EFT Implementation Guide

State

SERFF
Updated January 1, 2014

Introduction

Insurance regulatory data has been transferred electronically for several years. However, the transfer of money that must accompany much of this data has had to move along in a parallel, manual manner. Many of the benefits associated with the transmittal of electronic data (accuracy, timeliness, efficiency, and cost reduction) have not been leveraged with the transfer of funds. Electronic funds transfer (EFT) will change that.

Although the term "electronic funds transfer" encompasses a variety of technologies, the NAIC has limited the scope to ACH for SERFF transactions. This technology is widely available, standard, secure, and inexpensive.

This manual is designed to provide an overview to state Insurance Departments of the steps required to implement electronic funds transfer technology with the NAIC and the insurance industry.

How EFT works

Participating states and companies enroll in the ACH program with the NAIC. Setup includes identifying the correct bank. Once proper certification and testing are completed, the NAIC indicates that the state can accept ACH transactions.

No technology changes are required to the state system. The SERFF system interfaces with a new NAIC system called CECI (Common Electronic Commerce Initiative). This system provides a tracking number to SERFF that allows for detailed transaction tracing capabilities.

Each business day (depending on banking and NAIC holidays), the CECI system summarizes all of a state's transactions and produces a single ACH transaction per account, depending on how the state's accounts are configured.

Of the many available ACH transactions, CECI uses two: CTX (Corporate Trade Exchange) and CTX Addenda transactions. One CTX transaction is analogous to a "check". The CTX Addenda transactions (1 to 9,999 per CTX transaction) serve as an "envelope" to contain ANSI x.12 EDI 820 Transactions. These transactions provide detailed filing information, and travel through the banking system along with the CTX transactions.

The CTX transactions "pull" money from the bank account of the industry user, and "push" money to the state bank accounts. For state fees, the push/pull happen in the same night's processing. The NAIC uses national banking and EDI standards to provide the widest possible interoperability among its trading partners.

SERFF provides a reporting feature to allow states to obtain information on all of their e-commerce transactions. Users with the EFT Report role have the option

of reviewing Detailed or Summary Reports and they can be downloaded as Excel or comma-delimited files.

Implementing EFT

Although there are only eight steps to implement EFT, it generally takes three or four functional areas within state organization. Those responsible for administering the firm's bank accounts, generally the Treasury department, must be able to account for cash flows. The Accounts Payable area must be able to account for the detailed accounting charges. The filing review area must be able to determine who sent the filing and that the proper fees were paid. The technical area must make whatever changes, if any, are necessary to implement the re-designed business functions and to take advantage of the new technology. The NAIC must configure the system to the state's specifications. Finally, the entire set up must be tested to ensure that it meets business needs. These following steps are examined in more detail below:

Step 1:	Contact the NAIC with any questions after reviewing this guide.
Step 2:	Determine and implement accounting procedures to account for banking transactions.
Step 3:	Determine and implement accounting procedures to account for detailed charges.
Step 4:	Determine and implement filing review procedures to relate financial changes to filing reviews.
Step 5:	Communicate state setup configuration to the NAIC staff.
Step 6:	Execute an ACH Agreement with the NAIC.
Step 7:	Complete testing and certification.
Step 8:	Implement

Step 1: Request Information

Objective
Answer any additional questions concerning EFT implementation after review of this document is complete. Additional questions may be resolved by our State EFT PowerPoint Presentation located on our website at http://www.serff.com/documents/eft_tutorial_state.ppt.

Process:

Step 2: Determine Cash Accounting Procedures

Objective
Correctly account for cash flows to state bank accounts and develop the journal entries to company-specific general ledger accounts. Ensure that the process meets security, authority and auditing standards.

Techniques
Generally this step is performed by the state's Treasury Department. Sometimes this step is combined with Step 3. There are several techniques available.

Although not exhaustive, this list could provide the starting point for how your state will implement EFT.

1. **Read ACH transmission from the bank.**
    Since the NAIC uses standard banking transactions, you may be able to leverage banking processes already in place. Most banks can provide a copy of ACH transactions affecting the state's account. Many standard accounting packages are able to read ACH format files. The CTX transaction contains the amount of the withdrawal and descriptive information. Included in the descriptive information is a 15-character identifier. The NAIC uses the first two characters, leaving 13 characters for a company-specific number that could map to a general ledger account.

