



BLACKIRON

SubLedger Plus

Automate Your Annuity Transaction and Reserving Accounting Cycles

Discussion Paper

This whitepaper applies to investment type insurance contracts like annuities and structured settlements.

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Introduction

Businesses that can close their general ledger fast and efficiently have competitive advantages through reduced costs and better information. This whitepaper describes how SubLedger Plus streamlines accounting and financial controls for recording premiums, benefits and policyholder reserves.

SubLedger Plus is a streamlined accounting middleware process that connects your policyholder administration systems, claims systems, and your reserve valuation systems to your general ledger and keeps them in balance.

SubLedger Plus is a streamlined accounting middleware process that connects your policyholder administration systems, claims systems, and your reserve valuation systems to your general ledger and keeps them in balance. It automates journal entries, reconciles cash and clearing accounts, and creates great looking analyses and reports that are always reconciled to you general ledger. It reduces costs, speeds the close, expands your analytical capacity and tightens controls.

Business Cycle Review

Let's briefly review the business cycles that were dealing with.

Premium Cycle

Cash is received and placed in suspense until accepted. Once accepted, premiums are recorded.

Benefit Cycle

Surrender and annuity benefits are paid and benefits are recorded. In the case of death benefits, the benefit is recorded at the time the claim is reported.

Reserving Cycle

At the end of the period reserves are calculated for each policy in force. Liabilities for claims in course of settlement are generally calculated separately from the claims system.

Self-Assessment

Take a minute to answer the following questions that relate the accounting and financial control process for the business cycles listed above.

- True False Most of our month end close is spent creating journal entries and reconciling balance sheet accounts like cash accounts, suspense accounts, and reserve accounts. We often don't have enough time to analyze interest credited, changes in Statutory surplus, and other results of operations to our satisfaction.
- True False We sometimes have timing differences between the period when a policyholder premium or benefit is reported in our financial statements and the month when the reserve is established or released. This causes fluctuations in income and surplus that can be difficult to detect and explain.
- True False We have fluctuations in Statutory surplus resulting from legitimate reserve adjustments caused by surrender charge structures and other product characteristics. There are also fluctuations due to excess death benefits and reserve releases when life contingent annuitants die. We'd like to have management reports that categorize and support these fluctuations.
- True False We manually transfer reserve calculation totals from valuation reports to create our reserving journal entries.
- True False Some of our reports and analyses are at a lower level than the information contained within the general ledger. We create these reports in spreadsheets.
- True False We reconcile general ledger cash accounts and clearing and suspense accounts at the end of the period using spreadsheet based procedures.
- True False The interest credited to policyholders reported in our financial statements does not always agree to the interest credited from our reserve valuation reports. It's time consuming to analyze and detect the differences.

If you answered True to any of the above we think you could benefit from the SubLedger Plus streamlined accounting middleware solution.

Issues

Issue 1 End of Period Bottlenecks

Most accounting departments post journal entries and reconcile balances at the **end** of the period. This lengthens the close and compresses the time available to resolve issues and adequately analyze results.

Issue 2 No Tools to Detect Timing Differences Between Transactions and Reserve Changes

It's important to recognize the reserve impact of premiums and benefits in the same period that these transactions are recorded. Timing differences flow straight to the bottom line and can cause fluctuations in income that are difficult to detect without a policyholder level tool to identify them.

Issue 3 Inefficient Spreadsheet Based Procedures

You have a lot of general ledger accounts to reconcile and analyze each period relating to the annuity transaction and reserving cycle: cash, clearing accounts, GAAP and Statutory reserves, interest credited, and policyholder charges. Many companies reconcile accounts and create detailed reports supporting these balances using spreadsheets. Spreadsheets have several other disadvantages:

- They require manual, recurring tasks like sorting, matching, cutting and pasting.
- They are static. As late entries are posted to the general ledger the reconciliations, reports and analyses need to be manually updated to stay reconciled to the general ledger.
- They are high risk. Spreadsheets lack input validation and edits and the large number of steps increases the risk of error.
- They are not scalable. The more reports to create and accounts to reconcile, the more work you have to do.
- They silo data in separate files limiting your capacity for data mining and ad-hoc reporting.

Issue 4 Imprecise Tools for Analyzing Interest Credited and Surplus Strain

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Solution

Imagine if you could process activity in your policyholder administration systems and claims systems straight through to the general ledger everyday and then balance your general ledger balances back to them. Instead of a single large closing cycle at the end of the period you have a continuous stream of miniature daily closes. You identify exceptions earlier and you have less to do at the end of the period. You close your general ledger faster, and because it's automated, you have lower staffing requirements.

