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Responding to Insurance Regulatory Activity:
6 Vital Areas of Effectiveness

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6 Vital Areas of Effectiveness

If you are a Chief Compliance Officer in an insurance company then odds are good that at some time, and most likely many times, you have been in the position of confronting compliance failures that resulted from a broken regulatory change management process. Investigation into the root causes of these failures showed underlying problems that are prevalent throughout the industry, including new legislation that was missed altogether, and lack of follow through on implementation.

Executive Summary

Chief Compliance Officers in insurance companies know that one of the central components of effective compliance risk management is successful management of regulatory changes. When tasks related to this role are completed effectively, the level of compliance risk for the insurer is significantly mitigated. There are six key functions that compliance executives can examine to assess organizational capabilities and performance in this critical area. Investigation into the root causes of regulatory implementation failures reveal underlying problems that are prevalent throughout the industry and provide a framework for assessing compliance risks in the change management process.

Performance Scorecard

Wolters Kluwer Financial Services researched the regulatory compliance management workflow performance of 21 insurers[1], evaluating six vital areas of performance effectiveness[2]:

1. Acquiring Content
2. Analyzing Impact
3. Distribution to the Business
4. Monitoring and Supporting Progress
5. Verification
6. Reporting

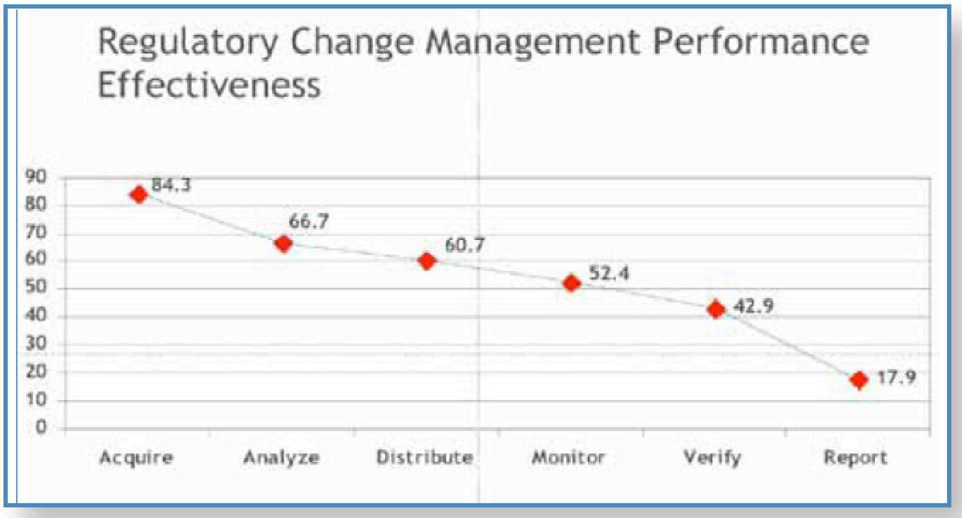

Fig. 1 shows that the average ranking across performance area by insurers of all sizes and across all lines of business indicate that most insurers have reasonably effective capabilities in locating and acquiring information about new regulatory and legislative activity. Further, most companies made some kind of attempt to assess the impact of regulatory change and disseminate it throughout their companies, despite a number of challenges and inefficiencies affecting these activities.

Figure 1

However, beyond the initial phases of the change management process, process effectiveness rapidly deteriorated. Of particular note is the observation that companies had extremely limited or no means of providing management with any type of reporting on this activity.

A close examination of each area of effectiveness can give compliance officers some compelling insights—and some compelling reasons why they should take the time to evaluate their organization's regulatory change management effectiveness.

1. Acquiring Content

Are we locating all legislative and regulatory developments that pertain to our business? Are we doing it in the most efficient manner?

- On the positive side, there is plenty of readily available information. The main reason most insurers scored well in acquiring content is that there is an abundant supply of information providers, and insurers heartily embrace all available options. The majority of insurers interviewed use a combination of sources including trade association feeds, commercial regulatory providers and free, Internet-based resources.