    If your state does not currently have the ability to decode ACH transactions, this will require a technical change to your systems. If you are already receiving some ACH formats, adding the CTX format will be a relatively minor change.

2. **Use current banking documents to record transactions manually.**
    ACH deposits, as do all deposits, appear on the monthly bank statement. The date and descriptive information should make it possible for the state to create manual journal entries for each day or on a summary basis. Amounts could be verified by using the SERFF EFT Report. See Appendix 3 for samples of this report.

3. **Use SERFF EFT Report to make manual entries.**
    This technique reverses option 2. In this case, entries are made on a daily or summary basis based on the SERFF EFT report. Amounts are verified against the bank statement on a monthly basis. Prototypes of this report are available in the appendices of this document.

Step 3: Determine Detailed Accounting Procedures
Objective
Correctly account for the filing fees received. Ensure that the process meets security, authority and auditing standards.

Techniques
This step may be combined with either step 2 or 4, or may stand on its own. The technique used will depend on how the other steps are implemented.

1. **Read CTX Addenda records and 820 details**
    If your bank provides detailed ACH transactions, the transmission will include both the CTX and CTX addenda records. The CTX Addenda records act as an "envelope" to ANSI x.12 EDI 820 records affecting the state's account. Some standard accounting packages are able to read CTX Addenda records,

including the EDI 820 records. The 820 records provide detailed information about individual transactions – who, why, and how much. Included in the data are transaction identifiers that allow you to tie the information back to the SERFF system.

If your state does not currently have the ability to decode EDI 820 transactions, this will require a technical change or new system. This may be a moderately difficult task since there are several records within the 820 record set, and they are compressed within the CTX Addenda record

2. **Obtain 820 data/report from your bank**
    Although 820 translation is not necessarily widespread within industry, most banks have this capability. Your bank may be able to provide either 820 reports or data. If this information is used primarily as for auditing purposes, this may suffice.

3. **Use SERFF EFT Report**
    The SERFF EFT Report contains detailed information about rate and form filing transactions. The user can generate the report by choosing the time frame and format (Microsoft Excel, comma-delimited or html format).

Step 4: Determine Rate and Form Review Procedures

Objective
The Rate and Form Review department must be able to identify the detailed transactions and connect them to a filing.

Techniques
In many cases, the detailed filing information must be recorded in a state system. That would indicate that a technique that included data transfer would be most appropriate. The techniques for this step are very similar to those in the previous step.

1. **Read CTX Addenda records and 820 details**
    The SERFF tracking number, type of insurance, sub-type of insurance, filing type, individual company name, and NAIC code are included on 820 transactions. If your state has the ability to read 820 data, this would be the easiest way to interface the filing system. Any automated interface with your filing system would require a technical change.

2. **Obtain 820 data/report from your bank**
    This option is identical to Option 2 Step 3. If you do not require an automated interface, this may be a viable option.

3. **Use SERFF E-Commerce Report**
    The SERFF EFT Report contains detailed information about licenses.   Since it is available in Microsoft Excel, comma-delimited, or html format, it may be

possible to integrate with a state system. See Appendix 5 for samples of this report.

Step 5: Communicate setup configuration

There are many ways to set up the CECI system. Once you have made the decisions about how you will implement e-commerce, you must communicate that to the NAIC staff along with your E-Commerce SERFF Addendum.

Step 6: Execute E-Commerce Agreement

By definition, e-commerce is the movement of money in electronic format. The NAIC must have the authority to access state accounts. The E-commerce agreement (see appendix 3) must be properly executed before testing can begin. For questions about the contents of the agreement, please contact:

<div align="center">

SERFF Marketing
serffmktg@naic.org • (816) 783-8787

</div>

Process:
Complete the attached Appendices. Please email a copy of your documents to:

<div align="center">

SERFF Marketing
serffmktg@naic.org • (816) 783-8787

</div>

The Implementation team will contact your state confirming receipt of your documentation and provide further information about EFT testing.

Step 7: Complete Testing and Certification

There is no "test" banking system, so thorough component testing is very important. It must be carefully coordinated between the state and the NAIC. The e-commerce process is a closed-loop system. Data originates and terminates at the state. The NAIC will help coordinate the following testing processes:

> **System Test** – The purpose of the system test is to ensure that communications works among the parts of the system. The NAIC will originate the transmission of "test" transactions, for a specified amount. Because there is no test banking system, these transactions will occur through the normal banking system, and your account will be credited the pennies used in testing. However, all reports and transaction files will be processed using the same process as production. Once the credit appears on the state's bank statement, they should notify the NAIC and the test is considered successful. If requested, this step may be repeated.

