

....CPS BULLETIN....

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

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Introduction

All of us at CPS wish you a happy, healthy and prosperous new year.

In this issue of **CPS Bulletin**, we confront yet another pair of plagues – Spyware and its cousin Adware. The Wall Street Journal estimates that 80% of all computer problems now have something to do with this terrible duo. We offer up some suggestions on how to reduce the threat to home computers. For Local Area Networks, CPS has additional weaponry that can help you and your office.

Our second article addresses the current hot fraternal topic, namely preparation and filing of the annual statement. Last year we shared with you our table showing the requirements of the states in which our clients are licensed and by request we updated it this year to make it easier for you to make the correct filings.

In the Regulatory Update section, we review the new improved investment limitations in New York state and preview the new MD&A instructions applicable to the 2005 and subsequent annual statements.

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. Past issues of the newsletter can also be found at our web site. ❖

The Spyware That Came In From The Cold

John Le Carré's "The Spy Who Came in From the Cold" is a portrait of a man in his own personal hell. Spyware that comes in from the outside can inspire similar emotions in computer users.

We have discussed in previous editions of this newsletter the importance of Internet users keeping an eye out for viruses, worms and "spam" e-mail. The latest plague, which is now the single largest cause of requests for support, is that of Spyware.

Adware, which is software designed to serve advertising, can also be thought of as Spyware because it almost invariably includes components for tracking and reporting user information.

Spyware is any technology that gathers information about a person or organization without their knowledge. On the Internet, Spyware is programming that is put on someone's computer to secretly gather information about the user and relay it to advertisers or other parties. Spyware can get in a computer as a software virus or by installing a new program. This applies even to well-known software.

Data collecting programs that are installed with the user's knowledge are not, properly speaking, Spyware, if the user fully understands what data is being collected and with whom it is being shared. However, Spyware is often installed without the user's consent as the result of clicking some option in a deceptive pop-up window.

Spyware is more insidious than viruses or worms. The latter attack a certain spot in the system and it is usually relatively easy to identify them and eliminate them, once the pattern has been noted. However, Spyware distributes many little pieces of code, which are then embedded in parts of the operating system, applications and data. The task is not only to identify them but also to remove every single one of them.

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The "cookie" is a well-known mechanism for storing information about an Internet user on his own computer. The existence of cookies and their use is generally not concealed from users, who can also (in theory) control access to cookie information. However, to the extent that a web site stores information about you in a cookie that you do not know about, the cookie mechanism could be considered a form of Spyware.

Spyware can sap computing power, crash machines and bury users under a blizzard of unwanted ads. It can capture passwords, credit-card numbers and other sensitive data. Sometimes the Adware makes changes to your browser and system startup settings, for example, hijacking your Internet home page. The writer of this article was in the process of doing a test online when a pop-up ad filled the screen. By the time the ad had been removed, the test was invalidated and had to be restarted from scratch. For users paying for dialup services by time used, ad-loading and hidden communications with servers can be costly.

Other programs are clearly more malevolent. Some Spyware has been known to disable a victim's computer and then advertise software to fix the problem. Keystroke loggers, often distributed by e-mail viruses, allow identity thieves to capture bank-account numbers and other sensitive information.

An EarthLink scan of 1.1 million computers released in April of this year turned up more than 300,000 malevolent programs.

Spyware is almost impossible to avoid because, as mentioned earlier, it may come with blue-chip new software and can pop-up on the most legitimate of websites. The best advice when it comes to software is to do like the X-Files guy said: "Trust no-one." Hence...

- Avoid "Shareware". Shareware is software that is distributed free on a trial basis with the understanding that the user may need or want to pay for it later.
- Install a firewall and pay attention to the source that is asking for permission to connect online.
- Learn to use a packet-sniffer (a program that captures, monitors and analyzes network traffic, detecting bottlenecks and other related problems) to identify transmissions that sneak through your

browser and other trusted applications.

- Install and use an Adware / Spyware removal program. There are numerous such programs on the market from many sources. For example, <http://www.spychecker.com/software/antispy.html> reviews some 30 such programs and rates them.

None of the defensive programs are perfect and the state-of-the-art spyware is advancing faster for the attackers than it is for the good guys. You may want to use several products simultaneously to block different types of attack.

- Switch to a browser other than Internet Explorer. The vast majority of malevolent software is written for Microsoft applications, as these are the most widely used. Among current browser alternatives are Netscape 7.2 (available at www.netscape.com), Opera 7 (www.opera.com) and Firefox 1.0 (www.mozilla.org/products/firefox).

