



EFT Implementation Guide

Industry

SERFF
Updated March 27, 2015

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National Association of Insurance Commissioners

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

How EFT Works

Insurance companies and participating states enroll in the ACH program with the NAIC. Setup includes identifying the correct bank accounts and authorization to withdraw funds.

No technology changes are required. 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 bank and NAIC holidays), the CECI system summarizes all of a company’s transactions and produces a *single* ACH transaction per account; depending on how the company’s accounts are configured.

CECI uses two of the many available ACH transactions: CTX (Corporate Trade Exchange) and CTX Addenda transactions. One CTX transaction is the equivalent of a “check.” The CTX Addenda transactions (1 to 9,999 per CTX transaction) serve as an “envelope” that contains 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 company and “push” money to the state bank accounts. For payment of state fees, the pull/push process occurs during 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 that allows companies 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 a company's organization to complete the process. 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 charges. The filing area must be able to confirm information about the filing and that the proper fees were paid. The technical area must make whatever changes, if any, necessary to implement the re-designed business functions and take advantage of the new technology. Finally, the entire set up must be tested to ensure that it meets business needs. The following steps are examined in further 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 procedures to relate financial changes to filings.
- Step 5: Communicate company setup configuration to the NAIC staff.
- Step 6: Execute Exhibits A, B & C and submit to the NAIC. (Third-Party Filers and Rating/Advisory Organizations must complete an entire EFT Indemnification Agreement.)
- Step 7: Complete testing and certification.
- Step 8: Implement

Step 1: Request Information

Objective:

Answer any additional questions concerning EFT implementation. 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 from company 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 firm's Treasury Department. Sometimes this step is combined with Step 3. There are several techniques available. Although not complete, this list could provide the starting point for how your company 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 company'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 firm does not currently have the ability to decode ACH transactions, a technical change to your systems will be required. 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 your monthly bank statement. The date and descriptive information should make it possible for the company 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 2 for samples of reports.

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. See Appendix 2 beginning on page 17 for samples of reports.

Step 3: Determine Detailed Accounting Procedures

Objective:

Correctly account for the filing fees paid. 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 company'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 firm does not currently have the ability to decode EDI 820 transactions, your system will require a technical change or you will need a 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 or 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 SERFF filings. The user can generate the report by choosing the time frame and format (Microsoft Excel, comma-delimited or html format). See Appendix 2 for samples of reports.

Step 4: Determine Filing Procedures

Objective:

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

Techniques:

In many cases, the detailed SERFF filing information must be recorded in a company system. Such an instance would indicate that a technique which 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, NAIC company code and state name are included on 820 transactions. If your firm has the ability to read 820 data, this would be the easiest way to interface your company's 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 EFT Report.

The SERFF EFT Report contains detailed information about filings. Since it is available in Microsoft Excel, comma-delimited or html format, it may be possible to integrate with a company system. See Appendix 2 for samples of reports.

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 at your company, you must communicate your decision to the NAIC staff along with the Exhibits and/or E-Commerce Agreement.

Step 6: Execute E-Commerce Agreement

Objective:

By definition, e-commerce is the movement of money in electronic format. For standard SERFF Licensees, the NAIC is automatically granted authority to access company accounts when the terms of the SERFF Electronic License Agreement is accepted. The only additional paperwork required are the three Exhibits – A, B & C. Once the Exhibits are submitted, testing can begin.

Third-Party Filers and Rating/Advisory Organizations must execute the E-commerce agreement before testing can begin. See Appendix 1 for a draft copy of the agreement. For questions about the contents of the agreement, please contact:

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

Process:

Complete the Exhibits only (Standard Licensees) or Electronic Funds Transfer and Indemnification Agreement and all Exhibits (Third-Party Filers and Rating/Advisory Organizations). You can email these documents to:

serffmktg@naic.org

Your company will be contacted, confirming receipt of your documentation and will be provided with 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 company and the NAIC. The e-commerce process is a closed-loop system. Data originates and terminates at the company. The NAIC will help coordinate the following testing processes:

System Test – The purpose of the system test (or ‘Penny Test’) is to ensure that communication 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 charged the specified amount plus any processing fees your bank may charge. However, all reports and transaction files will be processed using the same process as production. Once the debit appears on the company’s bank statement, the NAIC should be notified that the test was successful. If requested, this step may be repeated.

