

# .....CPS BULLETIN.....

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

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## Introduction

This issue of **CPS Bulletin** starts the fourth year of our newsletter. We would like to take this time to find out how you, the readers, view the newsletter and gain your valuable input in order to make the newsletter the best for your needs. Please take a few moments to respond to the survey (which is included as a special insert on page 5). For those of you who normally receive the **CPS Bulletin** by e-mail in PDF format, this issue is being sent in Microsoft Word format so that you can fill in your replies right in the body of the newsletter and return it to us.

In this issue we review the increasingly complex spam problem and discuss a product that we are introducing to help affected clients deal with it.

This issue also has an article that describes the various notifications that are required by the states (particularly NY) when a fraternal has a change of officers.

Finally, we outline in our regulatory update the results of an informal survey we recently carried out to determine the new minimum guaranteed interest rate that various states will now permit for individual deferred annuity contracts. ❖

## Spam, Spam Everywhere- Is There More To Come?

Spam, also known as "unsolicited commercial e-mail," is one of today's major Internet problems. It now represents 20%-40% of all e-mail on the Web. Statistics indicate that an average e-mail user gets 60 messages every workday and 20 every weekend. This adds up to some 18,000 messages annually. If as many as 70% of those e-mails can be classified as spam, then the typical user gets nearly 13,000 spam messages each year. On the other hand, Pew Internet Research reports that more than 70% of U.S. workers get very little spam and 50% get none at all which would imply that while many individuals get very little spam, others are unlucky enough to get many more than the above numbers.

One generally accepted statistic is that spam, as a percentage of all e-mail, grew by a staggering 150% in 2002. An even scarier number, though it's disputed, is that spam is now doubling every six months.

While most spam is relatively harmless, some messages contain viruses, others are offensive (e.g pornography) and it takes skilled administrators to counter them. It takes time to delete spam, and time is money.

The problem is getting so bad that even the U.S. Government is looking into the matter. At least 10 spam-related bills have been introduced in the U.S. Congress since 2000, but none has been enacted. Numerous states have enacted their own laws, but a federal law is considered a much more effective method of cracking down on spammers. There is currently a bill before Congress regarding spam, but it is supported by many spam originators and opposed by many consumer groups.

Outlawing spam is not as going to be easy to do. There are First Amendment rights and other conflicting issues to deal

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with. Don Blumenthal (who is the Internet Lab coordinator for the Federal Trade Commission) asks: "Do you have a flat ban, or a ban with exceptions? There are a number of legal issues." John R. Levine, author of "*The Internet for Dummies*", supports having a federal law, and notes that a federal law prohibiting junk faxes has been on the books since 1991 and that the Junk Fax Bill had similar issues when it was first instituted.

In the meantime, companies who do get too much spam must take their own countermeasures.

A common tool in fighting spam used to be a method known as "Reverse DNS lookup". Since spammers try and disguise the origin of their message, this method matches up the computer address with the host name. A mismatch is often a spam indicator. However, many legitimate e-mail servers are incorrectly configured so a lot of e-mails are classified as spam by this approach even though they are not. The method also uses a lot of computer resources to make the comparison. Thus, a better method had to be found.

CPS has been asked by several of our clients whether we can help them in this area. We have therefore tested various software products to assist companies in significantly reducing the spam scourge.

The software we are using analyzes incoming e-mails and deals with suspect e-mails in one of three ways:

1. Forwards suspect mail to an administrator for further analysis. This works best where the company has an in-house network administrator who has some spare capacity to deal with these items.
2. Sends suspect e-mail to a separate folder where the recipient deals with them in whichever manner he or she chooses. To assist the recipient, the software would indicate the probability of the item being spam in the e-mail headline.
3. Once enough experience is gained, instead of putting suspect spam into a separate folder, that e-mail is automatically deleted.

The method of filtering should be good enough to discard a high percentage of spam while filtering out relatively few genuine messages. The current state of the art method for filtering is known as Bayesian Filtering ("BF"). Exponents of BF claim success rates of over 99% for filtering out spam and a less than 1% rate of filtering out false positives.

The software uses BF to compute a spam probability by analyzing the e-mail for an above average frequency of words, phrases or sentences known to be in spam such as "Have I got a deal for you?" or "Click here". In such cases, these messages will be given a high probability that they are spam. Alternatively, the spam probability is reduced for e-mails that contain phrases that are not considered spam such as "Area 51" which is known to be widely used by UFO junkies.

The software also analyses message headers for e-mail headers that deviate from standard specifications and rejects spam from known spam originating sites.

One should note, however, that the process is a continuous battle of wits between the spammers and the good guys. As soon as a countermeasure is implemented the spammers try (and often succeed) in finding ways to bypass it. For example, once anti-spam measures were used to detect spam in text messages, spammers focused on sending spam messages in HTML format. Our new software has the ability to detect spam sent as HTML as well as text.

Our product is reasonably priced at around \$1 per month per e-mail address provided that CPS hosts your e-mail accounts. It has to be applied to all your e-mail addresses, as we cannot select which addresses we should monitor and which are to be left unsupervised. This fee includes continuous updates of the software to repel the new tools devised by the spammers.

If you are interested in discussing this matter further please do not hesitate to give us a call. ❖

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## Officer Changes: Whom Must You Notify?

Many fraternal benefit societies are enjoying conventions during the summer and fall months. Many will have changes in officers.

Most states require fraternal to notify them of any changes. For almost all of those states, a single letter will suffice, giving the name of the incoming and outgoing officer(s) and the date of the change. This notification should be made to all states in which the society is licensed, not just the state of domicile.