So what's the best thing you can do, once you are infected? The bad news is that you may not be able to completely rid yourself of the infections and in some cases (from personal experience) you may have to ditch your computer altogether (this is where your backups come in handy).

You should, however, try the following: Download free software (such as Spybot Search and Destroy and/or Adware SE personal and/or Spydoctor) or software purchased from the well known providers Symantec, MacAfee or other vendors (The Wall Street Journal recommends Spy Sweeper - \$29.95 including a year of automatic updates from www.webroot.com) and run it on your computer and see what it can remove. Then run it regularly! Please note that each such program specializes in certain types of Spyware and you may have to use several programs. If you find that you do not have many malevolent objects to remove, and the computer returns to "Normal", then you're lucky. In any event you may wish to take action to prevent Spyware from getting into your computer in the future.

Clearly, Spyware is one of the most complex problems facing today's computer user. **CPS** specializes in tackling these plagues and would be happy to set up the appropriate defenses for you.

Call us at 203 324 9203 to set up a free telephone consulting session.❖

Checklists for Filing the Annual Statement

This time last year **CPS Bulletin** carried a table to make your task of fulfilling the annual statement filing requirements a little bit easier. Since we received encouragement from a number of our readers, we are enclosing our updated list for the 2004 Annual Statement in this **CPS Bulletin**.

The table is presented in the form of a separate pullout sheet to enable you to post it on the wall for easy reference.

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.

The table should only be used as a guide. When filing the Annual Statement, you should refer to the materials sent to you by each state or check each state's website. A source for links to all state checklists may be found at www.naic.org/financial_statement_filing/state_instructions.htm.

Some of the links therein are, however, out of date.

The trend towards paperless submissions continues with OH and NH joining the list of states that do not require a hard copy of the statement this year. The number of states who do not require an affidavit of filing has risen, with those states relying instead on the Jurat Page statements.

One major change this year is the elimination of the SVO Compliance Certification. Thus, it will suffice if the bond you bought is rated by the major rating agencies as the equivalent of a "1" or "2" and no submission to the SVO is required.

Other notes:

- IN does not require a hard copy of the Annual Statement but does require the following additional items from foreign insurers: (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 and (3) an extra copy of the Actuarial Opinion for the IL actuaries.
- All NJ insurers must submit (1) Medicare Supplement (NIL return is required) and (2) Annual Statement Fees. Fees only apply if no NJ business is written, but the form is nevertheless required.
- The '*' next to a number in the table means that the additional copy of that item is required by the state actuarial bureau
- The 'Δ' symbol means that at the date of writing the information was not yet available. Updated information will be posted on our web site.
- The table refers only to filings required by March 1, 2005. Additional filings may be required by March 15, 2005 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.

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

We wish you a successful filing season but if you have any queries or are seeking that elusive form, our experts will be happy to help you. ❖

Regulatory Update

Management Discussion and Analysis (MD&A)

There are new instructions available from the NAIC for the preparation of the 2005 Annual Statement MD&A. (While not applicable to the 2004 Statement the regulators would not mind if you used the new instructions as a guide this year).

These instructions are more than twice as long and thrice as complex as the current set.

What appears to have taken place is that MD&As have been somewhat of an orphan over the years. We at CPS have very rarely had a question by a regulator on an MD&A. However, judging by the new instructions, the regulators appear to have decided to focus more on the MD&A, and the new instructions spell out in greater detail its purpose and what it should contain. The MD&A should provide the regulators with information not immediately available from the annual statement (such as unusual events, possible mergers, explanations for changes in premium income, possible liquidity problems, etc.).

We shall be reviewing the new MD&A requirements in greater detail in a future issue of **CPS Bulletin**. ❖

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 call us at **203-324-9203**, or visit our web site at **www.cpsincorp.com** ❖

**CPS, Inc., 1014 Hope Street
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Regulatory Update

New York Senate Bill 6708

Following the merger of the Lutheran Brotherhood and Aid Association for Lutherans, due diligence by Thrivent, the new combined company, determined that pursuant to §1404 of the New York insurance law (qualified by §4526), it could invest no more than 5% of its assets in securities rated a "1" by the NAIC. Discussions between Thrivent and the NY department brought that section (previously often ignored) into sharp focus and meant that other fraternal had to address the situation.