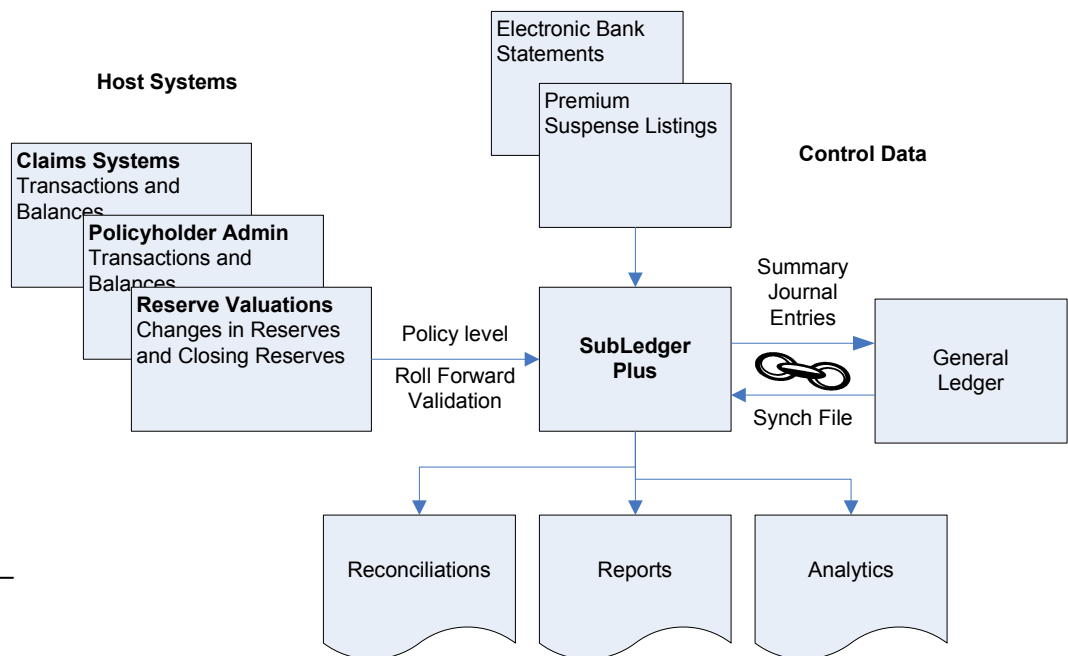
This is the BlackIron SubLedger Plus solution. It tightly couples your policyholder administration systems, claims systems, and reserve valuation systems to your general ledger. It automates reconciliations and exception-based workflow, and provides a consolidated and reconciled subsidiary ledger for simplified reporting and analysis.

Imagine if you could process activity in your policyholder administration systems and claims systems straight through to the general ledger everyday and then balance your general ledger balances back to them.

- 1. The starting point: a self-reconciling subsidiary ledger.** The starting point for dramatic productivity gain is an automated accounting middleware solution that consolidates policy data from host systems, performs roll forward validations, creates journal entries and synchronizes itself with the general ledger. A general ledger reconciled subsidiary ledger that balances your general ledger to you policyholder administration systems, claims systems and reserve valuation systems.
- 2. Leverage the subsidiary ledger with automated cash and clearing account reconciliations.** Take full advantage of the reconciled subsidiary ledger to reconcile cash account balances to bank balances and to inventory outstanding transactions supporting clearing and suspense account balances.
- 3. Detect analytical review variances at a policyholder level.** Design policyholder level analytical reviews to detect and explain aberrations like changes in GAAP and Statutory valuation relationships or variances between actual interest credited in relation to average policy values compared to declared interest rates.
- 4. Resolve issues fast using the automated exception-based workflow and the Accounting Workbench.** Use the SubLedger Plus Accounting Workbench to research and resolve exceptions fast.
- 5. Create great looking reports that always reconcile to your general ledger.** View reports from the SubLedger Plus Accounting Workbench or schedule for automatic distribution.

How It Works

High Level Process Flow



SubLedger Plus balances your general ledger balances at a policy level and identifies variances resulting from roll forward variances and adjustments.

You can configure SubLedger Plus to perform the following procedures daily, weekly or at the end of the period. Best practices are added parenthetically.

