

#### Reinsurance Administration Professionals Association

#### Data Committee

#### *presents*

Reinsurance Reporting Guidelines and best practices

**DOCUMENT INFORMATION**

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**INTRODUCTION**

Introduction

“**Reinsurance Reporting Guidelines and Best Practices**” is meant to serve as a guide for best practices in reinsurance administration and reporting. It covers topics such as treaty implementation, overall data quality guidelines, and accurate reporting of conversions/continuations among other topics. It also contains usable templates to assist in reporting and a form that can be used to communicate reporting changes to your business partners.

This document was created through a collaborative effort of industry experts from all areas of the industry representing various companies. This group plans on continually updating this document and welcomes any feedback and ideas. Please contact any of the leaders of the Reinsurance Administration Professionals Association (RAPA) listed on the web site, <http://www.reinsadmin.org/> or the contributors below.

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**TREATY**

Treaty Implementation Workflow

## Introduction

This guide provides a best practice workflow process for taking a treaty from paper through to system implementation. It outlines examples of information captured in internal systems upon issuance of a Letter Of Intent (LOI) and lists the data fields that are updated once the actual treaty is executed.

## Purpose

* Provide process guidelines when implementing negotiated terms in to the system (see ***Workflow***)
* Provide a check list of information that a Ceding Company, Reinsurer and Retrocessionaire would capture and validate on internal systems (see ***Appendix 1***)
* Illustrate a workflow chart for treaty implementation (see ***Appendix 2***)

## Workflow

### Initial Assessment

🞎 1. The department that is accountable for setting up a treaty on the system would obtain a copy of signed LOI.

🞎 2a. Review to see if any questions need to be addressed by the appropriate risk management/pricing or other departments accountable for negotiation of the treaties.

🞎 2b. Review and discuss with Operations and IT to determine if there are any system modifications required to administer the terms.

🞎 3. Once all questions are answered, determine the treaty naming convention in the system.

### Treaty Setup in Non-Production

🞎 4. Create the treaty terms in a non-Production environment based upon the information in the LOI and any other information received from the appropriate risk management team.

At time of LOI from a Ceding Company’s perspective, and from a Reinsurer’s/Retrocessionaire’s perspective, please see *Appendix 1* for the required fields to be captured within the system.

🞎 5. Perform an *independent review* to make sure that the treaty setup in the system reflects the LOI. This task should be performed by someone other than the person(s) who set up the treaty in step 4. If the review results in the discovery of differences, step 4 should be repeated until the independent review provides the required sign off.

### Treaty Setup in Production

🞎 6. Create the treaty terms in the production environment.

🞎 7. Perform an *independent review* to make sure that the treaty setup in the system reflects LOI. This task should be performed by someone other than the person(s) who set up the treaty in step 6. If the review results in the discovery of differences, the process should be repeated from step 4 (optional) or from step 6 until the independent review provides the required sign off.

### Documentation & Business Partner Communication

🞎 8. Create procedures manual for administration and other internal parties that require the information.

🞎 9. Create Implementation notice with customized reinsurer information, for the reinsurance partner.

Note: For sharing such information, we recommend use of RAPA’s published document "Communicating System Data or Administrative changes to Business Partners” available within this document and on RAPA’s website.

### Treaty Signoff

🞎 10. A final signed treaty is received.

🞎 11. Compare terms of the signed treaty with the treaty that was previous set up in the system. If there are differences, the process should be repeated from step 4 (optional) or from step 6 until all differences are cleared. This process may require additional discussions with various parties that were involved in the negotiations.

At time of “signed Treaty” from a Ceding Company’s perspective, and from a Reinsurer’s / Retrocessionaire’s perspective, please see ***Appendix 1*** for the required fields to be captured within the system.

### System Changes

🞎 12. If system changes are required, continue to next step, else go to step 19.

🞎 13. Perform system changes in a non-Production environment. Follow IT process specific to your company (It may be optional in some companies to implement and test system changes in a non-Production environment).

