



EFT Implementation Guide

State

OPTins
Version 2.0.2
Updated April 14, 2014

NAIC

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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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 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 *OPTins* transactions. This technology is widely available, standard, secure, and inexpensive.

This guide 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 account. 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 *OPTins* application interfaces with an NAIC system called CECI (Common Electronic Commerce Initiative). This system provides a tracking number to *OPTins* that allows for detailed transaction tracing capabilities.

Each business day (with the exception of 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 premium taxes, the push/pull happens in the same night’s processing. The NAIC uses national banking and EDI standards to provide the widest possible interoperability among its trading partners.

OPTins provides a reporting feature to allow states to obtain information on all of their premium tax transactions. Users with the EFT Report role have the option of viewing EFT Reports in Web page or comma-delimited (CSV) formats.

Implementing EFT

Although there are only eight steps to implement EFT, it generally takes three or four functional areas within the 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 premium tax review/audit 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: Request information on implementing EFT in OPTins and review entire implementation guide and all documents and tutorials.
- 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 premium tax filing review procedures to relate financial changes to OPTins filing reviews.
- Step 5: Communicate state setup configuration to the NAIC staff.
- Step 6: Execute an OPTins License Agreement including Exhibits B and C and submit to the NAIC.
- Step 7: Complete testing and certification.
- Step 8: Implement.

Step 1: Request Information

Objective

The NAIC will provide all documents and any additional information as needed in order for the state to make their decisions.

Process:

For additional questions, please contact:

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816-783-8787
optinsmktg@naic.org

Step 2: Determine Cash Accounting Procedures

Objective

Correctly account for cash flows to state bank accounts and develop the journal entries to state-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, states 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 state-specific number that could map to a general ledger account.

If your firm 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 can be verified by using the *OPTins* EFT Report. See Appendix 2 for an example of an EFT Report.

3. Use *OPTins* 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 *OPTins* EFT report. Amounts are verified against the bank statement on a monthly basis. See Appendix 2 for an example of an EFT Report.

Step 3: Determine Detailed Accounting Procedures

Objective

Correctly account for the premium taxes 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 OPTins application.

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 the 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 OPTins EFT Report

The OPTins EFT Report contains detailed information about premium tax filing transactions. The user can generate the report by choosing the time frame and format, Web page or comma-delimited (CSV).

Step 4: Determine Rate and Form Review Procedures

Objective

The premium tax 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 *OPTins* tracking number, individual company name, NAIC group code, if applicable, company code, FEIN, Filing Period and state 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. Although 820 translation is not necessarily widespread within the 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 *OPTins* EFT Report

The *OPTins* EFT Report contains detailed information about licenses. Since it is available in comma-delimited (CSV) or Web page format, it may be possible to integrate with a state system. See Appendix 2 for an example of an EFT 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 the *OPTins* License and Exhibits.

Step 6: Execute *OPTins* License Agreement

By definition, e-commerce is the movement of money in electronic format. The NAIC must have the authority to access state accounts. The *OPTins* License Agreement and Exhibits B and C must be properly executed before testing can begin. For questions about the contents of the agreement, please contact:

OPTins Marketing Team
816-783-8787
optinsmktg@naic.org

Process:

Complete the OPTins License Agreement and Exhibits and mail it to the attention of:

OPTins Marketing Team
816-783-8787
optinsmktg@naic.org

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, the state should notify the NAIC that the test was successful. If requested, this step may be repeated. The test is considered a failure if the state does not see a credit on their account or if the NAIC receives an ACH return. This will require subsequent testing until a successful test is completed.

Step 8: Implementation

Once the state has successfully tested the system, they will notify the NAIC in writing of the official date they would like to move into production with EFT. The NAIC staff will enter the UNID in their Settings. 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 the person handling your implementation or:

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