- There are, however, two drawbacks: reliability and risk of redundant efforts. First, quality and accuracy of reporting varies a great deal by source. Fee-based services were reported to be highly reliable, with trade association bulletins and automatic notification by commercial legal and regulatory providers topping the list of preferred services. On the other hand, insurers perceive that information from free legislative and regulatory resources will be less up-to-date and less complete.

  The second consideration is that insurance companies typically receive this information through more than one entry point. Our study revealed that associates felt it was necessary to do their own information sourcing, out of fear that their internal providers (usually the compliance or legal department) could not reliably supply what they needed. What this means is that while insurers on average are getting the regulatory information they need, as reflected by a rating of 84.3, they are expending an inordinately high allocation of resources to do so, with duplicative efforts being quite commonplace.

- Additionally, the chances of missing something important are high. The fear of missing an important legislative or regulatory development is justified. Consider, for example, the volume of legislative activity that pertains to an all-lines insurer. In the first nine months of 2009, that insurer should have been tracking 11,117 bills that had the potential to affect the insurance industry. Further, and perhaps more importantly, 2,322 bills had been enacted.

  Given that the insurers interviewed dedicated only one or two people to monitoring activity in this high-volume environment, and none had plans to increase human resources in this function, this is a "weak link" that is likely to cause process failure.

2. Analyzing the Impact

Are we consistent, accurate and timely when we analyze new regulatory activity for impact to the organization?

- Businesspeople crave your expertise. One of the most highly valued services that compliance staff provide their company is specific instruction on the meaning of a legislative or regulatory change and detailed instructions on how the change needs to be managed. This should come as no surprise when you consider the magnitude of the task.

  Enacted legislative documents are often very lengthy. They usually cover a multitude of issues. And in order to be digested and interpreted, they require of the reader both considerable attention to detail and knowledge of the insurance business.

  Business unit staff located in underwriting, claims and other areas are seeking "bottom line" information—basically, what they need to do and when they need to have it done. To make matters more complex, the regulatory clock is ticking. Every day the compliance staff takes to prepare a written summary is a day that business units are not working on implementation—resulting in the all-too-common problem of late implementation.

3. Distribution to the Business

Are we notifying the right people about regulatory changes that affect their business responsibilities? Do we keep our distribution lists updated?

- Details, details, details. Today, getting information out into the organization is faster and easier than ever. Email distribution lists, internal web sites and applications such as SharePoint all effectively facilitate information-sharing—including communicating about regulatory changes. So what is the nature of the problem in this area?

  First, managers throughout the organization often do not recognize the importance of the incoming communications and the resulting need for designated staff members to receive (and follow through on) regulatory change notifications.

  But this responsibility shouldn't reside completely with the business units; compliance staff should periodically follow-up and verify that their distribution process is keeping up with changes in business staff (resulting from promotions, terminations, new hires, etc.). In other words, it's the ongoing responsibility of compliance staff to ensure that information is being shared with the appropriate individuals. This may seem like a small detail, but a broken communication channel all but guarantees that no one is implementing regulatory changes in a department that needs to do so. If no one knows about a change, then no one can act on it.

4. Monitoring and Supporting Progress

Do we monitor our process? Do we support efforts by our business areas to correctly implement regulatory changes?

- If this story sounds familiar, you are not alone: Your staff locates legislative and regulatory changes. Perhaps they write up a summary or internal bulletin and then post it on an internal site or send it out by email to an internal distribution list. But what happens afterward is anyone's guess.

  If your goal is effective and timely management of regulatory changes, this scenario is very unsettling. Equally alarming is the frequent lack of concern about following through, or even resistance to it.

  In some organizations, accountability for regulatory change management appears to stop at the door of the compliance department. A prevailing attitude among compliance staffers can be described as "I've done my job; it's up to someone else to do theirs now." While this may reflect the outlook of over-worked staff juggling multiple priorities, it accounts for a significant drop-off in process effectiveness ratings. If process improvement is to occur, then compliance executives must overcome this mindset in their organizations.