🞎 14. Review and sign off system changes made in step 13 in a non-Production environment. If the review results in the discovery of issues, the process should be repeated from step 13 until sign off.

🞎 15. Determine if any historical information (billing or other transactions) is required to be updated or corrected to reflect the changes. If historical information is required to be adjusted continue to next step, else go to step 17.

🞎 16. Provide estimates of any financial adjustments to Reinsurers and others applicable business partners.

Note: For sharing such information, we recommend use of RAPA’s published document "Communicating System Data or Administrative changes to Business Partners” available within this document and on RAPA’s website.

🞎 17. Implement system changes in the Production environment.

🞎 18. Review and sign off system changes made in step 17 in the Production environment. If the review results in the discovery of issues, the process should be repeated from step 13 (optional) or from step 17 until sign off.

### Peer Review & Business Partner Communication

🞎 19. Perform an independent peer review of the treaty. This task should be performed by someone other than the person(s) who performed treaty setup or independent reviews on this treaty. If issues are identified, the process may have to be repeated from one of the prior steps depending on the magnitude of the issue.

🞎 20. Provide actuals of any financial adjustments to Reinsurers and other applicable business partners.

Note: For sharing such information, we recommend use of RAPA’s published document "Communicating System Data or Administrative changes to Business Partners” available within this document and on RAPA’s website.

### Business as usual

* 21. Perform normal administration of treaty.

### Periodic Audit

🞎 22. Every one to two years, perform internal audit of the treaty setup to ensure the business being processed conforms to the treaty terms.

## Appendix 1 – List of Treaty Elements



## Appendix 2 – Treaty Implementation Workflow (Flowchart)



**SYSTEM**

Communicating New System, Data, or Administration

## Introduction

These guides were created as references for initial communication of seriatim data and summary reporting to your business partners. Examples of applicable uses of this form include, but are not limited to, reporting of inforce, transactional, policy exhibit, premium, reserve, and claims data in recommended file layouts. Key elements are fields such as treaty codes, plan codes, residence codes, claims reasons and underwriting preferred classifications.

## Purpose

Data reporting and financial reporting are key to the proper administration of life insurance business being ceded to a business partner. These guidelines will help you get started, help eliminate questions and make the overall process more efficient. Even with an effective administration and reporting process, a review of the reporting examples may help with the understanding of the key elements in monthly and quarterly reporting. The goal for you and your business partners is to be able to manage business quickly, accurately and consistently.

Several relevant areas are addressed as listed below. Please see below attachment for additional details.

* Inforce and Transactional data
* Policy Exhibit and Premium data
* Plan Code Notification template
* Underwriting Preferred Classification
* Residency Code
* Claims Reporting Guidelines
* Reserves
* Processing Information

## Appendix 1 – Communicating New System, Data, or Administration to Business Partners



Communicating Changes to System, Data or Administration

## Introduction

As system changes and modifications are made, it is imperative that communication between a Ceding Company and a Reinsurer, or a Reinsurer to a Retrocessionaire be maintained through the entire process. Lack of communication can cause errors in downstream processing and inefficiencies for all parties involved. It is important to have this open communication with all business partners. This form provides an efficient means for communicating pertinent information to all involved.

## Purpose

The attached document (see ***Appendix 1***) is a form that identifies items to address between the business partners, such as:

* The scope of the change being addressed
* The relevant fields and files being changed
* Specific procedure changes that may result from the changes

## Appendix 1 – Communication form



**DATA**

Data Quality

## Introduction

This guide was created as a best practice for initial review of the quality of the data sent between the business partners. This document steps through specific data quality issues as seen by the various business partners in a reinsurance arrangement (Ceding Company, Reinsurer, Retrocessionaire).

## Purpose

* Explain the definition of data quality from each of the perspectives
* Define specific concerns with the systems being used, and give some best practice ideas for resolution (see ***Appendix 1***)

## Data Quality Definitions

What does Data Quality mean to each player? Each player in the reinsurance stream has different needs for quality data.