Step 8: Implementation

Once the company has successfully tested the system, they will notify the NAIC of the date they would like to move into production with EFT. The NAIC staff will complete

EFT process by updating Settings to enable EFT in production. NAIC staff and company 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

Complete the Forms A, B and C only (Standard Licensees) or Electronic Funds Transfer and Indemnification Agreement and all Exhibits (Third-Party Filers and Rating Organizations) and email to:

serffmktg@naic.org



**ELECTRONIC FUNDS TRANSFER
AND INDEMNIFICATION AGREEMENT**

This Electronic Funds Transfer and Indemnification Agreement (“EFT Agreement”) is entered into on this _____ day of _____, 20__ by and between the National Association of Insurance Commissioners (“NAIC”) located at 1100 Walnut Street, Suite 1500, Kansas City, Missouri 64106 and _____ (“Company”), located at _____, collectively referred to as the “Parties”.

RECITALS

WHEREAS:

- A. NAIC is a nonprofit corporation organized under the laws of the State of Delaware whose membership consists of the chief insurance regulatory officials of the fifty states, the District of Columbia and the United States Territories;
- B. The System for Electronic Rate & Form Filing (“SERFF”) is a NAIC-proprietary computer based application that allows insurance companies an electronic method for creating and submitting rate, rule and form filings to participating state insurance departments for review and approval;
- C. NAIC and Company have entered into a SERFF License Agreement (“License Agreement”) in which NAIC provides access to SERFF for Company to submit filings;
- D. NAIC and Company desire to utilize the Automated Clearing House Operating System for purposes of allowing Company to electronically submit the state insurance department filing fees (“DOI Fees”); and
- E. The Parties intend for this EFT Agreement to govern the Parties’ respective rights and obligations relating to utilization of the Automated Clearing House Operating System for the above-stated purpose and do not intend to supersede or affect the Parties' obligations under the License Agreement.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, it is hereby agreed to as follows:

1. **AUTHORITY**

Company hereby authorizes NAIC to initiate debit entries and, if necessary, credit entries and adjustments through the Automated Clearing House (“ACH”) Operating System for the purpose of electronically transferring DOI Fees from Company to NAIC.



2. **NAIC'S OBLIGATIONS**

- a. NAIC will initiate a daily electronic process to debit Company's bank account through the ACH Operating System for the amounts due the state insurance departments as specified by Company in SERFF.
- b. NAIC will initiate a daily electronic process to transfer to the appropriate state insurance departments' bank accounts through the ACH Operating System the amounts due to the state insurance departments as determined by Company in SERFF.
- c. NAIC will, if necessary, initiate an electronic process to credit Company's bank account through the ACH Operating System for any amounts due Company by the NAIC. NAIC will not credit Company's bank account for any amounts due Company if NAIC has already sent the fee for the transaction at issue to the state insurance department.

