



Q²

A newsletter of developments at QuasarSystems

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We'd like to use this forum to inform you of changes and enhancements we've made to our systems. We keep improving the speed, processing and feel of R², *The Reinsurance Resolution*.

We will discuss how R² handles some miscellaneous transactions.

Reduction/increase in face amount (Is retention rechecked?):

For decreases in face amount, the ceded amounts will be recalculated according to one of three methods coded in the applicable Treaty records: Pro-rata, Top-down, or Constant Retention. Pro-rata allocates the reduction proportionately from all retained and ceded amounts on the policy.

If there is only one band of reinsurance, or if there are two bands and the first band is retention only, then Top-Down and Constant Retention are the same. If there are multiple bands of reinsurance, the Top-down will first take the reduction from the highest band, then from the next lower band, etc. Constant Retention would allocate the reduction proportionally among the reinsurers. Any reduction in retention amounts will not automatically be reallocated to other policies. A notification will appear on a report for further investigation.

Increases can be handled in two different ways. A currently underwritten increase should appear as a new policy sequence record in the Input Extract with its own effective date, face amount,

age, rating, class, etc. It will then be allocated as new business under the treaties currently active for that plan of insurance. Underwritten increases will take prior retention into consideration if so instructed by the preprocessor.

Pre-underwritten increases (i.e. those that occur automatically, without current underwriting) will be added to the existing ceded amounts according to the treaties in effect as of the original age and original effective date of the coverage. Premiums and allowances will be determined on a point-in-scale basis. For example, if your premiums use a Select and Ultimate Table, and an increase occurs at the sixth policy anniversary, the premiums on the increase portion will be based on the original issue age and start in duration six of the table. Allowances will also be determined starting with the sixth duration. Pre-underwritten increases will only consider prior retention at the time of the original issue.

Not Takens put back in-force:

When a policy is issued, R² recognizes it as New Business because it is inforce in the Extract but not in the R² Inforce files. The policy is processed as New Business and the first reinsurance premium is paid. If the policy

appears in the Extract with a "Not Taken" status, then R² reverses the premium paid and shows the face amount on Line 5 of the Policy Exhibit, "Not Taken". If the policy again shows up with an inforce Status, R² will again pay the premium, but include it under *First Year - Other* instead of *New Business*. The Face Amount is recorded in the Policy Exhibit on line 3, *Reinstatements*.

Reinstatement processing/billing:

The policy is placed back in force and paid to the policy anniversary following the current processing date. Based on the stored reinsurance paid-to-date any past premiums due will also be paid.

In-force to lapsed to reinstatement (billing?):

When a policy lapses during a policy year the reinsurance premium is reversed from the paid-to-date to the lapse date. Premium reversal calculations are made to the nearest day or nearest month as specified in the configuration file. The policy reinstatement would follow the reinstatement logic in the above *Reinstatement processing/billing* answer.

REINSURANCE OVERRIDES

We all have asked about the reinsurance override fields on the extract. What does each field really mean, how do I code them, and why would I code them?

These fields can be used to force the reinsurance amounts and reinsurers to a value different than R² would calculate automatically, or to reissue a policy at different reinsurance amounts. This can be done at issue or as of a specified change date.

The field *Cession Type* is used to override normal processing of an automatic (A), facultative (F), facultative-obligatory (O), or shopped facultative (S) cession. If this field is left blank, then R² will determine the cession type through normal processing.

If the insured has multiple policies, then the field *Other Policy Retention* defines the total amount retained under prior contracts. When determining amounts to be ceded, R² uses this information to reduce the available retention capacity on the current policy. This information may also be held in a "Prior" Reinsurance Trailer.

Normally the *Reinsurer* field will be left blank. R² automatically determines which reinsurers are to be used based on information coded in the Treaty File. However, in the case of a facultative policy to a single reinsurer, this field should be coded with the two-character code assigned to the appropriate reinsurer.

If the insured has multiple policies, then the field *Other Policy Ceded Amount* defines the total

amount ceded under prior contracts to the reinsurer defined in the *Reinsurer* field. When selecting treaties, R² will take into account that this amount has already been ceded for purposes of determining amounts ceded, banding and maximum automatic cessions to a particular reinsurer. If you have instances where there are prior cessions to multiple companies that must be acknowledged, a reinsurance trailer would need to be used.