1. For the **Ceding Company**, data used by the reinsurance system is only as good as the administration system supplying the data. A “Garbage-in = Garbage-out” philosophy. Unless checks are made back to the administration systems, the data within the reinsurance system can be suspect. Assumptions are made that the source data is coming into the reinsurance system correctly. Constant monitoring of the administration systems is required to ensure all changes are accurately being transferred to the reinsurance system. Internal reporting is also impacted by the quality of the reinsurance data.
2. For the **Reinsurer**, data quality is multi-dimensional. One dimension is accuracy. This is not just limited to formatting accuracy but also field accuracy and is the most difficult to measure. A second dimension is completeness and is defined as having the data meet all the minimum data requirements. A third dimension is consistency with data being consistent from period to period. The fourth dimension is recency and measures the freshness of the data.
3. For the **Retrocessionaire**, high quality data is complete, accurate, available and timely. Complete data means no information is missing from the data file, meaning less time is taken to query for missing information. Accurate data is when all information provided is correct, with less time to review information for errors. Available data means that the information is provided and there is no need for a request. Timely data implies no significant lag between the effective date of the data and when it’s provided. High quality data enables the company to make sound business decisions.

## Conclusions

1. What is the main source of data quality issues? The systems being used to administer the reinsurance data seems to be the driver for the data quality. If manual intervention is required because of system limitations this can compromise the quality of the data.
2. The industry indicates that there are three major types of systems in use today: vendor provided (Ex: TAI, Quasar), home-grown systems and worksheets.
3. Some specific concerns regarding the systems being used are:
4. System upgrades or modifications not adequately being tested
5. Who is performing the system upgrade (internal programmer or external consultant with the industry system)
6. The age of the system
7. System restrictions for hardware and file sizes
8. Limited reinsurance knowledge of the parties giving the system support
9. Inconsistent file formats (period to period)
10. Incomplete files
11. Lack of mutual agreement on data needs
12. Lack of regular audits on the data files

## Appendix 1 – Data Quality



Reporting Issue – Late Reported Transactions

## Introduction

Late reported transactions impact users of the data. These delayed transactions may be due to company mergers or acquisitions, changes in administrative systems, or poor cedent controls that result in errors and omissions reporting. Late reported transactions may have impacts on sales, financials, company credibility, reserves and capacity.

## Purpose

* What to do when you first learn you will have late reported transactions
* How to monitor for late reported transactions
* Impacts created by late reported transactions

## Appendix 1 – Late Reported Transactions



Reporting Issue – Missing Fields

## Introduction

Completeness of data reporting is very important to the submitting company as well as the receiving company. If key fields are missing when the data is reported to the Reinsurer/Retrocessionaire, the data may be misinterpreted. This can lead to more time in answering questions or incorrect assumptions, potentially resulting in financial impacts to the bottom line. Complete data reporting is one method to ensure the business is processed efficiently and correctly.

## Purpose

* Present causes for missing data fields
* Display impacts of missing data fields
* Present some best practices for preventing missing data fields
* Provide example scenarios (see ***Appendix 1***)
* Provide impact grid for missing data fields (see ***Appendix 2***)

## Causes of Missing Key Data Fields

1. Key field not stored in client administration system
2. Conversion of systems and key field not converted properly
3. Data obtained via acquisition and prior company did not provide key data field
4. Client may use Third Party Administrator and not stored on that system
5. Key field not obtained from insured
6. System constraint with not being able to process all given values for key fields
7. Type of reporting system and ability to support system updates