3. **COMPANY'S OBLIGATIONS**

- a. Company will provide the information required in Exhibit A as well as hereby authorizes NAIC to disclose, if necessary, the information in Exhibit A to NAIC's financial institution and to Company's financial institution.
- b. Company will at all times have sufficient funds in the bank account identified in Exhibit A to cover the amount of DOI Fees incurred by Company as a result of the number of SERFF transactions performed by Company. In the event there are not sufficient funds in the account or the account is no longer active, NAIC may immediately disable Company's ability to submit transactions with EFT payment.
- c. Company also agrees to indemnify and hold harmless NAIC for any and all existing or future obligations, indebtedness or liabilities owed by NAIC to NAIC's financial institution and/or the state insurance departments caused directly or indirectly by Company's failure to have sufficient funds available to cover the DOI Fees at the time NAIC's debit entries were processed through the ACH Operating System. Within five (5) days after NAIC incurs an obligation, indebtedness or liability caused directly or indirectly by Company's failure to have sufficient funds available, Company shall reimburse NAIC for all amounts NAIC was required to pay to satisfy said obligation including penalties and other charges. For amounts not paid within five (5) days, interest shall accrue at the prime rate compounded annually until said amounts including interest are paid in full. Company's indemnification and reimbursement obligations hereunder are unconditional and are independent of and exclusive of any defenses, claims or set-offs Company may have against its financial institution, its customers, or the organization(s) directly or indirectly responsible for causing Company's failure to have sufficient funds.
- d. Company will complete Exhibits A, B, C attached herein.



4. **DISCLAIMER AND LIMITATION OF LIABILITY**

a. Company acknowledges NAIC will not determine the sufficiency of funds available from Company's account to cover the DOI Fees prior to the time NAIC transfers the DOI Fees to the appropriate state insurance departments. Company agrees NAIC shall have no liability to Company for transferring DOI Fees to the appropriate state insurance departments on behalf of Company even though Company does not have sufficient funds available to cover the DOI Fees.

b. NAIC has MADE NO WARRANTY OR PROMISE, EITHER EXPRESS OR IMPLIED, with respect to the Automated Clearing House Operating System covered by this Agreement. NAIC expressly disclaims **THE IMPLIED WARRANTY OF MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE**. EXCEPT AS PROVIDED BELOW AND SUBJECT TO THE LIMITS IN PARAGRAPH (C), NAIC SHALL NOT BE LIABLE FOR AND COMPANY EXPRESSLY WAIVES ANY CLAIM FOR ANY LOSS, COST, OR INJURY, DIRECT OR INDIRECT (INCLUDING, BUT NOT LIMITED TO, LOST SALES, LOST PROFIT, BUSINESS INTERRUPTION, OR THIRD PARTY CLAIMS), SUFFERED BY COMPANY AS A RESULT OF RELIANCE ON OR USE OF NAIC'S ELECTRONIC FUNDS TRANSFER PROGRAM OR THE AUTOMATED CLEARING HOUSE OPERATING SYSTEM, UNLESS SUCH LOSS, COST, OR INJURY IS A RESULT OF THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF NAIC.

c. In the event of any dispute brought by either party, it is mutually agreed and understood that either party's liability shall in no event exceed the actual monetary amount transferred from Company's account to NAIC's account through the ACH Operating System, whether such claim is based on tort, negligence, or other legal or equitable theory.

5. **NON-ASSIGNABILITY**

Neither party shall transfer or assign its rights or obligations under this EFT Agreement without the express prior written permission of the other party.

6. **GOVERNING LAW**

This EFT Agreement shall be governed by and construed under the laws of the State of Missouri.

7. **SEVERABILITY**

If any one or more provisions of this EFT Agreement are held invalid by any court of competent jurisdiction or are voided or nullified for any reason, such provision shall be reformed so as to be effective as nearly as intended by the Parties, and together with the other remaining provisions and paragraphs shall continue in full force and effect and shall be binding upon the Parties so as to carry on the intents and purposes of the Parties as nearly as possible.



8. **EFFECT OF AGREEMENT**

This EFT Agreement governs the Parties' respective rights and obligations relating to utilization of the Automated Clearing House Operating system and does not supersede, modify or affect the parties' obligations under the License Agreement. Where this EFT Agreement is silent on a term or condition, the License Agreement will govern. Where the terms of this EFT Agreement are inconsistent with the terms of the License Agreement, the terms of the License Agreement will govern.

IN WITNESS WHEREOF, the parties hereto have executed this EFT Agreement on the day and year first above written.

