

# ....CPS BULLETIN....

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## Introduction

This issue of **CPS Bulletin** leads with the impending implementation of the Patriot Act as it applies to insurance companies and fraternal. At first glance the requirements look benign enough but then as one gets into the Treasury regulations they begin to look daunting. Many of you have already put in place the various actions mandated by the regulations but for those of you that have not yet done so, this brief primer will focus on the action areas that have to be addressed very quickly.

Our second article looks again at search engines. Over one half of all computer use now involves "search". The amount of available information on the Internet increases dramatically each day. The tools are becoming more sophisticated and although Google is still the undisputed search-engine leader, there are rumblings in the trenches. Our article reviews what can be achieved with other search tools.

Our Regulatory Update section points out that New York is changing the reporting requirements for its replacement regulation. All fraternal licensed to do business in NY will have to comply.

We hope that you enjoy receiving this newsletter. If you have any comments or suggestions on how we can improve **CPS Bulletin**, please contact us by visiting our company web site at [www.cpsincorp.com](http://www.cpsincorp.com) ❖

## Show Your Patriotism!

The Patriot Act is finally here for the insurance industry. In essence, the federal government is looking to the insurance industry to become a partner in the fight against terrorism by minimizing opportunities for money-laundering by terrorists and those who aid them. As we shall see, the government also sees the Act as an opportunity to fight other crimes such as identity theft and tax evasion.

The regulations focus on individual policies with potentially "material transactions". Thus, group policies, believed to have a lower risk profile, are excluded as are contracts with no cash values (such as term insurance).

In our October 2002 issue we outlined the requirements of the Act. For your convenience a copy of that issue of **CPS Bulletin** is enclosed with this issue. The final regulations, which were published on November 3, 2005 must be implemented within 180 days, i.e. by May 2, 2006.

There are many issues raised by the regulations. In the space that we have in this issue of **CPS Bulletin**, we will focus on the four main requirements of the Act, which were also outlined in the 2002 **CPS Bulletin**.

**Written Policy:** Produce a written policy approved by senior management (President or CEO level) which will be available to authorized agencies (e.g. examiners). It will designate the responsibilities of a Chief Compliance Officer ("CCO") and other employees required to monitor suspicious events. The written policy will specify what constitutes a suspicious event and what actions should be taken if one occurs including notification of the CCO and the Financial Crimes Enforcement Network (FinCEN). This policy must be kept current and employees must be given the resources to implement it.

Suspicious activity could be indicated by, among others, (a) early surrender of large life or annuity contracts

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despite significant penalties incurred, (b) taking out single premium life or annuity contracts without regard for the penalties involved, (c) applying for large face amount contracts that appear to be inconsistent with the person's needs, (d) disregard for the future financial results of the investment made, (e) unusual premium payment methods, such as payments using large sums of cash, (f) the assigning of the benefits or cash value to an apparently unrelated third party, (g) a person who is reluctant to provide or provides minimal or seemingly fictitious personal information, and (h) a policyholder who borrows the maximum amount soon after purchase of the policy.

It appears, however, that if no actual contract is issued, the mere approach to the insurer need not be reported.

Suspicious activity is to be monitored by the insurer based on its own risk based assessment. Please note that, during the comment stage (on the proposed regs) the Treasury was asked to exempt policies for less than \$10,000 from the requirements. They refused to do so, indicating that small face amounts alone do not exempt a society from compliance. Nevertheless, since most fraternal organizations predominantly sell smaller size policies to people they know through people they know, we expect fraternal organizations to take a minimalist approach and that is the approach we are outlining in this article.

Please note that insurers must keep a record of their anti-money-laundering program ("AML") and FinCEN may examine insurers to ensure compliance.

**Compliance Officer:** The CCO should be appointed in writing and will be responsible for implementation of the policy, updating it as necessary, monitoring compliance by employees and agents and provide the necessary education and training for employees and agents in these matters.

