

Background

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The Fruits of Cooperation: Joint Receivership, Guaranty Funds Effort Set To Streamline Insolvency-related Financial Reporting

By

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Sometimes it seems that a world of difference divides the receivership and guaranty fund communities. Look a little closer, though, and you'll see these two groups often share a common cause.

Understandably, there can be great disparity of opinion between the "two houses" of the insolvency structure. But it is also true the groups share a spirit of cooperation that often brings measurable benefits to the system.

The fruits of this cooperation are evident in the National Association of Insurance Commissioners' (NAIC) adoption last year of a new version of the Uniform Data Standards (UDS) D-record. The adoption capped years of diligent and dedicated work by the members of the NAIC UDS Technical Support Group (UDS TSG) and the NAIC UDS Financial Technical Support Group (UDS FTSG). The members of these groups included claims, IT and financial professionals from the receiver and guaranty fund communities.

Upon implementation on January 1, 2009, the revised D-record will provide a uniform method of presenting quarterly guaranty funds' financial data to receivers. It will contain information on losses, loss adjustment expenses, other administrative expenses and revenue amounts received from an inception to date, year-to-date and quarter-to-date perspective. Also included is a feature to address large deductible data as well as other enhancements.

The D-record will bring to insolvency-related financial reporting greater uniformity and standardization, better efficiency and related cost-savings, and will help strengthen and streamline the insolvency system that has protected tens-of-thousands of policyholders and claimants over the years.

Prior to any uniform data standards, processing claims for both guaranty funds and receivers was cumbersome and labor intensive. It required manual input of information from original claim files, had no standardization of forms; also there was no specified reporting timeframe. For receivers, the lack of a standard format meant that processing claims information from the more

than 50 property and casualty guaranty funds was often a heavy-lift exercise in shifting mountains of paper and key stroking claims data into a database. Every receiver was left to negotiate the best they could with guaranty funds about what to report and reporting frequency. For guaranty funds, the lack of a standard format brought other challenges: they had to report payment and reserve data in as many different formats (mostly hard copy) as there were estates.

Members of the UDS TSG originally tried to promote UDS as the format of choice in the early 1990s. The initial intent was to use the protocol to efficiently transfer claims data only. The volume of data generated by the spate of large, multi-state insolvencies a few years later showed receivers and guaranty funds the value of finding ways to efficiently gather data receivers needed to bill and collect from reinsurers. The claims protocol, the C-record, was successful, and prompted a growing consensus that it was time also to standardize financial reports; this in turn led the UDS TSG and UDS FTSG to take up development of the D-record.

The NAIC's adoption of the D-record is an important success; it underscores the fact that guaranty funds and receivers can and often *do* work together to develop solutions that enable the system to better and more efficiently serve policyholders and other receivership creditors. For receivers, the D-record facilitates compilation of financial data from the various guaranty funds. The receiver uses the D-record as a control mechanism and reconciliation point with the claims detail in the C-record, plus it is the only method for reporting guaranty fund administration expenses and other revenues not included in the C-record. It also speeds up reconciliation with the claims detail in the C-record. In addition, the D-record facilitates the review and analysis of individual guaranty funds Proofs of Claims and claim servicing expenses. The upgrades also reduce expenses of guaranty funds and receivers by automating what had been a costly and tedious manual process of transmitting financial information between funds and receivers.

The revised D-record brings added efficiency and uniformity to insolvency financial reporting by replacing the various forms of hard copy reporting receivers used in the past, including financial information questionnaires (FIQs), with a uniform financial report that can be filed via hard copy or electronically. This creates a standardized system of reporting with which receiver and funds are familiar. It is an important step in the ultimate goal of users migrating to full electronic filing capability.

For guaranty funds, the D-record standardizes reports, eliminating the past situation where they might be asked to complete different reports to provide the same information to various estates. It also leverages the speed and cost advantages of automation; it speeds up the preparation and issuance of financial reports, and it reduces manpower needed to compile reports while increasing accuracy.

As the D-record came to fruition, the National Conference of Insurance Guaranty Funds (NCIGF) created Secure UDS (SUDS), a secure electronic clearinghouse for UDS data exchange between receivers and guaranty funds. Prior to SUDS, many organizations transferred their UDS files in unencrypted and insecure methods such as email, postal mail, and FTP (File Transfer Protocol). While these methods have been reliable in the past, the recent changes in security and compliance laws led the NCIGF to reevaluate how its members send sensitive, non-public personal information such as names, addresses, and social security numbers.¹

SUDS delivers a range of benefits. It provides a secure means by which guaranty funds and receivers transfer claims data in a manner that protects sensitive personal information from interception, theft, and unauthorized access. It also offers a single standardized point of data

exchange between receivers and guaranty funds. The NCIGF makes SUDS available to receivers and guaranty funds at no cost.

Coinciding with the rollout of the D-record, the UDS TSG and UDS FTSG is undertaking a new UDS training program for the guaranty fund and receivership communities. The goal is to increase the general understanding of the D-record and UDS overall through a new generation of on-line, modular and interactive UDS and SUDS training materials.

In addition to the obvious educational benefits these materials will bring to UDS users, the materials will help promote uniform UDS reporting practices and help users gain maximum benefit from the tools. Development of the training materials, which is being overseen by the UDS TSG and UDS FTSG, draws on the expertise of UDS experts from the guaranty fund and receivership communities. Target completion of the D-record portion of training is August; the remainder of the project will be completed in 2009.

At the end of the day, a key part of the D-record success lay in the fact that the UDS TSG and UDS FTSG was made up of receiver *and* guaranty fund representatives. These professionals know first-hand the mutual advantages that arise from taking a joint, solutions-based approach to addressing issues.

Indeed, the effort is something of a casebook example of the benefits that come when the receivership and guaranty fund communities work together. The UDS TSG and UDS FTSG knew early on that if the D-record was to succeed, the effort had to be spearheaded by receiver and guaranty fund representatives. It is the front-line claims, IT and financial professionals from receiverships and guaranty funds on the UDS TSG and UDS FTSG who are best-placed to recognize the benefits of uniformity and standardization the D-record and UDS overall.

If the D-record's adoption has accomplished nothing else, it has shown the value of good communication between the receivership and guaranty fund communities. Those of us who have served on the UDS TSG and UDS FTSG committees have seen first-hand the mutual benefits that arise when a spirit of unity and cooperation guides an effort and issues are resolved openly through good communication.

In the final analysis, electronic systems such as UDS allow guaranty funds and receivers to save time, effort and resources while allowing us to bring new levels of uniformity and accuracy in reporting. For some there are initial "birthing pains" associated with adapting to these changes. However, the overall capabilities and mutual benefit brought to receivers and guaranty funds alike make it well worth the investment of time and resources.

Admittedly there are – and always will be – differences of opinion between guaranty funds and receivers. But the successful adoption of the D-record clearly shows what can happen when differences are set aside in favor of exploring what will work best for all.

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¹ Portions the foregoing text is drawn from “UDS Overview” prepared by Dale Stephenson. The authors thank Dale for contributing this material.

The authors would also like to thank the members to the UDS Technical Support Group and the UDS Financial Technical Support Group whose talents and dedication have done so much to improve insolvency reporting.

Members of the UDS TSG and UDS FTSG groups are available to answer questions about UDS, the D-record and related issues. The group invites readers to e-mail questions to the UDS Help Desk at udshelp@udstsg.com.