- [Daily] SubLedger Plus imports policy level balances¹, transactions, interest and charges from your policyholder administration systems and claims systems. It assigns accounting to the transactions, interest, and charges and performs roll forward validations to ensure that the balances roll forward from one day to the next using imported transactions.
- [Daily] SubLedger Plus creates summary journal entries and extracts to the general ledger.
- [Daily] The general ledger posts the journal entry and sends back a synch file to SubLedger Plus. The synch file includes all current general ledger account balances for this business cycle. It also includes all journal entries posted to these accounts since the last synch. SubLedger Plus confirms that its journal entries were posted,

¹ For this implementation example we're assuming that the policyholder maintains policy values (or can derive a policy value) that represents the accumulated value as of the last policy anniversary date or transaction date. Interest and charges are applied to this balance and sent to SubLedger Plus at each anniversary date or transaction date.

backfeeds journal entries from other sources, and synchronizes its balances with the general ledger.

- [Daily] SubLedger Plus balances your general ledger balances to your policyholder and claims system balances at a policy level and identifies variances resulting from roll forward variances and adjustments.
- [Daily] SubLedger Plus imports control data from your bank accounts and reconciles to general ledger cash balances. Reconciling items are routed to accountants.
- [End of Period] SubLedger Plus imports reserve valuations at a policy level, creates journal entries for GAAP and Statutory reserve changes, and balances the general ledger to the imported valuations.
- [End of Period] SubLedger Plus calculates analytical reviews and detects policy level variances relating to timing differences between transactions and reserve changes, interest credited calculations, and GAAP and Statutory reserve relationships.
- SubLedger Plus creates general ledger reconciled reports.

Understanding the Subsidiary Ledger

SubLedger Plus operates like a policy level general ledger. Transactions and other changes in balances are imported at a policy level and assigned a debit and credit account using accounting rules that you define. We refer to these as **subjournal lines**. Subjournal lines are aggregated into summarized journal entries and extracted to the general ledger.

Journal entries posted directly to the general ledger (not passing through SubLedger Plus) are backfed to SubLedger Plus as part of the synchronization process. In this manner SubLedger Plus always stays reconciled to the general ledger balances that it supports. SubLedger Plus has an easy to use policy level adjustment utility with integrated approval workflow for creating adjustments so that you never have to post journal entries directly to the general ledger.

SubLedger Plus aggregates balance sheet account subjournal lines to maintain policy level inventories that support your general ledger balances. Policy level **subledger balances** are reconciled to imported host system balances.

The Accounting Workbench

You use the Accounting Workbench to research exceptions and take corrective actions:

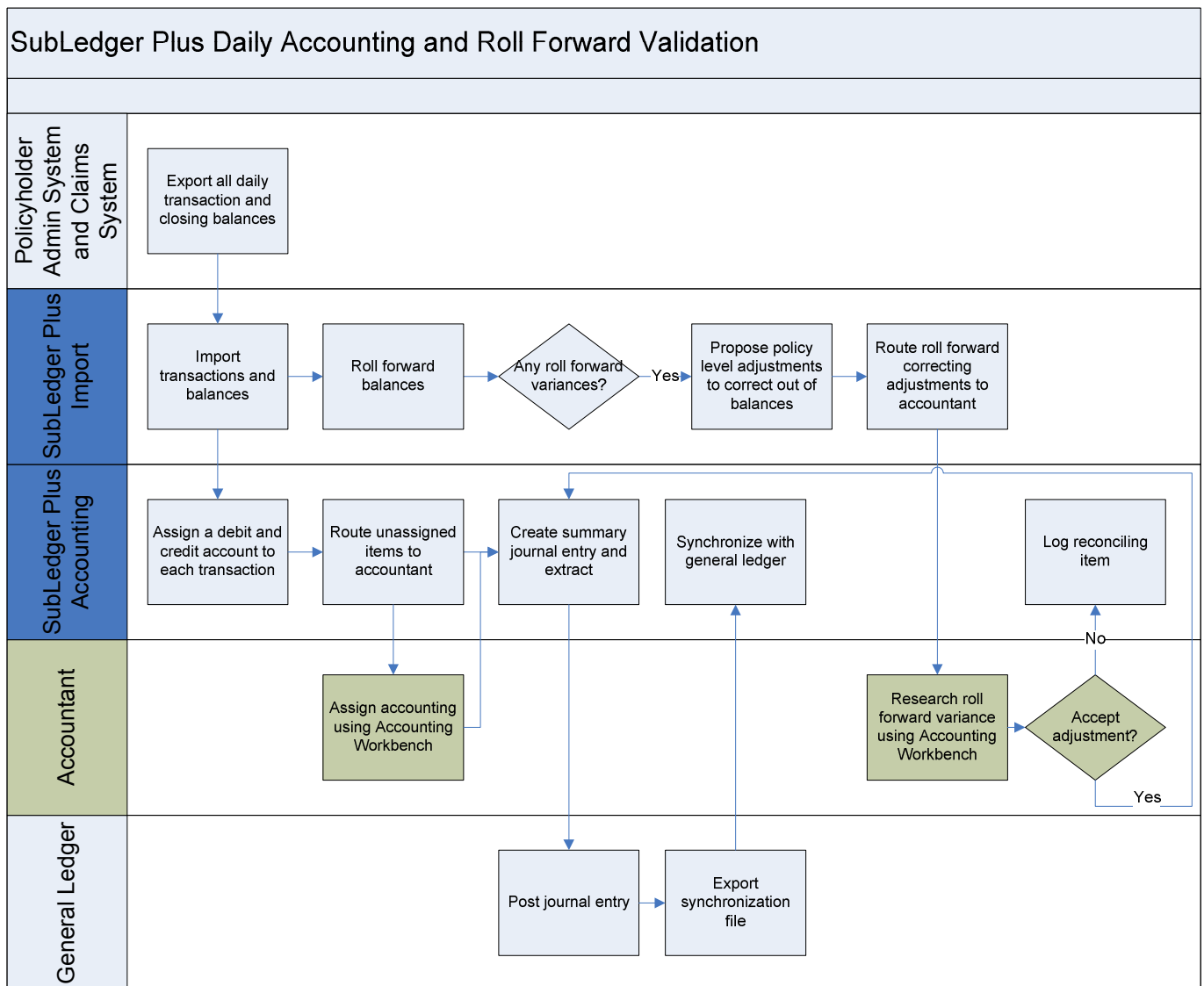
- A Start Page to review exceptions routed to you.
- A robust query builder and report viewer for performing research.
- Powerful utilities for creating adjustments, assigning accounting, clearing reconciling items, reversing accounting, and adding notes.
- Automated workflow that routes actions to managers for approval.

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Daily Accounting and Policyholder Administration System Balancing

Now let's walk through an example of a daily workflow configuration. On a daily basis SubLedger Plus imports policy level transactions and balances from your policyholder admin and claims systems, performs roll forward validations, creates journal entries and synchronizes its balances with the general ledger. The SubLedger Plus policy level subledger supporting the general ledger is balanced to imported control balances using roll forward variances and adjustments.

All the procedures below are automated and require no work by accountants except for the exception-based procedures in the Accountant's "swim lane". The goal is to import quality data and design effective rules so that exception-based procedures are minimal.