Compliance requires the verification of the identity of any person seeking to open an account as well as maintaining the verification records used to do so. It also requires consulting the list of known or suspected terrorists which can be found at [www.treas.gov/offices/enforcement/ofac](http://www.treas.gov/offices/enforcement/ofac)

**Training:** The CCO will be responsible for providing initial as well as ongoing training to all employees who will have primary responsibility for detecting suspicious

activity. The CCO should be thoroughly familiar with the requirements of the Act and FinCEN bulletins, guidance and forms.

It should be noted that the Act provides no separate requirements for brokers and agents. The Act makes the insurer responsible for the conduct and overall effectiveness of its AML program and the CCO is expected to devise appropriate measures to make brokers and agents part of the AML effort.

**Audit the Program:** This need not be done externally. Most fraternal organizations will assign the task to the internal audit committee (provided that it excludes the CCO or any other employees connected with the AML program).

The audit should be all encompassing and should include a review of the written policy and whether or not it is being followed. The audit should result in a written report, including recommendations for improvements. Insurance companies have discretion to determine the frequency of the testing.

**Reporting:** If any suspicious activity is detected the CCO should be informed and a Suspicious Activity Report ("SAR") must be filed within 30 days, or, if the "suspect" cannot be immediately identified, within 60 days. The form should be e-filed through the Bank Secrecy Act e-filing system (to register go to: [bsaeiling.fincen.treas.gov/index.jsp](http://bsaeiling.fincen.treas.gov/index.jsp)) or by mail to Detroit Computing Center, Attn: SAR – IC, PO Box 33106, Detroit, MI 48232-0106. Reports should be kept for 5 years.

Specifically, transactions involving in aggregate at least \$5,000 in assets must be reported if the insurer feels that the transaction may involve one of (a) to (h) above as well as bribery, identity theft, money structuring or transactions without economic purpose.

Please note that insurers should continue to file Form 8300 for all cash receipts in excess of \$10,000.

The foregoing puts a compliance burden upon fraternal organizations but the need to comply does not have to be a costly proposition for many fraternal organizations. CPS will be able to help in putting the necessary program in place. If you require any assistance, please do not hesitate to contact us at [jwindsor@cpsincorp.com](mailto:jwindsor@cpsincorp.com) or at 203 324 9203.❖

## What's New in Search?

We make no apologies for returning to the subject of search after only one year (our April 2005 issue). Search constitutes one of the greatest uses of computers and the Internet and will continue to be so as people seek more efficient means of dealing with the information overload. In the last few years, **Google** has become almost synonymous with search with the name becoming a verb – to google – meaning to search the Internet.

Many people wonder is **Google** indeed the best search implement out there or will someone oust **Google** just like **Alta Vista** before it lost its shine?

First, most people are basic search users. They rarely use advance search features or the bells and whistles that search engines provides such as **Google's** Blog-Search (click on more on the welcome page). Recently in the financial press there have been articles extolling the virtues for basic searches of another Search engine– **Ask.com** (formerly known as Ask Jeeves). **Google** received its laurels by inventing search using link popularity, which ranks pages based on the sheer volume of links pointing to a particular page. **Ask** has changed its model from “natural search” (e.g. Query: Highest mountain in the world) to “subject-specific popularity”. Subject-specific popularity determines popularity among pages considered to be experts on the topic of the search. In a test carried out by the British Broadcasting Service (BBC) searching for "raleigh" - chosen as a word with several meanings including the bike company, the US city, the expedition charity and the Elizabethan explorer, **Ask** did much better in finding all the meanings than **Google** (or **MSN** or **Yahoo**).

Also **Ask** will often help you in your search by helping you to narrow or expand your search as necessary. Try typing “snoring” with both search engines to see the differences.

Second, there are specific search tools for specialized searches. If you are looking for a

book	Isbn.nu, Netlibrary, bookfinder, RedLightGreen
job	Simplyhired, YahooHotJobs, Indeed
Industry Information	GlobalSpec, Scirus, IT.com, LawCrawler

Home to Buy or Rent	Trulia, HomePages, Oodle
Airline flights, hotels	Sidestep, Kayak, FareChase, Mobissimo
A person's phone # or address	Argali White and yellow (www.Argali.com)
Entries from reference sources	Answers.com

The following are some examples.