The addresses for sending notification to Pennsylvania and New Jersey are as follow:

### PA

Mr. T. L. Knapp  
Deputy Commissioner  
Office of Policy Enforcement and Administration  
PA Insurance Department  
1326 Strawberry Square  
Harrisburg, PA 17120

### NJ

Ms. Margaret P. Shaw  
20 West State Street, 10<sup>th</sup> Floor  
P.O. Box 325  
Trenton, NJ 08625-0325

New York has a number of people and departments that must be notified following a change in officer. These include the following:

- The NY Insurance Department's Consumer Services Bureau is responsible for investigating consumer complaints filed with the NY Department. The Bureau, upon receiving a complaint, forwards a copy of the complaint to the respondent insurer, together with a cover letter that requests the information and/or documentation necessary to investigate the complaint. Regulation 64 (11 NYCRR 216.4) requires an insurer licensed in NY to appoint a corporate officer to be responsible for an insurer's "internal consumer affairs department" and to verify that all responses to the NY Department are timely, substantive and include all of the requested information and/or documentation. Changes have to be reported to the NY

Department using a Designee Form and mailed to the following address:

Principal Clerk  
N.Y.S. Insurance Department  
Consumer Services Bureau  
Empire State Plaza  
Agency Building One  
Albany, NY 12257

- Service of [Court] Process: When a policyholder files a lawsuit against an insurer he may serve it through the NY Department. The Department will then forward the service to the Officer of Record. Changes in the Officer of Record must be sent to the following address using form 602.

Mrs. Judy Jerome,  
Senior Clerk  
1 Commerce Plaza,  
20<sup>th</sup> Floor  
Albany, NY 12257

Form 602 can be obtained by contacting the above individual or requesting a copy from CPS.

- Regulation 60, Section 51.6 (e), requires insurers to appoint an officer for the purposes of compliance with the regulations relating to replacement of life insurance policies and annuity contracts and to notify the NY Department of changes in that responsible officer. Notification may be a simple letter such as the one sent to other states and should be sent to:

Ms. Linda Grasmann  
Principal Insurance Examiner  
NY Department Life Bureau  
25 Beaver St.  
New York, NY 10004-2319

- An insurer must appoint a liaison officer with the NY Department with responsibility for agent appointment and termination. This is only mandatory when an insurer has agents. Notification of a change should be sent to:

Margaret Kaufman,  
Principal Clerk  
1 Commerce Plaza  
Albany, NY 12257

See **Notify** on page 4

- The NY Department requires all insurers to appoint a primary and secondary Intelligence/Information Officer for the "New York Information Network" (NYIN) as described in Circular Letter No. 12, dated May 3, 2002. The primary and secondary Intelligence/Information Officers will be the main conduit through which the NY Department will communicate intelligence reports and other critical but sensitive information on terrorism with New York licensed insurers. The NY Department must be promptly notified (electronically through the NYIN procedure) of any changes in the nominated officers.

If you have any questions about these filing requirements please contact CPS and we would be happy to assist you. ❖

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## Interest Rate Monitor

The following are some key interest rate benchmarks:

Benchmark	Current	3 Months Ago	1 Year Ago
Fed Funds	1.00%	1.31%	1.75%
Prime Rate	4.00%	4.25%	4.75%
30 yr mortg	5.50%	5.48%	6.09%

Source: [www.bloomberg.com](http://www.bloomberg.com) as of 7/21/2003

## About CPS

*CPS Actuaries and Computer Programming & Systems, Inc.*  
CPS is an independent company with over 35 years of service to our clients. We offer a wide range of computer and actuarial services, including:

- Policy administration software
- Computer networking services
- Actuarial valuations
- Annual Statement preparation
- Illustration software

For more information, please call us at **203-324-9203**, or visit our web site at [www.cpsincorp.com](http://www.cpsincorp.com). ❖

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## Regulation Update

### Minimum Guaranteed Credited Rates on Deferred Annuity Contracts

The standard non-forfeiture law (SNFL) provides for a minimum guaranteed interest rate of 3% for deferred annuity contracts. Recently, there has been a move to reduce this minimum rate. We surveyed various insurance departments in order to determine whether or not they have reduced their SNFL minimum guaranteed rates for deferred annuity contracts.

We have found that a number of states have reduced their minimum rate to 1½%. According to the American Council of Life Insurers, 31 states have done so. Among these states are NY, PA, IL, MI, AZ, AK, OH, NH and IN. NJ and CA have also proposed changing their 3% rate to 1½% and bills await the governor's signature in each state. Some of these states have adopted provisions that include a sunset date (usually in 2004 or 2005). This means that the minimum rate for new policies issued up until that date will be 1½%. After the sunset date, the minimum rate on all new issues after that date increase back to the 3% rate.

The minimum rate specified in deferred annuities has normally been an annual rate, which has to be credited each and every year. Some states have adjusted their 3% standard to be cumulative (so, for example, if you credited 5% in each of the first two years of a contract you need not credit anything in year 3). The states that have gone this route include MA and WA.

In a few states, an effort to move to the 1½% rate has failed in the legislature. These states include RI, WA, WI and CO.

The NAIC created a model regulation (MDL-235), which will peg the minimum rate to the five year constant maturity Treasury rate, minus 1¼% for expenses. The resulting rate cannot fall below 1% or exceed 3% a year. This approach has been adopted by 11 states including CT. Some states that are using another approach have indicated that they are considering following suit. These include MA and CO.

One final note, FL and MS have no minimum guaranteed rates on deferred annuity contracts. ❖