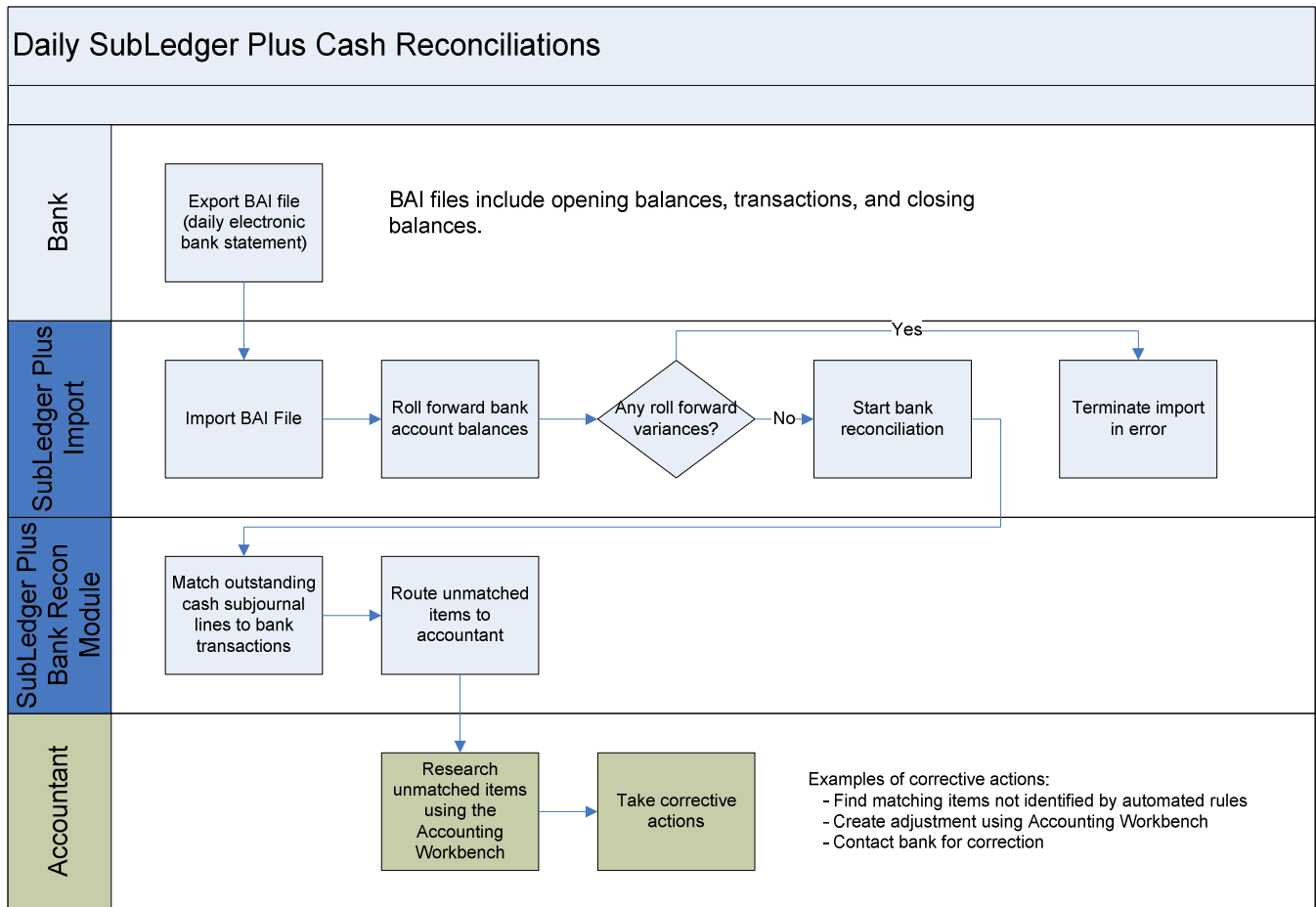


Daily Cash Reconciliation

SubLedger Plus is much more than a simple transactional matching process. It maintains an inventory of items that reconcile your general ledger cash account balances and your bank account balances using a combination of roll forward validations, general ledger synchronization, and transactional matching.

SubLedger Plus imports electronic bank statements conforming to the standard BAI format, rolls its prior bank balances forward to new imported bank balances, and matches bank transactions to unmatched cash subjournal lines using automated rules that you define. SubLedger Plus has a flexible and easy to use rule builder for creating powerful rules.

Any reconciling items not clearing in the normal course of business are routed to accountants for research and correction.



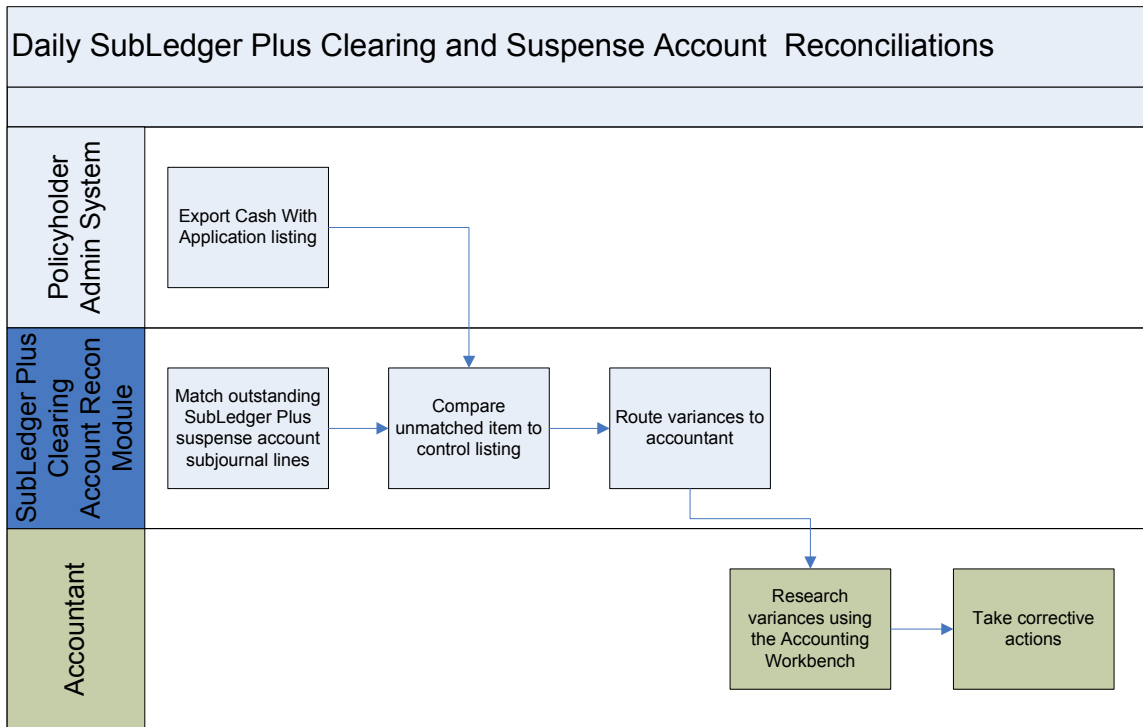
Daily Depository Suspense Account Reconciliation