## Impacts of Missing Key Data Fields

1. Insured information such as Name, Policy Number, Date of Birth, State of Residence/Residence Country could cause duplicate policies in databases. Often some of these fields are used as primary keys to identify an insured. If the field is populated and then subsequently not populated a new coverage may be created instead of updating the coverage in the database that already exists. Agreements may be split based on State of Residence or Last Name alphabetical placement so these fields are critical. Complete client data is critical for retention management and timely claims processing. If the policies for an insured are not linked together properly a client may not have proper retention on the life impacting financials.
2. Insured information such as Underwriting Basis, Risk Basis/Ratings, Smoker Code and Smoker Classification are needed to ensure proper rates, proper premium payments and needed for audits and reviews. These values may also be critical to determine if the policy applies to an agreement and are needed for reserves and proper treaty placement.
3. Effective Date of Transaction, Transaction Code and Transaction Sequencing are needed to properly process business in the correct order. If not correctly sequenced, multiple transactions could end up with a policy being in an incorrect status or with an incorrect Ceded Amount.
4. Issue Date and Issue Age are needed for use of proper rates and durations. These fields are also needed for calculation of reserves, mortality studies and determination of coverage. For example, if the upper age on an agreement is 65 but the Issue Age is not populated, the policy may be accepted when it should not have been
5. Treaty Code and/or Plan Code are needed so the policies may be tied to the proper legal agreement. These fields are used in a number of ways:

* determination of rates
* calculation of reserves
* determination of retention and retrocession placement/binding limits

1. Reinsurance Type and Reinsurance Mode are used to validate proper treaty, determine rates and reserves.
2. Paid to Date is needed to ensure premiums are paid to a current date. If the Paid to Date is less than current date the policy may be assumed to be terminated. If a claim occurs when the policy has not been paid to a current date, this may impact timely payment by the Reinsurer.
3. The Net Amount at Risk is used for retention management, validation of binding limits, calculation of premiums and reserves.
4. Conversion and reissue data is needed for proper processing. Transaction Type as well as original and new policy information is important to have a full picture of the policy and the changes that occurred.
5. Second insured information is needed for proper processing for joint life and second to die policies, such as determining joint ratings and ages, premium and other processing, such as retrocession placement.
6. Type of rider, if not provided could assume joint insured but may be child or spouse rider.

## Best Practices

1. A best practice is to validate your data to be reported for any missing values prior to submitting. If fields are missing work to include them. If the data cannot be added, immediately contact the downstream users of the data so they are aware of the issue and can develop a work around for their systems.
2. Queries may be used to find missing file values prior to file submission.
3. File size and record count can be reviewed to see if in line with usual reporting.
4. System controls may be developed to populate missing fields based on derivations. For example if you have Date of Birth and Issue Date of policy but not Issue Age then the two populated values may be used to derive an Issue Age.

## Appendix 1 – Missing Data Fields - Scenarios



## Appendix 2 – Missing Fields Impact Grid



Conversions

## Introduction

This guide has been created as a reference to assist with the handling of conversions. Policy conversions occur within the life insurance industry with regularity and can follow different processes as needed to support various consumer needs. Additionally, each reinsurance agreement typically contains the negotiated terms for covering the converted policies. Therefore it is important that the conversion activity be reported to the Reinsurer(s) and Retrocessionaire(s) in a manner to ensure the contractual terms are honored.

## Purpose

The attached document (see ***Appendix 1***) is a guideline that provides industry standard rules of thumb for

* Determining whether or not the conversion is reinsured, and under which agreement
* Identifying areas where clarity of terms may be lacking within the agreement
* Identifying premium rate and allowance options
* Addressing reporting needs for the Reinsurer(s)/Retrocessionaire(s)

## Appendix 1 – Conversion Guidelines Matrix



Reporting Issue – Partial Reporting

## Introduction

The accuracy of data reporting is very important to the submitting company as well as the receiving company. Some companies have multiple systems that compile reporting or use third party administrators for reporting. It is important the submitting company confirms all reporting is created when expected and sent to other parties. A system error may also occur that would result in partial reporting. It is important the submitting company confirms files are correct or develop a process to confirm this.

