Compliance Challenges for Insurers:
Managing Data, Documents, and Product Development for Market Advantage

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Executive Overview

Today’s complex regulatory environment continues to stretch companies, and they find themselves in a reactive mode. Companies have to find a new business model that works in today’s changing environment. Addressing these challenges will ensure corporate integrity, sustainability and profitability with the ability to manage, track and automate compliance initiatives.

Using technology to oversee this process can greatly reduce errors, improve productivity and relieve stress. Technology can provide transparency, visibility and consistency. Having the process in place is part of the solution, but insight into accountability for the process tasks can help alleviate bottlenecks and avoid further repercussions.

As insurance executives are under intense market pressure to keep their products current and competitive, insurers should begin looking at ways to automate and manage the data, product development and state filing processes that are part of these compliance challenges. Coupled with services from industry experts to assist in process re-engineering, such technology can provide a comprehensive solution to assist companies in speed to market – and help give them an advantage in an aggressive marketplace.

In today’s competitive market, it is not enough to talk the talk. Understanding the challenges being faced will help company executives be aware of the problems so that they may address the issues by putting the right tools in place. This white paper will review the challenges compliance executives are facing with the impact of new legislation, and look deeper into using technology to manage data and processes for product development in order to gain a competitive advantage.

Changing Role of the Chief Compliance Officer

In the past, the chief compliance officer was typically a part of the legal division. In today’s world, the chief compliance officer has been elevated to the C-Suite because of the importance and visibility with regulators. The chief compliance officer must assure that corporate information and reporting systems are in place to oversee the reform. There is generally not enough staff in compliance and operations to respond to and oversee this massive task. The role of the compliance officer keeps growing at a pace much greater than budgets have been growing.

New Compliance Challenges

The chief compliance officer and senior-level insurance executives will likely confront a variety of new and unforeseen compliance challenges with the changing regulatory environment. These should be addressed in order for companies to succeed in the future. While these challenges listed below are in no particular order, few carriers will be able to avoid many of these.

» An overhaul of actuarial and underwriting processes will be necessary. New business opportunities and changing customer expectations will make existing rating processes and methodology obsolete.
» Customer relationship management will be become even more critical to broaden customer relationships. Management of this information will be critical.
» New risk management processes will need to be implemented due to new types of coverage and new types of policyholders.
» Adapting to new regulations.
» Competing in an unknown market.
» New and alternative distribution channels.
» Adapting technology for changing environments.
» Need to expand into new distribution channels to expand markets. Companies will also have the opportunity to cross sell other products by using direct sales and agency partners.
» Adopting new technology advancements due to shift in consumer behavior such as smart phones, tablets, and computer.
» Many companies have a highly fragmented IT approach today. This ad hoc approach creates more data silos that could be duplicate data, provide irrelevant or incompatible data.
» Increasing data breach concerns requiring updated or new data security policies that require more frequent reviews than other company policies due to changing technology environments. Determining what information falls under a data security policy is critical.
» Increased staffing to handle increased compliance needs.
» Optimizing enterprisewide compliance is necessary for collaboration and to meet business objectives. There is a need to make information accessible to whoever needs it via the appropriate medium.

Updated technology solutions can address many of these challenges. However, without processes in place, a company’s IT staff capacity can be consumed by piecemeal and manual tasks, which can lead to more work and more risk. Without the right tools in place, company executives are often not aware of problems until they are faced with fines, penalties and damage to the company’s reputation. Automation will not be a benefit without policy. If the process is chaotic, then the automation program is merely automating existing chaos. A dual approach of addressing technology needs and process change is imperative to be successful.