Step 8: Implementation

Once the state has successfully tested the system they will notify the NAIC in writing of the official cut-off date for manual processing. The NAIC staff will complete EFT process by updating Settings to enable EFT in production. NAIC staff and state staff should monitor the system for the succeeding week to ensure that things are processing appropriately.   Any questions should be directed to:

SERFF Marketing
serffmktg@naic.org • (816) 783-8787

Please mail your completed State Addendum along with your Exhibits to the following email address:

SERFF Marketing
serffmktg@naic.org • (816) 783-8787

Following pages include:

Appendix 1:   Enrollment form
Appendix 2:   Authorization for Electronic Credit Entries
Appendix 3:   First Addendum to SERFF License Agreement
Appendix 4:   EFT Roles
Appendix 5:   SERFF Report Examples

EFT Enrollment Form

State Name

Treasury/Cash Management/Bank Account Manager Contact

Name

Phone

Fax

Email

Rate and Form Filing Department Accounting/Accounts Payable Contact

Name

Phone

Fax

Email

Rate and Form Filing Department Contact

Name

Phone

Fax

Email

AUTHORIZATION FOR ELECTRONIC
CREDIT ENTRIES

The National Association of Insurance Commissioners ("NAIC") is authorized to initiate credit entries to the account indicated below of _____ ("DOI") at the financial institution indicated below:

*Name of Financial Institution:*_____

Address of Financial Institution:_____

_____

Routing & Transit No.:_____

Account No.:_____

Account Name (if applicable):_____

The DOI authorizes the above-named Financial Institution to honor such requests from the NAIC and to credit the same to the account indicated above. The credit entries initiated by the NAIC are for the payment of DOI fees collected by the NAIC for applicable filing and other Department fees associated with rate and form filings submitted through the SERFF System.

This authorization shall remain in full force and effect until the above-named Financial Institution as well as the NAIC have received written notice from the DOI of termination of authority in such time and manner as to afford the Financial Institution as well as the NAIC a reasonable time to act on said termination. Notwithstanding the foregoing, this authorization shall terminate no later than thirty (30) days after written notice of termination is received by the NAIC.

Signature of Authorizing Party:_____

Name & Title of Authorized Party:_____

Address:_____

Telephone Number:_____

Date :_____

ADDENDUM TO
SERFF LICENSE AGREEMENT

This Addendum is made on this _____ day of _____, 20___ and hereby amends the SERFF License Agreement between the National Association of Insurance Commissioners ("NAIC") and the _____ Insurance Department ("Department") dated _____ ("Agreement").

The Agreement is amended to add the following sections:

1. The NAIC will collect the applicable filing and other Department fees (herein referred to as "Department Fees") associated with rate and form filings submitted through the SERFF System from companies using SERFF's EFT functionality, or from organizations authorized by the NAIC to submit rate and form filings on behalf of companies (herein referred to as "Senders"). The NAIC will remit the Department Fees to the Department daily on regular NAIC business days.

2. The Department agrees to start processing rate and form filings submitted through the SERFF System as EFT transactions during the period between receiving a filing and receiving, from the NAIC, the Department Fees associated with a particular filing.

3. The Department will provide to the NAIC, on an as needed basis, a reasonable amount of technical and business guidance on rate and form filing issues pertaining to the Department's rate and form filing requirements, rules, regulations and processes.

4. If a Department is required to refund to a company any Department Fees submitted through the SERFF System, the refunds shall be handled directly between the Department and the company and the NAIC shall have no involvement.

5. The NAIC shall maintain business and financial records containing information sufficient to verify the remittance of Department Fees (hereinafter collectively referred to as "Reports") for a period of at least three years after the period to which such Reports relate. Except as required by extraordinary circumstances, and with good cause, the Department, upon reasonable advance notice and during the NAIC's regular business hours, shall have reasonable access to Reports and related records, for the sole purpose of verifying the completeness and accuracy of the Reports. In the event that such examination shall disclose the amounts payable for any period were understated, the NAIC shall immediately pay to the Department all unpaid amounts. In the event the audit reveals the NAIC overpaid the Department, the NAIC shall credit the overpaid amount against future Department fees until the amount of overpayment is satisfied.