- Sometimes people are simply swamped. To make matters worse, they often have ineffective tools. Often, the problem isn't lack of accountability, commitment or teamwork—the volume of legislative and regulatory activity is simply overwhelming. Many dedicated and hard-working compliance people are doing their best to process, communicate, monitor and offer advisory assistance regarding the implementation of regulatory changes in their companies.

  But they are doing all this with tools that were not built for that purpose. The typical insurer has a pieced-together set of documents and manual processes, usually involving spreadsheets, and perhaps an internally built database to house information. Without any kind of centralized, uniform system, the effort to document implementation is enormous, and adherence to documentation standards is extremely hard to achieve.

5. Verification

Do we verify that regulatory changes are implemented correctly and on time—and that they stay in place?

- A variation on the ownership theme. One way to assess your change management process is to examine your workflow and determine the points at which business unit managers are responsible for engagement. Do they have responsibility for reviewing incoming regulatory changes, monitoring progress within their departments, and signing off on work done by their staff members? Do they have established reporting systems for monitoring their own performance? Do they know how much regulatory implementation is completed on time? How much is completed late? Positive responses to these questions are a good indicator that adequate review steps are in place.

- The frustrating reality of de-implementation. Another vital aspect of successful regulatory implementation management is ensuring that once a change is put into effect, it stays in effect. But many things can cause de-implementation.

One very common scenario involves something very basic: the printing of insurance policies. If a problem in print production arises, someone may make a decision that, in correcting the problem, reverses a previously implemented form modification that was made to meet a legal requirement. Here, the value of internal compliance auditing becomes evident. It is vital that audit staff stay informed of all internal regulatory implementation activity in order to include post-implementation verification in their audit plans.

6. Reporting

Are we reporting on key business metrics of our regulatory change management effectiveness?

- You probably consider yourself lucky if someone can give you a spreadsheet. Have you ever had to produce documentation that demonstrates in detail how and when your company achieved compliance with a recently created or modified legal requirement? Your organization's performance in market conduct exams can hinge on its ability to reconstruct how a regulatory requirement was integrated into its procedures, systems and documents.

  Most insurers have no choice but to have employees sift through archived emails to reconstruct the actions taken. This takes significant time and resources, and often doesn't deliver satisfactory information. Companies that have a log of activity on a spreadsheet are slightly ahead of the game, at least in terms of having some dates and information on distribution in hand. But they still need to track down additional documentation to prove the work was completed.

- You should aspire to something much greater. In top-performing companies, management regularly receives metrics on activity volume and trends; on-time performance; analysis by jurisdiction, line of business and issue; plus workload metrics analysis. Furthermore, these organizations can readily provide a single, detailed snapshot of every action taken on each individual regulatory change to management and auditors without days of research.

What's the Next Step?

As we've outlined in these pages, there are six vital areas of effectiveness in any insurer's regulatory change management process— a work process that is central to the compliance function. For each area, there are certain questions you can ask which will help you to gain clarity on your performance. (On page 6, you'll find a self-assessment exercise that you can adapt and apply to your organization.)

As you ask these questions in your own organization, consider working with a trusted compliance partner to examine your methods, evaluate the risks and introduce process improvements. The benefits to be gained are substantial and well worth your investment of time.

- Your organization will perform better on internal compliance audits and state examinations.
- Your brand and reputation will be protected and enhanced.
- You will reduce the financial risks associated with non-compliance.
- Your organization will experience productivity improvements across the process.

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Compliance Executive Assessment Questionnaire For Evaluating Regulatory Change Management

Instructions:

Provide your assessment of the extent to which you perform at a level that meets your business needs on a scale of 1 to 100 using these guidelines:

100	75	50	25	0
Business require-ments are fully met	Majority of business require-ments are met	Many business requirements are met	Some business requirements are met	Few business requirements are met

1. Acquiring Content

Are we locating all legislative and regulatory developments that pertain to our business? Are we doing it in the most efficient manner?

