

# Finding the Way to Regulatory Change Management

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Regulatory change management can be exciting and intimidating at the same time. With the thousands of changes every year, it's all about making your organization work more effectively towards full compliance. Heading into the last few weeks of 2011, we have already tracked over 21,000 new, revised or repealed citations impacting the insurance industry. While this current tracking data shows that 2011 is proving to be yet another year of significant activity, more important it illustrates that staying on top of legislative and regulatory activity is a challenge that continues to grow with no end in sight.

Due in no small part to this volume, is the recognized need for eliminating the oftentimes manual processes currently used by insurers for managing this volume to achieve the goals of maximizing efficiency and effectiveness. Failure to meet these goals leads companies down that inglorious path where compliance risks loom large. Potential, and probable, increased market conduct exam activity, the inevitable fines for regulatory noncompliance, and reputational risk are all factors to be considered. With all that insurers need to accomplish in maintaining regulatory compliance, there is definitely a compelling argument for a robust system that meets the challenge directly. The journey to that destination requires an awareness of the tasks ahead—a roadmap that lets you get where you need to go while minimizing your compliance risk along the way.

## Now About That Volume: Information Overload

Compliance with the ever-changing requirements, and the mitigation of costs associated with company failures to recognize and meet compliance mandates, requires current and accurate information. The legislatures present significant challenges in terms of volume introduced, measures enacted and varying email or alert service levels available from the state websites. Monitoring and tracking bills has to be done not only at topic level, but also at the chapter and citation level, in order to truly ensure understanding of the changes or new requirements and ultimate compliance. Mere reliance on the brief state-drafted summary of a bill is often insufficient for full evaluation of the bill's impact on insurer operations. At any point in time in the legislative sessions each year, these are subject to change, repeal or additions—an overwhelming challenge at all levels for maintaining the required research for monitoring and tracking.

While the actual number of insurance-related bills and regulations that impact a given insurance company's organization would vary by lines of business it writes and states in which it operates, significant and expensive resources must be dedicated to the monitoring and tracking processes to effectively manage the data. The lack of a centralized source, which acquires, compiles and delivers this activity from legislatures and agencies, leaves individual companies with the burden and responsibility of monitoring multiple and varied sources to achieve the breadth and depth required for compliance.

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Dealing with information overload can wreak havoc on an organization's ability to process changes. The roadmap required to get the right information to the right individuals at the right time can be fraught with hazards. A workflow process tool, in a very real sense, functions as a roadmap and is a necessity in order to accomplish the goal of regulatory compliance with functionality that allows for accountability, reporting, escalation and task management.

### Now About That Roadmap and the Role of Compliance: The Ideal Destination

So the general consensus is we all want a successful and sustainable compliance destination—nothing less will do. And we know that getting to that destination requires a solid and sustainable regulatory change management system...a roadmap that not only charts a course with posted signs to guide, but also points out roadside hazards with safety nets along the way.

That right road has introduced bills and proposed rules, even if you are not currently tracking that information, as knowledge of that data can assist in preparing for ultimate enactments and adoptions. Also key to the success of the journey is the quick and complete delivery of enacted statutes and adopted rules—the “signposts” of the insurance industry. As these regulatory change signposts come flashing toward you, analyzing their impact becomes critical in order to stay on the regulatory change highway without detours and loss of time.

Insurers need to be constantly prepared to track regulatory activity,

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implement changing requirements, understand evolving enforcement trends, know the impact on its own business and, thus, meet, and beat, the compliance risk challenge head-on. Assessing compliance risk exposure, continuing the management of regulatory changes and examination process, minimizing negative outcomes of exams and anticipating problems all require clear bi-directional communication to be successful.

Performing regular gap analyses can aid an organization in ensuring that implementation of required changes is performed and protect an organization from unacceptable levels of exposure to noncompliance risks. A gap analysis, or audit, can uncover compliance detours including:

- Missed changes
- Routing challenges
- Ownership failures
- De-implementation occurrences

Communicating the needs, benefits and findings of these gap analyses can also assist in raising the overall awareness of, and the corporate dedication to, managing the regulatory change process.

### Having It All Can Still Present Problems

Even if your organization actually acquires all the requisite regulatory changes, insurers often still need more information so they can understand what they have. It is not uncommon for some enacted bills to lack clarity in terms of what exactly needs to be done to achieve compliance and can be confusing without some additional guidance. And while some state insurance departments do provide additional guidance in the form of bulletins for specific legislative issues, interim analyses that “drill down” and present the key elements and compliance considerations greatly benefit insurers.

