

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

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

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Introduction

This is our December issue of **CPS Bulletin**. As such, it can be considered as our holiday edition. The staff at CPS Actuaries and Computer Programming & Systems, Inc. wishes you a happy holiday and prosperity in the New Year.

You can now view this issue and all prior issues of **CPS Bulletin** at www.cpsincorp.com. The newsletter is in pdf format so that it can be read right on-line 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.

Our first article in this issue covers some of the things a company should consider as they establish and maintain a web site. The article touches on several areas, including e-mail, DSL vs. cable vs. dial-up services and general costs for such services.

The second article provides a general overview of the Codification of Statutory Accounting Principles that becomes effective January 1, 2001. In this article, we explain what it means and provide information about some of the provisions that may affect fraternal.

Web-Site

You are an officer of a small to medium sized fraternal benefit society and you have been wondering whether the Society should not be joining the e-revolution and installing a Web site. How do you decide whether you need a site and if so how to proceed?

To answer that question one must consider the styles of Web Site that are possible and how such a site might best suit the Society's objectives.

The first and simplest style is what we call the Passive site. It announces your presence and gives basic information about the Society such as its history, its fraternal benefits and activities, its News-letter and the insurance plans it offers. It also gives the Society and its members a new fast and economical channel of communication for example for reporting address changes.

The second is what we call the Active site. In addition to the Passive site's attributes it allows authorized personnel such as officers or Lodge secretaries to view and in some cases to update members' records. It also allows the Society's Events Page to be updated (without going through the webmaster). This allows for instantaneous updating of events and announcements (such as deaths) and makes for much higher participation in Society's activities. This may be especially useful where the officers and members are geographically widely spread and all can have simultaneous access to important information.

The third type is what we term the Interactive site. In addition to the Active Site's attributes, it also may allow Authorized Personnel to obtain some if not all cash values on-line, may feature a Chat-room for members, may allow phone calls to be made over the Internet (useful and economical for contacting relatives back in the home country) and may allow the Society's agents to obtain insurance quotes on-line as well as to print out those quotes (even when illustrations are required).

Once you decide that you do want a Web Site, you

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have to design and build it and then maintain it.

Some of the general design and building rules are less important for fraternal societies since most visitors come to the site by design and are more patient in waiting for images to load than if they are searching for a site selling soap or television sets. It is therefore less imperative that the pages load quickly and more scrolling is acceptable.

There are some one dozen sites maintained by fraternal benefit societies from which you may derive ideas for your site's design. Additionally we at CPS have some sites and model pages for you to look at.

What are the important features in Site maintenance? They come under the general headings described below. Please note that even well known brand names do not provide some of the features that one would wish to have. For example, see a PC Magazine November 2000 comparison of AT&T, bCentral (Microsoft), IBM, ConcentricHost and DellHost, Interland, Verio and Web2010.

(<http://www.zdnet.com/pcmag/stories/reviews/0,6755,2636351,00.html>)

Features and limits

Disk space

TBA: A 1-gigabyte limit is common and seems like a lot, but it isn't. For example, if your home page totals about 50 kilobytes in text and graphics and you have about 4,000 visitors a month to your site - that uses about 200 MB of bandwidth per month.

Mail options: Number of e-mail accounts, SMTP or send-mail capabilities.

Performance: Bandwidth, number of customers per server and type host connection to the Internet (for example a T1 line)

Database support: Could be important if you wanted to have an Active or Interactive site.

Reliability:

If your Web-host is a reseller then you may find that problems have to go through an additional layer which will delay solving any glitches (apart from the resellers fee markup)

How often is the Site expected to be down? Most leading providers maintain an uptime percentage in

excess of 99%.

If the Site does go down, how often is the server backed up. The usual frequency is a daily backup (overnight) so that at worst you will only lose one day's input.

Also the host must provide a "restore" capability to allow your site to continue after the brief hiccup as though nothing had happened

Security:

Is the site protected against access by unauthorized visitors, who may gain access to membership information or "vandalize" the site? (Note that no site is 100% secure.)

Support:

Is support available by telephone or only by e-mail. The former is usually faster and friendlier!

What hours is Technical support available? Also, one must also note the response time for online support. Even if (e-mail) support is available 24 hours a day but the response time is 48 hours you may find that it takes 2 days for the problem to be tackled.

Cost:

Consider what each Host plan provides in the way of number of accounts, the cost for extra accounts, extra bandwidth, listing with search engines and what will be extra. The PC magazine comparison mentioned above shows that although the cost of a basic shared plan is between \$15-25 a month, the monthly cost of the most advanced plan may be in excess of \$100,000.

CPS provides State-of-the-Art reliable Web-hosting services with rapid phone tech-support, firewall security protection and supports a variety of database options. We design and build Web Sites and would be happy to assist you in gauging your needs.

Codification of Statutory Accounting Principles

Codification has been under development since around 1998. As its name would suggest, it is not the most exciting topic that a person can read about. However, since it will take effect on January 1, 2001, it is a topic that fraternalists will have to become acquainted with when preparing their quarterly and annual reports in 2001.