Rank	Dimension
	The total number of different resources used to monitor our jurisdictions for legal and regulatory developments.
	Reliability of resources used to supply us with notification about legislative and regulatory changes.
	The frequency with which we become aware of gaps in our monitoring activity.
	The extent to which we minimize duplicative efforts by others in the company to monitor for regulatory and legislative changes.
	Acquiring Content Ranking (average score of all dimensions)

2. Analyzing the Impact

Are we consistent, accurate, and timely when we analyze new regulatory activity for impact to the organization?

Rank	Dimension
	The extent to which we offer written analysis that describes for the line of business the processes, documents, procedures and systems that are being affected.
	The degree of consistency of the analysis we provide to the business areas.
	The overall quality of analysis we provide to the business areas.
	The frequency with which business staff needs to ask for additional information.
	The extent to which clear internal metrics are in place for turnaround time for delivering analysis to the business.
	The speed with which we respond quickly to requests for clarification from the business units.
	The degree of failed implementation that is the result of a lack of guidance from our compliance staff.
	Analyzing the Impact Ranking (average score of all dimensions)

3. Distribution to the Business

Are we notifying the right people about regulatory changes that affect their business responsibilities? Do we keep our distribution lists updated?

Rank	Dimension
	The extent to which business unit managers have clear responsibility for assigning staff to an intake function for information about regulatory changes.
	The extent to which responsibility for distribution is clearly established so that all stakeholders know where implementation assignments will originate.
	How well my staff performs in verifying the accuracy of their distribution with all business units on a regular basis.
	Distribution to the Business Ranking (average score of all dimensions)

4. Monitoring and Supporting Progress

Do we monitor our process? Do we support efforts by our business areas to correctly implement regulatory changes?

Rank	Dimension
	The degree to which job descriptions and performance goals clearly state that regulatory implementation management is a priority for staff in the compliance area and business units.
	The extent to which we have a forum where collaboration is fostered to promote effective regulatory change management.
	The existence of automation tools that enable efficient management of regulatory change implementation among compliance and business unit staff.
	Monitoring and Supporting Progress Ranking (average score of all dimensions)

5. Verification

Do we verify that regulatory changes are implemented correctly and on time—and that they stay in place?

Rank	Dimension
	The extent to which business managers are engaged in the process at appropriate stages and activity provide guidance to their staff.
	The degree to which business managers verify that changes have been implemented properly.
	The extent to which business managers proactively monitor the work in process in their departments and take steps to ensure timely implementation.
	The extent to which compliance auditors are given notification of completed implementation projects.
	The degree to which compliance auditors have access to full details of implementations so all aspects of the implementations can be verified in the future.
	Verification Ranking (average score of all dimensions)

6. Reporting

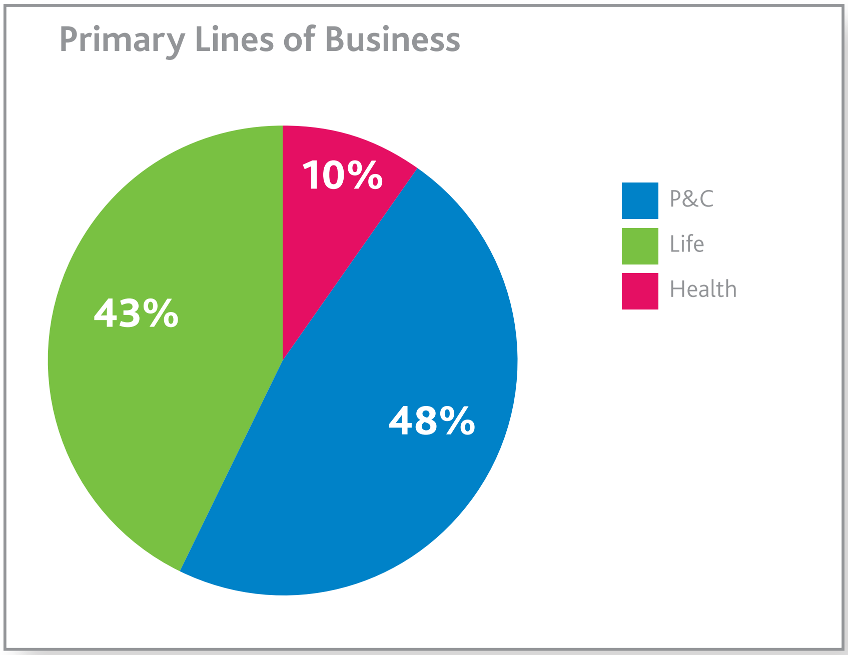
Are we reporting on key business metrics of our regulatory change management effectiveness?