## Purpose

* Present causes for Partial Reporting
* Display impacts of Partial Reporting
* Present some Best Practices for preventing Partial Reporting
* Provide example scenarios

## Causes of Partial Reporting

* Reporting created by multiple administration systems and not run at same time interval
* Reporting created by multiple clients or third party administrators and not run at same time interval
* System error and not all records on reporting
* Issue with data file transmittal or storage to site for retrieval
* Client practice of supplying all data for monthly reporting but cash payment based on a different timeframe (Data has all activity from first to thirtieth of month but payment is based on first to twenty-fifth of month, last 5 days paid on next month reporting)
* Field changes on the administration system (physical move of the field, or change in size/content of the field), so that when information is fed to the reinsurance system, the field is either blank or has corrupted information. It is possible that as field sizes are changed in the administration system, the rest of the data in the file gets shifted causing all of the subsequent fields to become corrupted, leading to partial reporting

## Impacts of Partial Reporting

* Additional time spent by data recipient to review and follow up on reporting issues
* The partial file could be considered full reporting and cause downstream impacts to internal systems
* Additional time spent at data recipient company to confirm payment if no match to partial reporting
* Partial reporting may leave some policies showing as not paid and delinquent
* Unreported transactions may lead to incorrect status at data recipient company
* Additional time spent to split policies not paid and to add to next reporting cycle
* Additional time spent locating files needed by data recipient
* Additional time spent validating premium receipt prior to remitting claim benefits

## Best Practices

* Validate all files are created for submission.
* Validate all files are complete- queries or a review of file size and record count. This check should be done by all business partners. If any issue is discovered on the recipient’s end it should be communicated to the provider.
* Communicate with other reporting outlets as needed to confirm files are created as expected.
* Cash payments should tie to reporting files and summaries.
* Communicate with data recipients as to file names and how data is transmitted, keeping up to date on any changes.
* Monitor changes made on the administration system, to confirm relevance to reinsurance data. Test any changes made here to confirm proper handling, proper codes, etc. If necessary, communicate with the data recipient any file changes (field location, or size/content changes) that happen on the administration system, and that subsequently feed to the reinsurance system. Use the “RAPA-Communicating System, Data, or Administration Changes to Business Partners” created by RAPA to detail the extent of the changes.

## Scenarios

1. Partial reporting and cash matches.
   * File is received and cash matches so data recipient proceeds with processing.
   * The data recipient may notice the number of records is lower than normal and raise the question as to if complete.
   * The data recipient may notice an additional payment or additional reporting file received and see data was not complete.
   * The data recipient may complete processing and not notice until a later time.
2. Partial reporting and cash does not match- known file names.
   * File is received and cash does not match. A part of data is not supplied but it does not always have transactions each month so data recipient client proceeds.
   * Cash does not match so data recipient reviews summaries and contacts client in regards to missing part.
   * Client sends missing part and then data recipient can proceed.
3. Partial reporting and cash does not match- new file reported.
   * File is received and cash does not match. All parts of reporting the data recipient expects are received.
   * Data recipient contacts client in regards to excess payment.
   * The client updates the data recipient that they have added a new file that should be picked up for processing.
   * Data recipient updates their records to add new reporting file. Data recipient picks up additional file and can proceed.
4. Partial reporting and cash does not match- reporting does not match summaries.
   * File is received and cash does not match. All parts of reporting the data recipient expects are received.
   * Data recipient reviews summaries and notices summaries have higher totals than data.
   * Data recipient reports to client and they send files again due to earlier system error and not complete.
   * Data recipient proceeds with new reporting files when received.
5. Partial reporting and cash does not match- record count too low.
   * File is received and cash does not match. All parts of reporting the data recipient expects are received.
   * No summaries submitted so data recipient cannot check reporting to summaries.
   * Data recipient notices the number of records is much lower than usual reporting.
   * Data recipient contacts client and client acknowledges file sent was not complete. Client agrees to send new file.
   * Data recipient proceeds with new reporting file when received.
6. Field is moved from one location to another in the administration system file
   * Coordinate programming changes so that the reinsurance system will pick up the new location for this information.
   * Test the change once it is made, to confirm accuracy of the reinsurance file.
7. Field is changed in size or content
   * An example of this might be changing of the sex code on the administration system for a male from M to a 1.
   * Coordinate programming changes so that the reinsurance system will pick up the new information appropriately. In the above example, the programming change would be to have the interface program change the 1 to an M.
   * Test the change once it is made to confirm the accuracy of the reinsurance file.
   * Communicate the change to the data recipients if necessary. In the above example, if it is not possible to have the interface program changed to reflect the M, the communication needs to be that the new field will now be a 1 instead.