What is Codification and why did the NAIC think it was needed?

Insurance accounting is driven by a complex set of specific rules. There has never been a source that details the concepts and principles that can be applied to situations not governed by the rules. In the absence of such guidance, different companies treat the same accounting situation in different (and often inconsistent) ways. Over the past few years, the NAIC has significantly rewritten its Accounting Practices and Procedures Manual. The name they gave to this project was "Codification of Statutory Accounting Principles". Through codification, the NAIC has created one comprehensive document that provides accounting guidance for regulators and insurers. Since all insurers must abide by this document, any inconsistencies in the manner in which different insurers handle the same accounting situation will be eliminated.

What are the goals of Codification?

Codification is meant to clarify areas that were unclear or silent under current statutory accounting practices. It is also meant to provide a more uniform basis of accounting.

Are the states involved with Codification?

All 50 states are planning to adopt Codification with an effective date of January 1, 2001. A number of states are conducting an in-depth analysis of their laws and the Codification requirements to determine whether or not there are any inconsistencies.

Have any inconsistencies been found by the states?

Of course. Pennsylvania, for example, has indicated that a review of their laws and regulations has yielded only a small number of provisions that are inconsistent

with the Manual. Once their review is finalized, they will issue a notice detailing their findings. New Jersey has sent out a notice indicating which provisions in their laws are inconsistent with the Manual. The inconsistencies they found relate to, among other things, credit for reinsurance, the cost of EDP equipment and minimum reserve standards for A&H insurance.

If inconsistencies are found, what takes precedence: the Manual or the state laws?

The Manual will not preempt state legislative and regulatory authority. For example, PA investment laws will continue to take precedence over the Manual; all PA statutory limits will remain in effect.

How will assets be valued under Codification?

The following is a brief explanation of how certain assets will be valued under Codification. In some cases, there is no change from current practice:

Short-term investments: Amortize using the constant yield method.

Bonds: Amortize using the constant yield method. For callable bonds, amortize to the date that produces the lowest asset value (yield-to-worst rule).

Mortgages: Commitment fees and points are capitalized as part of the mortgage book value and amortized accordingly. All costs of acquiring or originating loans are expensed in the year incurred. Past due interest, if collectible, is admitted up to 180 days past due.

Loan-Backed and Structured Securities: Amortize using constant yield method. Amortize to the date at which repayment of principal is expected to occur, not the stated maturity date.

Common Stocks: Value using fair market value (using SVO market values).

Preferred Stocks: Sinking Fund preferred stocks will now be referred to as "redeemable preferred stocks". If NAIC designation is PSF1 to PSF3, value at cost or amortized value; otherwise, value at the lower of cost, amortized cost or fair market value. For perpetual preferred stocks, value at cost if NAIC designations P1 to P3 and the lower of cost and market value for P4 to P6.

Interest Rate Monitor

The following are some key interest rate benchmarks:

Benchmark	Current	3 Months Ago	1 Year Ago
Fed Funds	6.56%	6.44%	5.06%
Prime Rate	9.50%	9.50%	8.25%
30 yr mortg	7.60%	7.90%	7.64%

Source: www.bloomberg.com as of Sept. 14, 2000.

About CPS

CPS Actuaries and Computer Programming & Systems, Inc.

CPS is an independent company with over 30 years of technology leadership. 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 develops software applications, 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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Real Estate: There are 3 categories: (a) properties occupied by Society, (b) properties held for the production of income, and (c) properties held for sale. Both (a) and (b) are valued at depreciated cost less encumbrances. Properties held for sale are valued at depreciated cost or fair value less encumbrances and estimated cost to sell. Property is to be depreciated over a useful life, not to exceed 50 years. Capital improvements that increase the life of a property should be capitalized and depreciated over the remaining extended useful life of the asset. Deterioration in value or impairments must now be treated as a realized loss. Appraisals should be no more than 5 years old. The property is considered a non-admitted asset until the required appraisal is obtained.

EDP Equipment: The maximum amount of EDP equipment and software that may be admitted is 3% of surplus. EDP equipment and software is depreciated over its useful life, but not more than 3 years.

How does codification define the real estate classes?

The Manual defines a property as occupied by the society if more than 50% of the rentable square footages is occupied by the society. Otherwise, it is classified as properties held for production of income. A 3rd category, properties held for sale, is for any property that the society intends or is required to sell.

Will foreign currency transactions be handled differently under codification?

Yes. Prior to codification, only one foreign exchange adjustment was used on the balance sheet. Now, all elements of the annual statement must be in U.S. dollars. New columns in Schedules A, B, BA, D and DA have been added to show the foreign exchange increases/decreases in book value. Also, columns have been added to Exhibits 2, 3 and 4 to recognize foreign exchange adjustments. Annual statement reporting will be much more extensive.

This article is intended to be a brief overview codification. The 2001 quarterly and annual statements will look very different from prior annual statements. In addition to many of the format changes, there is also supposed to be an extensive Notes to Financial Statements section