



IT Innovation in Compliance Study

*An SMA Insurance Research Report sponsored by Wolters Kluwer Financial Services
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Executive Summary

With the ever-increasing expansion of government oversight in the financial service markets, the compliance needs of insurers have changed dramatically. The rise in regulation has created growing concern about potential increases in market conduct exams, audits, and related costs and penalties. In an already complex business and technology environment, insurers are looking to automation and other innovative uses of technology to solve compliance challenges.

It is of critical importance to be able to manage all regulatory changes through their entire life cycle to ensure that they are implemented across all appropriate business processes and IT systems. Equally important is ensuring that the findings from market conduct exams and audits do in fact result in changes in process and systems.

This study confirmed that technology is improving compliance. SMA has observed that there are a number of projects currently underway for compliance improvement in the areas of regulatory change management, implementation of rate changes, and policy termination/conditional renewal process. There are significant opportunities in the areas of market conduct exams and regulatory content in claims management. However, through interviews with insurers, SMA found that many compliance departments are somewhat disconnected from the technical activities the company is considering and orchestrating. Because of this disconnect, a major opportunity to make substantial progress in improving the compliance situation is often lost.

Research Approach

The core of the research for this report is based on data gathered from a survey conducted by SMA Strategy Meets Action in conjunction with Wolters Kluwer Financial Services between May to June, 2010.

There were 340 participants in the survey with a strong mix of views representing IT, lines of business, and compliance management.

Responses to the survey came from a solid geographic mix of contributors with significant diversity in terms of the range of tiers they represented. (See Figure 1)

All major segments of the insurance industry were represented. Responses included significant representation from P&C commercial and L&A interests. (See Figure 2)

Business Drivers Triggering Technology Investment to Improve Compliance

Survey results show that primary business drivers for technology investment are reducing the risk for the entire company as well as the portfolio. Insurers emphasized that enterprise risk management is rapidly becoming a critical focus area for their organizations with a view of compliance extending beyond an operational area to include the entire business environment. (See Figure 3)

50% of survey respondents report current systems do not adequately support the needs of the business. This correlates very strongly with trends observed in the market as companies have taken on a noteworthy number of system replacement projects and increased their focus on business process optimization. As insurance companies continue to drive more complex business models, the challenges associated with managing the overall infrastructure will increase. Staying in compliance can be a herculean task for insurance companies burdened with a number of silo systems - often a reality when acquired assets have been cobbled together with existing infrastructure.

Overall, the tier that showed the most significant differences in behavior when compared to all other tiers was tier 3. In general, tier 3 is often challenged from a capital perspective as well as the diversity of their books of business. They are being driven to reduce the risk of their operations. The system replacement movement is at a peak in this tier, a fact that correlates strongly to the need to replace existing systems because they are inadequate. (See Figure 4)

The other tier to note is tier 1 where organizations have a complex business model, and the need to reduce and manage their risk is one of their top priorities. Tier 1 insurers are the most mature from a system standpoint which aligns to their continuing focus on system maturity and development. Their business models are very complex – often covering multiple lines of business and many geographies. Brand is extremely important to these insurers. They must focus on the compliance aspects of the business to ensure that the brand is represented very strongly in the overall market.

Figure 1: Survey Respondents by Type of Insurer and Tier

Number of respondents = 340

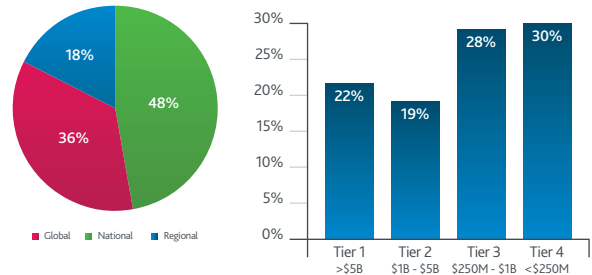


Figure 2: Survey Respondents Lines of Business

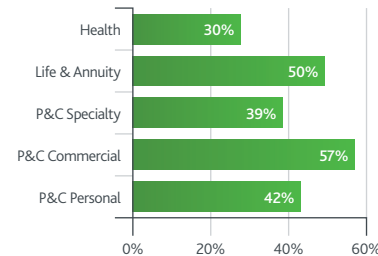


Figure 3: Overall - Business Drivers Triggering Technology Investments

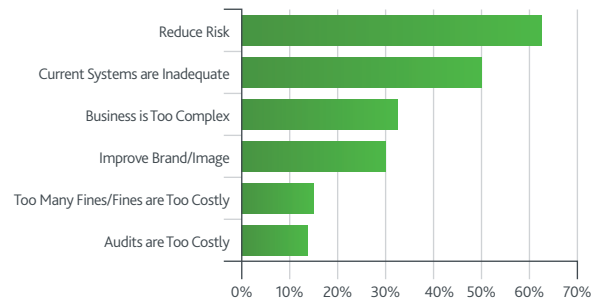
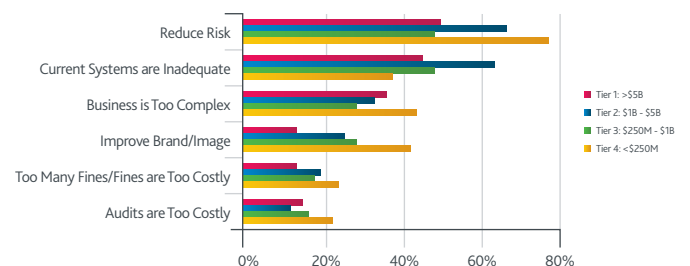