Under normal circumstances, the *Manual Override* field will be left blank. When you need to force R² to treat a policy in a method out-of-the-ordinary, you have the following options:

M - Manually override normal processing as of a change date; or
R (reissue) - Manually force R² to reverse back to issue and bring forward under the current assumptions.

Normally, the *Amount Retained Override/Reinsurance Amount Ceded Override* fields will be Zero. At issue, if you need to force R² to override normal processing, these fields will determine the amount retained/ceded. After issue, if you find it necessary to alter the original retained/ceded amount, these fields will be effective **only** if the *Manual Override* field is coded with an **M** or **R**.

Processing, outside R², of special cases can be confusing and sometimes tedious to perform. But with a little help from this article and QuasarSystems this process can be made simple and easy to follow. R² evaluates all treaties for active dates, alpha splits, age restrictions, table rating

restrictions as well as some user-defined restrictions. R² selects all active treaties, and reinsurance amounts are allocated to the appropriate reinsurers. At times it may be necessary to alter amounts processed in prior periods. If a policy had been coded incorrectly in a prior period, and the error has resulted in an incorrect retained and/or ceded amount, you may take the following corrective actions:

To change retained amount/ceded amount after a policy has already processed: If the *Amount Retained Override/Amount Ceded Override* in the input extract is nonzero, and differs from R² inforce amounts, and *Manual Override* is an **M** or **R**, reinsurance allocations are recalculated. Reversing entries are automatically performed.

Facultative to automatic/automatic to facultative changes: If *Manual Override* is **M** and cession type on input extract differs from R² inforce records, a change transaction is generated. The Policy Exhibit is updated through other increases with a positive change for the new cession type and a negative change for the previous cession type.

Please feel free to call us to clarify your understanding or answer any questions on how to code or use any of the above fields.



Questions and Answers

Q: How are 'treaties', premium rates, commission percents, 'pool' case percents, etc stored/handled in R²?

A: All plan and treaty information is held in data files. These files are built by the user. The premium rates, premium taxes, and commission percents are also held in data files built and maintained by the user. 'Pool' case percents are handled as a quota share treaty. The user would code the necessary pool percentages and treat the 'Pool' treaty as any other treaty. Another option is to have all 'Pooled' policies coded as one reinsurer and one treaty and then the user would apply the percentages outside the system.

Q: Is Century being taken into account?

A: Yes, the system was designed with the Century change accounted for. Dates are stored internally as LONGINTEGERS, in

[YYYYMMDD] format. Dates in the Input Extracts can be coded either in 8 Character or 7 Character formats. The 7 Character format [YYMMDD] uses a 3 character "years since 1800" convention. The choice of format is up to the User. Below are some 7 Character format coding examples:

March 7, 1999 as 1990307;
January 6, 2001 as 2010106;
June 3, 2105 as 3050603.

Q: Is Policy Exhibit always in balance on the R² system?

A: There are two programs included with the System that check the consistency of Inforce files, Extract file and Policy Exhibit. Although Policy Exhibit should always be in balance, every so often an unusual change can cause an imbalance. In case an error does occur within the Policy Exhibit lines, there is a method for the User to manually adjust any of the entries. This adjustment will carry forward to future periods.

Q: Is there a limitation on Universal Life business for number of months the system can go back for reprocessing?

A: There is no **implicit** limit for how far back the System can go for reprocessing. On the other hand, if values (e.g. risk amount) are not available for past periods prior to installation of R², the

reversal of past payments may not be accurate. If these values are loaded into R², then such processing will be accurate. If you have any questions or concerns, you should discuss your specific needs with us.

Q: Can I do on-line edits for other in-force policies and retention limits?

A: Yes, any policy can be edited manually on R². Retention limits are coded in either Retention Schedules (RS) or in the Treaty (TY). They may also be updated manually by the user. If a policy does not follow the normal quota share allocation, the retained and ceded amounts can be forced through the input extract or by coding a reinsurance trailer.



Northwestern National Life Insurance Company

Thank you for your continued support and suggestions. We appreciate and welcome all your comments and questions. Please let us know if there are any topics you would like to see examined in greater detail.

For additional information on any option, you should consult the documentation manual. If you are interested in more detail, please contact us. We would be delighted to answer any questions you might have.

Visit our booth, #48, at the Society of Actuaries 1995 Annual Meeting and Exhibit in Boston. The business show dates are October 15-18, 1995.

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 Producer
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