Reporting Issue – Policy Number Changes

## Introduction

Because policy number is typically a static data element, it is a key reporting field used to identify and apply policy changes to correctly represent the risk and the treaty terms under which the policy is covered. An unreported change in the policy number potentially leads to overstatement of reserves and assumed NAR as it may appear to be two separate policies in the systems. Conversely, policy number changes which are communicated in advance of the reporting, or reported as a change, provide an opportunity for the business partners to make modifications to accommodate the change and avoid any appeared duplication or financial overstatements.

## Purpose

* Present causes for changes to the Policy Numbers
* Display impacts of Policy Number changes
* Present some Best Practices for managing Policy Number changes
* Provide example scenarios

## Causes of Policy Number Changes

* Administrative system conversion
* Policy conversions or exchanges reported as new business instead of Conversion In or Exchange

## Impacts of Policy Number Changes

* Doubling of risk within retention management processes resulting in overstated NAR amounts reinsured/retroceded and premiums remitted.
* Overstatement of reserves.
* Potential overpayment of benefit amounts if error not detected on a timely basis.
* Business partner could associate the conversion or exchange with an incorrect treaty impacting profitability results, incorrect share percentages, incorrect premium and allowance structures.
* Compromises identification of policies eligible for recapture if the conversion or exchange is not reported as such.

## Best Practices

* Advance communication of the scenario(s) resulting in policy number changes to the business partners.
  + Utilize “RAPA-Communicating System, Data, or Administration Changes to Business Partners” document developed by the RAPA Data Initiative to share advance policy number format changes.
  + Include a description of the change being applied and the reporting period the change will take effect, i.e. ‘Adding ABC prefix to each policy associated with the block of policies acquired from ABC Insurer, adding leading zeros to the policy number, etc. If there is no logic that can be applied to the change, provide a listing of old policy number to new policy number.

## Scenarios

1. Administrative system conversion - Change to new platform as represented in the following examples:
   * New platform may not allow for the policy number to remain the same.
   * Internal Migration/Implementation to new platform decisions may drive formatting of policy numbers.
     1. Previous multiple system solutions into one standard solution – renumber all with consecutive numbers.
     2. Previous multiple system solutions into one standard solution – add leading/ending character(s) to preserve historical system solution.
     3. Improved product functionality in new platform.
     4. Correction of inconsistencies in prior policy number assignment (generally occurs with manual administrative solution -Excel or Access DB).
     5. Larger field size, so zero fill (beginning or end).
2. Policy Conversions or Exchanges – Reported as New Business instead of Conversion In or Exchange:
   * Conversion or exchange of a policy administered on one system solution to a policy administered on a different system solution (e.g original policy on legacy system and new policy on server based system).
   * Term conversions or exchanges staying on the same system can also cause some confusion and inaccuracies for the business partners.

Reporting Issue – Inforce & Transaction Files Not Reconciling

## Introduction

The accuracy of data reporting is very important to the submitting company as well as the receiving company. Some of the reports that are typically used to administer the inforce business include the inforce file, transaction file and policy exhibits. The reconciliation of these source data files received each month or quarter is an important step to ensure completeness and accuracy of the block of business being administered. Even with the availability of robust systems to manage policy data, inconsistencies between these various source files continue to be present. Depending on the size of the business administered and time constraints, reconciliation can be performed at either a detailed or less detailed level.