#### ***What Do Insurers Want? What Do Insurers Need?: A Well- Orchestrated Offense***

Insurance companies want to be able to manage regulatory changes in this dynamic environment, and they want to do it effectively. Of course, a regulatory management system does not materialize overnight. But we know such a system goes a long way toward minimizing compliance risk and mitigating negative outcomes.

Strategizing for success in regulatory change management starts with a commitment to effectively managing regulatory changes in this very dynamic regulatory environment. Having concise and targeted summaries enhance the ability to determine the business impact, reducing the timeframe to implementation and increasing the probability of a successful and sustainable implementation. Being able to review regulatory change summaries targeted to specific impacts on the insurance business greatly assist in the prioritizing of the implementation of regulatory changes, the updating of policies and procedures and the education of compliance staff. This is how insurers can work to maintain oversight and control over those very processes most likely to come under regulatory scrutiny and therefore mitigate the often costly risk of noncompliance.

Evaluating existing sources of regulatory information and internal resources are all part of an organization's strategy in moving toward the objective of a sound and sustainable system. Key elements of such a system include multiple lines of defense that, of course, permit a well-orchestrated offense and a more defined roadmap.

- Consistent and timely data feed of regulatory information
- Subject matter experts who are capable of prioritizing the regulatory changes and business impact
- Delivery of on-point analyses to co-workers
- Clear definitions of the roles and responsibilities in your organization

## A Challenge Checklist: 10 Key Steps

A journey with a destination of Regulatory Change Management of all this legislative and regulatory activity is so much more than a simple road trip. And, along the way you need to consider the demands placed on staff in addressing legislative and regulatory activity, especially in these years of perpetual heightened activity. A Challenge Checklist may assist in enhancing existing monitoring systems or in developing and maintaining new ones that meet the content criteria established for the organization's lines of business. No doubt many of these points would have already been addressed in systems currently employed by insurers. However, the Checklist may serve as a guidepost to measure what is inherent in those methods or systems and what might be improved. As challenging as the regulatory environment can be, the burden can be lightened with a solid system in place. Here are some key stops along the way that merit consideration and can lead to that desired system.

1. Identify the scope of the content required to support the organization and the lines of business
2. Determine the current and/or desired information sources: legislative, regulatory agency, insurers, news wires, trade associations, other third-party providers
3. Evaluate existing source information delivery systems in terms of scope of coverage, frequency of delivery, timeliness of content and manual steps required of staff to manage the delivered content (e.g. use of web spiders, legislative and/or agency email lists, insurer memoranda, other third-party providers' systems)
4. Identify introduced/enacted bills and proposed/adopted regulations and miscellaneous publications with insurance impact (requires established filters depending on the sources used)
5. Develop monitoring process and assign accountability for the ongoing identification and monitoring of tasks
6. Evaluate enacted and adopted measures to determine what affects the organization
7. Determine the operational impacts and steps to be taken to achieve compliance
8. Implement required process changes, utilizing reporting functionality to track timely implementation
9. Establish accountability/ownership for the new process steps

10. Control the new processes, making sure that all understand the importance of the change to ensure former, noncompliant, processes are not resumed and maintain control through periodic audits

One of the more interesting aspects associated with regulatory change management over the past few years is the changing role of insurance compliance professionals in the face of enterprise risk management. Compliance and legal professionals now have additions to their everyday responsibilities where they play an even greater role in enhancing a firm's overall risk management operations. Managing those regulatory changes has never been more critical to the enterprise or more pivotal to the role of these professionals.

## Assessing Your Regulatory Compliance Risk

This can be a risky proposition, but can prove to be an invaluable step in a sound regulatory management system. Risks associated with noncompliance can, and do, vary widely. And because of this variation it's often critical that compliance professionals assign varying priorities to tasks associated with achieving implementation. A regulatory change management system should be able to quickly capture the status of tasks within the established prioritization. This functionality greatly enhances transparency and increases the probability that your compliance performance will meet or exceed the required timeframes and defined criteria—minimizing risk while maximizing success!

Some questions to ask yourself:

- Are you efficient in your regulatory management processes?
- Are you getting it all?
- Are you as timely as you can be?
- Have you recently been the subject of enforcement actions?
- How do you rate your compliance operations?

Managing regulatory changes is, by definition, managing the risk of noncompliance. And, to the extent an organization implements a system that mandates the acquisition of all required material, sound business impact analysis, optimal prioritization and the monitoring, implementing and reporting of it all, then it will have achieved the goal of efficient regulatory change management.

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