6. Nothing in this Agreement shall be construed as a delegation of regulatory or rulemaking authority. The Department shall retain final and complete decision-making authority over all rate and form filing with respect to its state.

EXCEPT AS SET FORTH IN THIS ADDENDUM, THE TERMS AND CONDITIONS OF THE
AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date set forth above.

NAIC   _____**Department of Insurance**

_____   _____
By   By

_____   _____
Printed Name   Printed Name

_____   _____
Title   Title

_____   _____
Date   Date

In order for a state user of SERFF to have access to EFT reports, they must be assigned the EFT Reporting role. Current user IDs can be modified to include these roles. Please provide the Person's Name and User Name in SERFF if adding a role to an existing ID. If adding a new user to SERFF for the purpose of pulling EFT Reports for reconciliation purposes, please provide the Person's Name and email address so we can send their login information. Submit this document along with the rest of the appendices.

Allow Access to EFT Report Menu	
Person's Name	**User Name in SERFF**

Report Menu

State Summary Report

EFT Summary Report for dates 04-15-2007 to 04-30-2007

Company Name	Transaction Date	Total Transactions	Total Amount
Tracker Penny Test Company 2	04-17-2007	1	$0.01
Tracker Penny Test Company 2	04-24-2007	4	$0.04
totals for Tracker Penny Test Company 2, 5 transaction(s), total amount $0.05			
Tracker Penny Testing Company	04-17-2007	3	$0.03
Tracker Penny Testing Company	04-24-2007	4	$0.04
totals for Tracker Penny Testing Company , 7 transaction(s), total amount $0.07			

State Detail Report

SERFF EFT Reports

EFT Detail Report for dates 04-15-2007 to 04-30-2007

Transaction Date	Company Name	Company Code	Submitter Name	SERFF Tracking Number	Type Of Insurance	Sub-Type of Insurance	Filing Type	Amount	Transaction Number
04-17-2007	Tracker Penny Test Company 2	55555	Penny Testing	TPTC-000518198	A01 Annuities - Assumption Agreement	A01.000 Annuities - Assumption Agreement	Form	$0.01	1872657
04-17-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518195	A01 Annuities - Assumption Agreement	A01.000 Annuities - Assumption Agreement	Form	$0.01	1872654
04-17-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518197	A01 Annuities - Assumption Agreement	A01.000 Annuities - Assumption Agreement	Form	$0.01	1872656
04-17-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518196	A01 Annuities - Assumption Agreement	A01.000 Annuities - Assumption Agreement	Form	$0.01	1872655
totals for 04-17-2007, 4 transaction(s), total amount $0.04									
04-24-2007	Tracker Penny Test Company 2	55555	Penny Testing	TPTC-000518290	A05I Individual Annuities - Immediate Non - Variable Benefit	A05I.000 Annuities - Immediate Non-Variable Benefit	Form	$0.01	1872734
04-24-2007	Tracker Penny Test Company 2	55555	Penny Testing	TPTC-000518295	A02I Individual Annuities - Deferred Non - Variable Benefit	A02I.003 Single Premium	Form	$0.01	1872741
04-24-2007	Tracker Penny Test Company 2	55555	Penny Testing	TPTC-000518294	A02I Individual Annuities - Deferred Non - Variable Benefit	A02I.003 Single Premium	Form	$0.01	1872739
04-24-2007	Tracker Penny Test Company 2	55555	Penny Testing	TPTC-000518288	A02I Individual Annuities - Deferred Non - Variable Benefit	A02I.003 Single Premium	Form	$0.01	1872732
04-24-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518294	A02I Individual Annuities - Deferred Non - Variable Benefit	A02I.003 Single Premium	Form	$0.01	1872738
04-24-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518295	A02I Individual Annuities - Deferred Non - Variable Benefit	A02I.003 Single Premium	Form	$0.01	1872740
04-24-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518287	A01 Annuities - Assumption Agreement	A01.000 Annuities - Assumption Agreement	Form	$0.01	1872731
04-24-2007	Tracker Penny Testing Company	12345	Penny Testing	TPTC-000518289	A03G Group Annuities - Deferred Variable Benefit	A03G.002 Flexible Premium	Form	$0.01	1872733
totals for 04-24-2007, 8 transaction(s), total amount $0.08									