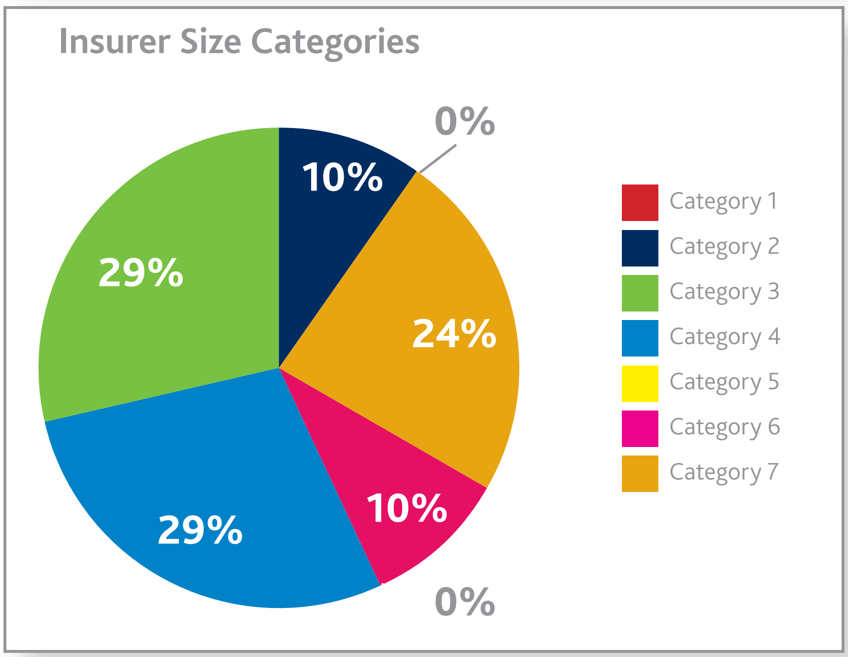
Rank	Dimension
	Our ability to produce complete evidence of regulatory change implementation on demand.
	The degree to which an external examiner would be satisfied with the timeliness of our production of this documentation and its completeness.
	The degree to which we have a clear understanding of the volume of regulatory activity that we process.
	Our ability to report to management on the extent to which regulatory changes are being implemented on time.
	Our ability to identify stalled projects and/or under-performers.
	The degree to which our regulatory change management process is a capability that minimizes compliance and reputational risk for my organization.
	Reporting Ranking (average score of all dimensions)

Performance Effectiveness Area	Your Ranking	Industry Avg Ranking
Acquiring Content		84
Analyzing Impact		66
Distribution to the Business		60
Monitoring and Supporting Progress		52
Verification		42
Reporting		17

Footnotes

[1] Demographics of 21 Insurers Interviewed





"Category 1" = P&C and Health Insurers with less than $100 Million in Premiums and Life Insurers with less than $150 Million in Assets.

"Category 7" = P&C and Health Insurers with more than $10 Billion in Premiums and Life Insurers with more than $80 Billion in Assets.

[2] Formulation of Rankings

The ratings presented depict the average ratings developed with each insurer for each dimension, using a rating spectrum as follows:

100	75	50	25	0
Business requirements are fully met	Majority of business requirements are met	Many business requirements are met	Some business requirements are met	Few business requirements are met

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