Cash received and not yet accepted as premium sits in a general ledger depository suspense account awaiting acceptance. Once accepted the transaction is moved from the suspense account and recorded as premium revenue.

SubLedger Plus allows you to define rules that match equal and offsetting debits and credits in clearing and suspense accounts that relate to each other. These rules can be simple rules that match one subjournal debit to one subjournal credit or they can be complicated rules that match multiple items. It has strong controls to ensure that unmatched items always reconcile to your actual general ledger clearing and suspense account balance.

You can also create rules to identify matching items that either don't match exactly or where one side of the match was posted to the wrong account. In these cases SubLedger Plus can automatically generate the necessary write-off, reclassification, or inter-company journal entry and then execute the match.

In addition to maintaining an inventory of transactions supporting your depository clearing account, SubLedger Plus can compare its inventory to a suspense listing imported from the policyholder administration system nightly. Differences between the two lists are routed to accountants for research and correction or explanation.



Recap of Daily Workflow

Let's recap briefly the daily automated exception-based procedures that accountants perform in this environment. The goal is to minimize these exceptions by processing transactions accurately and timely in your policyholder administration systems and claim systems and creating effective rules in SubLedger Plus.

| Exception Type | Corrective Actions |
|---|---|
| <p>Unassigned accounting</p> <p>Cause: No accounting rule defined for transaction.</p> | Assign accounting from Accounting Workbench. Create new rules for the future. |
| <p>Roll forward variances</p> <p>Cause: Transactions for a policy do not roll forward the opening balance to the closing balance.</p> | Create an adjustment to balance your general ledger and policyholder admin or claims system or approve the difference. |
| <p>Cash account reconciling items</p> <p>Cause: Imported policyholder admin system or claims system transactions are not supported by bank transactions or vice versa.</p> | Process the transaction correctly in the policyholder admin system or claims system, ask bank to correct an error, match transactions not identified by automated rules, or create a correcting adjustment in SubLedger Plus. |
| <p>Suspense account reconciling items</p> <p>Cause: Imported policyholder admin system suspense balances do not agree to general ledger unmatched items in the suspense account</p> | Process the transaction correctly in the policyholder admin system, match equal and offsetting clearing subjournal lines not identified by automated rules, or create a correcting adjustment in SubLedger Plus. |