- The above book search sites are provided by non profit organizations. For example, **RedLightGreen** allows you to look through the collective databases of libraries and other institutions and see for instance if the book you seek is in your local library or university library.
- A recent search on **Simplyhired** (no, it is not sponsored by the anti-Trump) for accounting jobs within 25 miles of Portland Me., turned up 74 listings as opposed to 6 on **Monster Worldwide**. **Simplyhired** draws from thousands of sources including on-line classified and company web sites. The seeker can narrow the search based on his or her criteria.
- Elsevier's **Scirus.com** database includes over 200 million science specific web pages. A search for “Synapses” found some 38,000 references from scientific journals alone.
- **Oodle** searches classified ads – for real estate as well as other listings that allow users to filter results by location, price etc. Users can have new listings e-mailed to them as they are posted.
- **Sidestep.com** searches more than 100 travel related sites including some that do not feature on the main travel broker sites such as Jet Blue Airways and the Holiday Inn Hotel chain.
- Very few of the big search engines can match **Argali's** power to reverse look-up telephone numbers and addresses, to link to maps of any given address and to provide information about other people and businesses on the same street!
- **Answers.com** formerly known as GuruNet organizes information about a topic into Web pages

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rather than giving you a zillion references to sift through. For instance, the query "Internet" gives a comprehensive history and information gathered from various encyclopedias and other sources whereas **Google** would provide, among others, the sites of Microsoft Internet Explorer and an online real estate data base

Third there are tools that enable you to create your own search engine. For example **rollyo.com** allows you to specify up to 25 sites that you want to search for a given topic (you can upload them from your bookmarked pages). Each search gets its own web address so that you can e-mail the results. You can also add the created search engine to the list of search engines in sophisticated browsers such as Firefox and Opera that allow tabbed browsing to enable you to open up your search again and again for review.

Finally, you can create a dynamic search such that you will be notified of matcing results as they come onto the Internet (after you started your initial search). Would it not be nice to keep getting new real estate listings as they come onto the market? **Pubsub.com** enables you to do just that.

Many of these tools may be too complex for simple searches but as you play around with them you may find they serve you better than you expected. Happy surfing everyone. ❖

## About CPS

*CPS Actuaries and Computer Programming & Systems, Inc.*

CPS is an independent company with over 35 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 visit our web site at **www.cpsincorp.com** ❖

## Regulatory Update

### New York Replacement Regulation (number 60)

The NY Insurance Department continues its efforts to improve the implementation of this insurance regulation. It will soon be so improved that it will require a full time Chief Replacement Officer!

The Department found that there is no mechanism for establishing the appropriate contact person for the proposed replacement notification. The regulation requires the replacing insurer to send, within ten days of receipt, the replaced insurer a copy of any proposal used and a completed Disclosure Statement. It is therefore establishing with effect from April 1, 2006 on the department's web site a database (**www.ins.state.ny.us/reg60/reg60contacts.htm**) with the name of the person and address to which the notification must be sent. Each society must notify any agents or brokers that they must comply with that section of the regulation. Furthermore, societies must notify the Department within 10 days of any change in the contact person or face disciplinary action.

The Department is also setting up a formal report system to advise it of any replaced insurers who have been notified of potential replacement but have not provided the replacing insurers with the information necessary to complete the disclosure statement. This form is found at **www.ins.state.ny.us/reg60/reg60report.xls**. The initial return is due on August 1<sup>st</sup> 2006 for the period April 1, 2006 to June 30, 2006. The second response will be due on February 1, 2007 for the period July 1, 2006 to December 31, 2006. Thereafter the response is due annually by February 1 in respect of the prior year events. The return is to be e-mailed to **Reg60ElectronicReport@ins.state.ny.us**. ❖

## Interest Rate Monitor

The following are some key interest rate benchmarks:

Benchmark	Current	3 Months Ago	1 Year Ago
Fed Funds	4.75%	4.25%	2.75%
Prime Rate	7.75%	7.25%	5.75%
30 yr mortg	6.10%	5.63%	5.34%

Source: www.bloomberg.com as of April 24, 2006.