## Purpose

* Present overview of files and the reconciliation methods used
* Present causes for Inforce, Transaction and Policy Exhibit not reconciling
* Display impact of Inforce, Transaction and Policy Exhibit not reconciling
* Present some Best Practices for preventing Inforce, Transaction and Policy Exhibit not reconciling
* Provide example scenarios

## Reconciliation Method Overview

The level of reconciliation performed using the above mentioned files will differ from one company to another. Inforce files and transaction files are received and loaded either monthly or quarterly. Policy exhibits are also received on a monthly basis.

The inforce file, whether produced monthly or quarterly, represents a snapshot of the policies that are in-force at the end of the period, after all of the transaction processing has taken place. Each month or quarter, clients provide inforce data files at a seriatim level for all policies inforce. These inforce files record policy level data and are used to ensure that the Ceding company and Assuming company are keeping accurate parallel records and also for true up purposes.

The transaction file is typically provided on a monthly basis and displays policy by policy level data that records any additions, deletions, changes that have occurred to the policy level data during the month. These transaction files form the basis of the billing statements whose premiums and allowances totals are recorded for premium processing purposes. The transaction data is also used to create termination extracts, to perform audits and to process claims.

The policy exhibit is a document summarizing and reconciling the changes that have occurred on policies reinsured during a reporting period. Such changes may include new business, increases and decreases, conversions, lapses, terminations and reinstatements as well as changes in volumes of NAR. Policy exhibits are summaries showing how an opening balance of policy totals has been added to (e.g. new business, conversions on) and subtracted from (e.g. lapses, deaths) to produce a closing balance of policy totals.

**Different reconciliation methods using these 3 source files can be performed at different levels. Below are a few examples:**

* **Inforce to Policy Exhibit**
* The reconciliation of the inforce file includes a control check that compares inforce policy count and NAR by treaty to the policy count and NAR by treaty found on the client’s policy exhibit for the corresponding quarter-end. The reconciliation confirms that the net change as reported on the policy exhibit reconcile to the changes and total in the inforce data provided by the Ceding company.
* **Transaction to Inforce**
* This reconciliation method involves taking the inforce totals at the end of a quarter e.g. 4Q2014 and then account for all the transactions in 1Q2015 and compare the expected 1Q2015 inforce totals based on the transaction activity to the actual inforce totals for 1Q2015 from the client file and this is done at a treaty/file summary level.
* The client’s inforce file is also used in a process to clean up internal data storage. This reconciliation is performed by referring to the client’s inforce to see if any policies are not inforce with client but a transaction may have been missed or out of order processing and still inforce in internal data storage. Policies may be inforce with client and we do not have them in internal data storage due to out of order processing or missing transactions. Out of order transactions can be a problem. The transaction sequence helps but sometimes clarification is required.
* **Transaction to Policy Exhibit**
* Transaction files are also used to compare to the policy exhibits and associated premium remittances.

## Causes of Transaction and Inforce Files Not Reconciling

* Due to System Conversion and the cleanup stage that follows to better align data discrepancies found.
* Type of reporting system and its limitations.
* Timing issues which can result in transaction not showing up at the end of a reporting period.
* Reconciliation discrepancy can result from billing corrections that are made on the transaction file but are not reflected on the inforce file.
* Client is able to transfer data without transactions (due to special adjustments) and therefore the movement will only be identified by comparing inforce data sets or ending policy exhibit balances from the previous reporting period to the beginning balances for the current period.