Figure 4: By Tier - Business Drivers Triggering Technology Investments



Status of Technology Usage for Compliance

Areas were identified where technology is currently being utilized to meet business needs and at the same time focus on compliance. SMA analysis identified the top areas where technology has already been implemented, where technology implementations are in progress or plans are in place to use technology, and areas where insurers had a favorable view of technology innovations but had no plans to use those innovations at this time.

The most prominent areas where insures have already implemented technology include “implementation of rate changes” (34%) and “policy termination/conditional renewal process” (38%). (See Figure 5)

The areas where insurers have the most projects in progress are “regulatory change management” and “market conduct exams”. Projects observed in these areas include the adoption of compliance solutions such as WKFS “NILS INcompass” and the implementation of product configuration technologies.

Insurers indicated that the primary areas they would like to address in the future are “market conduct exams” and “regulatory content in claims systems”. Because claims is frequently an area of many market conduct exam issues, the additional content embedded in business rules that drive the claims applications will become increasingly important. (See Figure 6)

Tool Utilization

This study addressed the maturity of the tools being used in two areas: Rate/Rule/Form visibility and examination management.

In the area of Rate/Rule/Form visibility, over 60% of the respondents said they were doing tracking manually with the use of Microsoft Office tools. Over 50% reported using rating engines or other product configuration tools, but insurers are still relying on manual techniques to track the status of changes. (See Figure 7)

The primary technologies that are being used include Microsoft Office tools combined with scanning and imaging technologies. Self-documenting systems will assist the compliance department in expediting market conduct examinations and provide savings to insurers. (See Figure 8)

Figure 5: Status of Compliance - Implemented and Inflight Projects

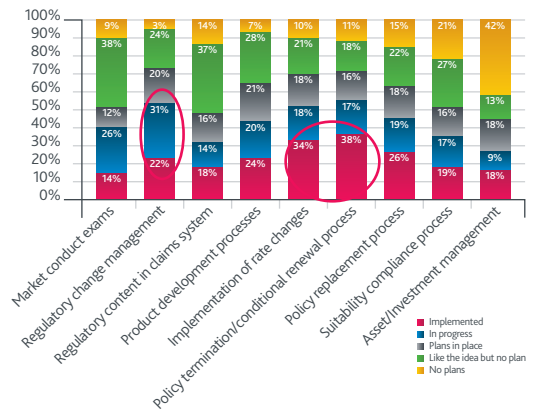


Figure 6: Status of Compliance - Areas of Significant Possibilities

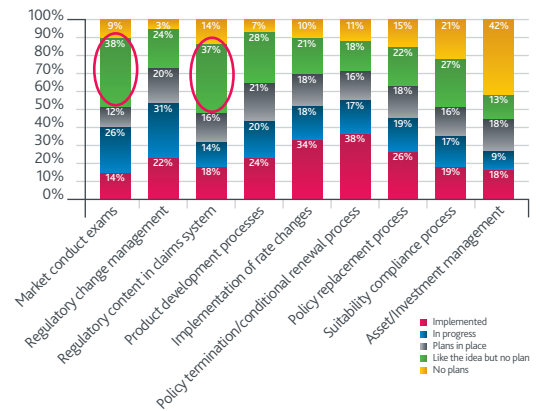


Figure 7: Rate/Rule/Form Visibility Tools

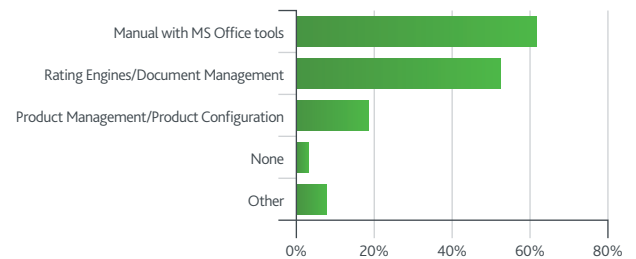
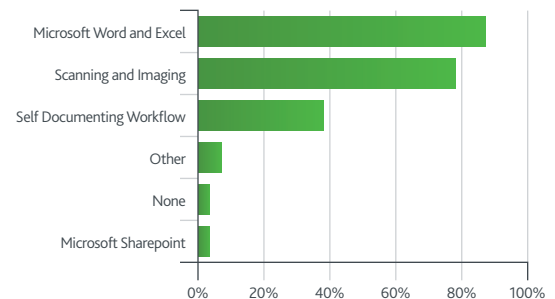


Figure 8: Market Conduct Examination Tools





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About SMA Strategy Meets Action

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