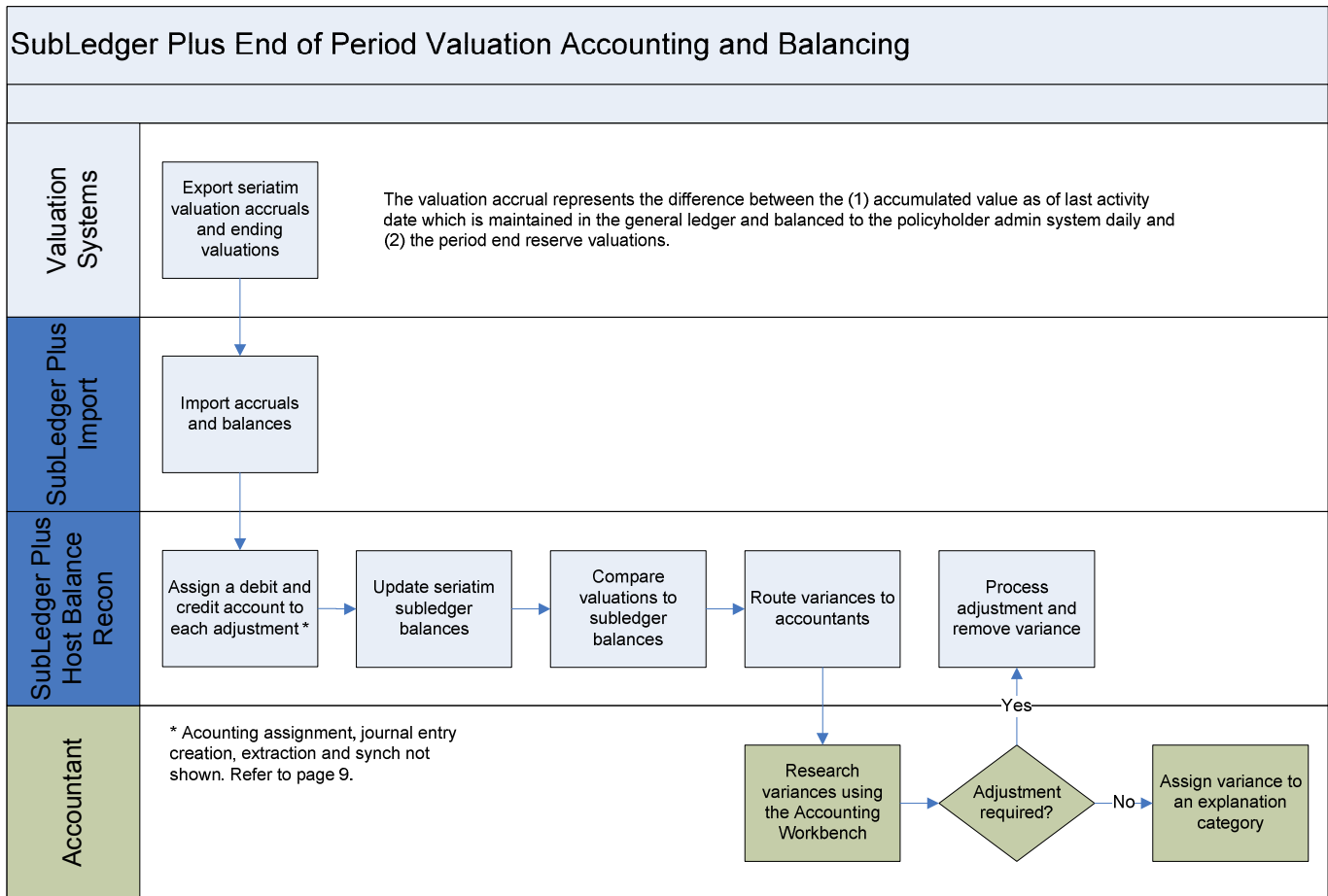
End of Period Workflow

We've significantly reduced the end of period workload through daily automated procedures. Let's review what's left to do at the end of the period:

- **Import GAAP and Statutory reserve valuation adjustments** and balance to reserve valuation systems.
- **Investigate analytical review exceptions** identified by SubLedger Plus. After period end valuations are imported, SubLedger Plus analyzes policy level interest credited and significant changes in GAAP to Statutory valuations and routes variances to accountants at a seriatim level.
- **Create reports and analyses** from SubLedger Plus to support valuations, interest credited and other information.

End of Period Valuation Accounting and Balancing

This end of period process imports adjustments from actuarial valuations for accrued interest, GAAP to Statutory adjustments and other factors like market value adjustments, if applicable. These adjustments are added to the base accumulated values as of last activity date that are maintained in SubLedger Plus for each policy (and in aggregate in the general ledger) and balanced to policyholder administration systems daily. Seriatim GAAP and Statutory reserve balances are also imported from valuation sources for balancing. Any differences between general ledger balances and valuation system balances are routed to accountants for review and approval at a seriatim level.

