Will the states regulate this Act?

Yes. Since there is no Federal oversight agency in charge of insurance, it will be up to the State Insurance Commissioners to enact regulations regarding the Act. The NAIC has passed a model regulation that must be approved by the states.

Have the states adopted the Model Regulation?

Most states have already adopted the model regulation, including NY, PA, OH, NJ and MA.

By what date must a Society comply with the Act?

Provisions of the Act have varying effective dates. For most states, the privacy regulations of the Act have an effective date of July 1, 2001. For NY, Circular Letter No. 7 (2001) requires societies to report information on their progress with regard to complying with the Act by May 1, 2001.

NOTE TO CPS FRATERNAL CLIENTS: We will be preparing a sample privacy policy statement for you to review with your legal advisors. We anticipate that we will mail it to you by the middle of April. ❖