NAIC

COMPANY

By

By

Printed Name

Printed Name

Title

Title

Date

Date



Providing flexibility, promoting uniformity

Exhibit A

**AUTHORIZATION FOR ELECTRONIC
DEBIT AND CREDIT ENTRIES**

SERFF Instance Name: _____

The National Association of Insurance Commissioners (“NAIC”) is authorized to initiate debit entries and to initiate, if necessary, credit entries and adjustments for the correction of any debit entries in error from or to the account indicated below of _____ (COMPANY) at the financial institution indicated below:

Name of Financial Institution: _____

Address of Financial Institution: _____

Routing & Transit No.: _____

Account No.: _____

Account Name (if applicable): _____

The Company authorizes the above-named Financial Institution to honor such requests from the NAIC and to debit or if applicable, to credit, the same to the account indicated above. The debit entries initiated by the NAIC are for the payment of DOI Fees as such term is defined in the EFT Agreement between the Company and the NAIC.

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 Company 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: _____

Printed Name of Authorized Party: _____

Title of Authorizing Party: _____

Name of Company: _____

Address: _____

Telephone Number: _____

Date: _____



Exhibit B
EFT Enrollment Form

Company Name

Treasury/Cash Management/Bank Account Manager Contact (Within your company)

Name

Phone

Fax

Email

Rate and Form Filing Department Accounting/Accounts Payable Contact (Within your company)

Name

Phone

Fax

Email

Rate and Form Filing Department Contact

Name

Phone

Fax

Email



Exhibit C
EFT Role Authorization

In order for a SERFF Industry Filer to submit transactions with EFT payment, they must be assigned the role of EFT Filer. Running EFT reports requires the role of EFT Reporting. Current user IDs can be modified to include these roles. Tracker customers please enter your ‘SPI’ ID in the Name column, but it is not necessary to include any other information in Exhibit C.

****The users below should be current SERFF users before EFT roles can be assigned. If they are not a SERFF user, please have the individual with the User Admin role login to SERFF and click on Request New User to create a username.****

Company Name _____

		EFT Role to Add (check all that apply)	
Person’s Name	Username in SERFF	EFT Filer role	EFT Report role

EFT Report Menu

SERFF - System for Electronic Rate and Form Filing - Microsoft Internet Explorer

SERFF EFT Reports

Please choose the parameters for your report.

Begin Date (inclusive):

End Date (inclusive):

Report type: Detail report Summary report

Report format: Web page CSV file

Company Detail Report

SERFF - System for Electronic Rate and Form Filing - Microsoft Internet Explorer

SERFF EFT Reports

EFT Detail Report for dates 03/15/2007 to 03/30/2007

Transaction Date	Company Name	Company Code	Submitter Name	State	SERFF Tracking Number	Type Of Insurance	Sub-Type of Insurance	Filing Type	Amount	Transaction Number
03-20-2007	Tracker Penny Testing Company	12345	Penny Testing	MO	TPTC-000517965	01.0 Property	01.0001 Commercial Property (Fire and Allied Lines)	Form	\$0.01	1872412
totals for 03-20-2007, 1 transaction(s), total amount \$0.01										
03-27-2007	Tracker Penny Testing Company	12345	Teresa Koerkenmeier	MO	TPTC-000517992	01.0 Property	01.0002 Personal Property (Fire and Allied Lines)	Form	\$0.01	1872462
03-27-2007	Tracker Penny Testing Company	12345	Teresa Koerkenmeier	MO	TPTC-000517991	01.0 Property	01.0002 Personal Property (Fire and Allied Lines)	Form	\$0.01	1872460
totals for 03-27-2007, 2 transaction(s), total amount \$0.02										

Company Summary Report

SERFF - System for Electronic Rate and Form Filing - Microsoft Internet Explorer

SERFF EFT Reports

EFT Summary Report for dates 03/15/2007 to 03/30/2007

Company Name	Transaction Date	State	Total Transactions	Total Amount
Tracker Penny Testing Company	03-20-2007	MO	1	\$0.01
Tracker Penny Testing Company	03-27-2007	MO	2	\$0.02
totals for Tracker Penny Testing Company , 3 transaction(s), total amount \$0.03				