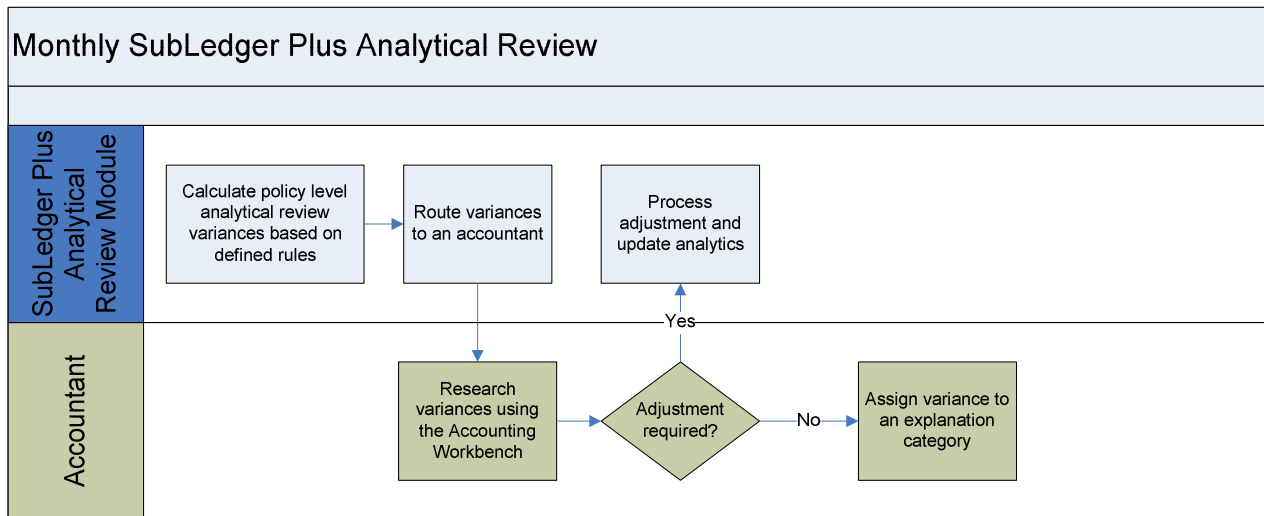


End of Period Policy Level Analytical Review

SubLedger Plus not only maintains policy level general ledger reconciled balances but also maintains weighted average GAAP and Statutory values based on the timing of transactions during the period. Using this data combined with imported policy level attributes, you can design great policy level analytical reviews.

Designing policy level analytical review rules in Subledger Plus is easy. You define two amounts to compare and set variance thresholds. Here are a couple of examples:

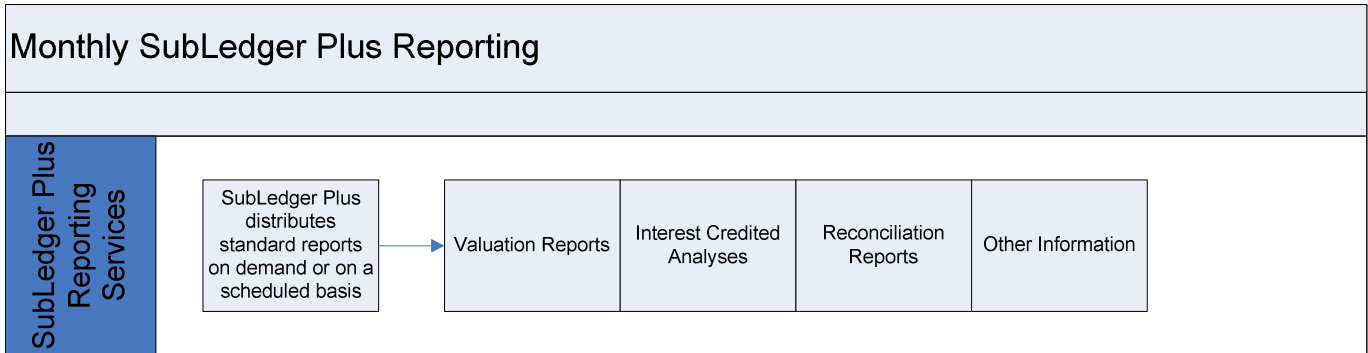
| | Actual | Target |
|------------------------|---|---|
| GAAP Interest Credited | General ledger reconciled GAAP interest credited for each policy | Avg GAAP value X declared rate / 12 |
| GAAP to Stat Ratio | This period's ending GAAP to STAT valuation ratio for each policy | Last period's ending GAAP to STAT ratio |



Accountants approve and assign variances to explanation categories for aggregated management information.

End of Period Report Distribution

Creating great looking reports is simple in SubLedger Plus. Design your own reports and register them with our Accounting Workbench for on-line viewing. You can also create automated scheduled processes to distribute via email in either Excel or PDF format.



Conclusion

You can dramatically improve the efficiency of your accounting operations by implementing SubLedger Plus. Please contact us for more information about how we can apply SubLedger Plus to your annuity transaction and reserve accounting cycles.