## Impacts of Transaction and Inforce Files Not Reconciling

* Reconciliation inconsistencies can lead to incorrect audit assumptions and findings.
* Potential use of incomplete and inaccurate transaction data to generate termination extract to be used in the lapse study which may result in a negative impact on lapse experience.
* Inforce file is used to generate an extract that is used by the Valuation team in the generation of reserves. Out of sync inforce and transaction files can lead to inaccurate modeling of the policies. This may result in a negative impact on mortality and reserves.
* Possible distortion of data needed for statistical reporting, retention management and premium processing.
* Transaction/Inforce data is used by Claims to check the status of the policy and to ensure that premiums have been fully paid up to the claim date; therefore any inconsistency in the inforce and transaction data will impact the Claims area.

## Best Practices

* Validate the data to be reported for any unusual corrections or processing prior to submitting. If you know the correction or change processed made for that period is an unusual one, communicate this to your business partners so they are aware of what is to be expected. This will allow the downstream users of the data to be aware of the situation so they can develop a work around for their systems and make provision to document the inconsistency.
* Communicate changes to your business partners on a timely basis. The sooner the discrepancy is identified and corrected, the better future reporting will be.
* Some cedents generate the inforce file a few days after the generation of the transaction file.
* If there are any terminations or new issues during those few days, the result of that activity is reflected in the inforce file but not in the transaction file. Best practice will be to generate them simultaneously.
* Implement reconciliation as a formal process if not already an established one in your organization.
* Have management review the reconciliation results and provide sign-offs to evidence review and completeness which will facilitate the production of such reports at audit time.
* Inquire on differences with client. Any differences considered to be above your set tolerance level should be brought to the client’s attention as they may or may not be aware of such a difference.
* Put greater emphasis on analyzing and reconciling the data and have a dedicated team member when possible assigned to this task.

## Scenarios

1. **Corrections**

There can be differences due to corrections as in the following examples:

* If a client is making a correction to a terminated policy, the transactions will be sent, but they may not appear on the policy exhibit. This occurs when the client does not change the status from terminated to in-force when they reinstated and then terminated the policy again. Since nothing was added to the in-force, there is nothing to remove; the reinstatement and termination do not appear. This also works in reverse, the client can adjust the policy exhibits without producing transactions, and this usually pertains to offsetting movement.
* Policy #123 was processed as a claim in 2012. Billing corrections were made in January of 2013. The January 2013 Policy Exhibit file has it listed under Death and removed from the Inforce file, but it shows up in the January 2013 transaction file as a Reversal, not a Death since that was the transaction that was processed at that time.

1. **Timing**

There are differences between the transaction, policy exhibit and inforce data files due to timing. One scenario that is encountered during the reconciliation process is where the count matches, but the NAR amount does not. If a policy terminates, the transaction will show the Net Amount at Risk at the termination date, but the policy exhibit shows the Net Amount at Risk at the in-force date as this is the amount being removed when the termination was processed.

1. **System conversion/upgrade**

As a result of the client completing a system conversion, some policies were removed from the inforce file with no corresponding transaction records on a transaction file to terminate these records. Client confirmed that these were UL policies that had multiple coverages in the old system. During the conversion, they were rolled up into the base coverage.

1. **System limitations**:

* Client reports terminations on the transaction file but due to system limitations the policies remain on the inforce until their renewal period. They are dropped from inforce at renewal and until then the inforce picture is not accurate.
* In some instances, a client system removes a policy completely from the inforce file if its NAR is zero but it is still counted in the policy exhibit file. This causes a mismatch between inforce and policy exhibit.

1. **Transfer of business from one entity to another**

Due to internal reorganization, transfer of business from one entity to another is sometimes required. This is done by "shifting" policies from one business entity to another, using a transaction code not captured on either the Transaction file or Policy Exhibits.

1. **Frozen Transactions**

In cases where the policies are frozen, they will not be present in the transaction file and therefore not included in the Policy Exhibit. However, these policies could be in-force and included in the inforce file but missing from the Policy Exhibit.

1. **Lapse grace period**

Policies in the lapse grace period (in arrears but not yet terminated) are not included in the Inforce file but are included in the monthly transaction file until the policy status is terminated.