Accordingly, the NFCA and other interested parties entered into discussions, resulting in New York senate bill 6708, signed into law by Governor Pataki on October 26, 2004. This statute allows no more than 33% of a fraternal's Admitted Assets (determined as of the previous annual statement) to be invested in securities designated as NAIC "2". This means that once the 33% limit is reached, no new investments in grade 2 assets may be made until their proportion falls below 33%. However, if the proportion of grade 2 securities rises above 33% as a result of investment downgrade, one does not have to rebalance to reach the 33% level but no new grade 2 investments may be made.

In addition, the limit for non-US, non-Canadian securities has been increased to 3% of Admitted Assets from 1% (with no more than 1% invested in any one country).

The leeway provision is still in place allowing no more than 5% of Admitted Assets to be invested in securities such as those rated by the NAIC as 3 through 6.

A society may continue to invest up to 10% in common stocks. The amount allowable in real estate is equal to the greater of (1) value of the home office plus 10% of Admitted Assets, and (2) 12½% of Admitted Assets.

§1404 also deals with investment in mortgages and other asset classes. ❖

Interest Rate Monitor

The following are some key interest rate benchmarks:

<i>Benchmark</i>	<i>Current</i>	<i>3 Months Ago</i>	<i>1 Year Ago</i>
Fed Funds	2.31%	1.88%	0.94%
Prime Rate	5.25%	4.75%	4.00%
30 yr mortg	5.36%	5.37%	5.47%

Source: www.bloomberg.com as of January 3, 2005.

State	Annual Statement	Supp. Comp. Exhibit	Filing Checklist	Affidavit of Filing	Other Items	Mailing Address
CT - f	1	0	1	0	-Certificate of Compliance (A&H Advertising)	Louis J. Scotti, Chief Examiner Connecticut Insurance Dept. 153 Market Street Hartford, CT 06103
FL - f Δ	1	0	1	0		Tracie Lambright Florida Dept. of Financial Svcs 200 East Gaines Street Tallahassee, FL 32399-0327
IL - d	2+1*	2	0	0	See note in newsletter	Paul Ebelherr Illinois Dept. of Insurance 320 West Washington Street Springfield, IL 62767-0001
IL - f	2	0	0	0		
IN - f	0	0	0	0	See note in newsletter	Karen Kennedy (not for fees) Indiana Dept. of Insurance 311 W. Washington St. Suite 300 Indianapolis, IN 46204-2787
MA - d	2	0**	1	0	License Renewal Appl. State Filing Fees.	Peter J. Arens Comm of MA Insurance Division
MA - f	1	0	1	0	License Renewal Appl. State Filing Fees.	One South Station Boston, MA 02110-2208
ME - f	0	0	0	0	Advertising Certificate (Health Insurers) Benefit Expense report Supp. Health Report	Shirley Buck Maine Bureau of Insurance 124 Northern Ave. Gardiner, ME 04345
MI - f	0	0	0	0	FIS 0322	Office of Financial Evaluation Michigan Dept of Cons & Ind Svc 611 West Ottawa Street Lansing, MI 48933
NH - f	0	0	0	0		Mary Verville New Hampshire Insurance Dept. 21 South Fruit St., Suite 14 Concord, NH 03301
NJ - d	3	1	1	0	See note in newsletter	Margaret P. Shaw New Jersey Insurance Dept 20 West State St., 10 th Floor Trenton, NJ 08608
NJ - f	0	0	1	1	See note in newsletter	
NY - d	1+1*	1	1	0	NY Supplement	Insurance Regulatory Systems New York State Ins. Dept.
NY - f	1	0	1	0	NY Supplement	One Commerce Plaza Albany, NY 12257
OH - d	0	1	1	0	INS7004 & 7214. On Line: INS7140 & 7142	Terrance A. Miller Ohio Dept. of Insurance 2100 Stella Court Columbus, OH 43215-1067
OH - f	0	1	1	0	INS7004 Line: INS7140	
PA - d	2+1*	2+1*	0	0		Kaushik K. Patel, Chief Pennsylvania Ins. Dept
PA - f	0	0	0	0		Rm 1345 Strawberry Square Harrisburg, PA 17120
RI - f	0	0	1	1	<ul style="list-style-type: none"> Contracted Ins. Producer Report Information DataBase Update 	Walter D. Hope, Jr. FLMI, CFE R.I. Insurance Division 233 Richmond St., Suite 233 Providence, RI 02903-4233
VT - f	0	0	1	0	Retaliatory Annual License and fee calculations	Vermont Insurance Division Company Licensing Section 89 Main St., Drawer 20 Montpelier, VT 05620-3101
WI - f	1	0	1	0		Yvonne Sherry Office of Commissioner of Ins. 125 S. Webster Street Madison, WI 53702