Technology Needs
When evaluating technology solutions, companies should look for solutions that provide:
» Enterprisewide visibility
» Open architecture that can accommodate changing regulatory statutes
» Proven and structured implementation method
» Flexibility in business model to allow for it to be tailored to your standards
» Controls around enterprise content management and data lifecycle management.
» A central repository for content searching is key to data management – numerous companies have multiple repositories making data search cumbersome and time consuming.
» Minimal risk exposure

Today’s Solution: Enterprise Document Automation
The first step towards addressing today’s challenges is that insurers must look at creating a cohesive, enterprisewide strategy toward managing customer and channel communications. As previously mentioned, if the process is chaotic, then the automation program is merely automating existing chaos. Next, companies should choose a software solution that built upon an adaptive document automation and content management platform to support the strategy’s execution today and as requirements expand and change in the future. Solutions such as Oracle Documaker Enterprise Edition address these technology needs by accelerating the dynamic creation,
management and delivery of adaptive enterprise communications when and how customers and stakeholders want them to improve efficiency and reduce cost.

Product Development and State Filing Challenges

As insurance products become more complex, there will be an increase in the sheer volume of information companies must manage and store. Companies will also need to work harder to hold onto market share and retain customers.

New types of insurance will be introduced with the changing regulations, demographics and aging baby boomers. Companies will need to reconfigure the product mix to go forward. More time will be spent liaising and communicating with regulators so an integrated, single repository is key to success.

The Product Development Process Defined

Product development in the insurance industry consists of five core stages:

1. Project Initiation
2. Product Definition
3. Review
4. Filing
5. Approval

The first three states (project initiation, definition, and review) are typically handled by a product development team. Once the review phase is complete, the new product is handed over to the insurer’s filing and compliance department for the final two states (filing and approval).

In project initiation, the project team is chosen. Dates and benchmarks for the project are determined. The project manager or team lead will assign tasks for members to complete, and decide who needs to give input on a new or revised product.

In the product definition phase, the product team meets to determine the specifications for the new or revised product. This is often called a product implementation committee. The committee is responsible for soliciting input from other business units regarding the type of product and the target market, based on competitive pressures, regulatory changes or revenue demands. The committee creates drafts of a product, which are reviewed for preliminary approval. It is important to note that when developing new products, there will generally be several drafts prior to arriving at a version that will be submitted to the state for approval.

The review phase includes all applicable business units, including staff members who must review the drafts prior to filing. For best practice, formal sign-off is requested.

Once the product implementation committee receives internal approval of the product from all parties, the compliance department begins to prepare the filing documents for submission to the state. Filing fees are either submitted via check or more commonly, electronic funds transfer (EFT).

Filing preparation includes drafting wording for submission to the departments of insurance, completing state-required filing forms, and ensuring that an explanation of each variable or item filed accompanies the letter and state forms. Actuarial memorandums, signatures of company officers or notaries, and justification exhibits are often needed. Often these items require the input of other departments, further delaying the process.
Filings are then submitted to the departments of insurance via SERFF, the Systems for Electronic Rate and Form Filing. The filing department must then negotiate the filings, as applicable, with each individual department of insurance (DOI).

Once a state has approved the filing submission, a filing approval notification is sent out to all applicable departments, agents and company staff – all of whom have been waiting to implement the product.

Historical View of Product Development

Until the end of the 1990’s product development was completed on an as needed basis. In a soft market, rates were considered more of a market driver than product; the best rate usually got the sale. Product development was simply not viewed as a strategic initiative; rather, it was viewed as a necessary cost of doing business. The rates developed by the actuarial department were the driving force behind marketing and sales.

The product development process consisted, and often still does, of meetings, usually around a table, sharing drafts of documents that eventually would become the new or revised product. Applicable parties such as claims IT, underwriting, state filings, sales, marketing and legal met and contributed their input. This usually consisted of numerous meetings over many months. The facilitator, usually someone from product development or sometimes a project manager, was responsible for making sure input was received from all appropriate parties. Getting everyone together for meetings was often impossible, and input from some critical parties was often missed. Occasionally, the oversight was not discovered until after the product had been filed with the DOIs, meaning the product had to be re-filed, which in turn led to costly delays.

The Paradigm Shift

Today, insurance organizations are experiencing a paradigm shift. For most insurers, product development has become a strategic business objective. The market is driving new and innovative products, and getting the products to market is essential to remain competitive. No longer is the product development area a “back-office” department, but today is being viewed as an essential part of the organization.

New products have become essential to gain or maintain competitive advantage. After being in a soft market for longer than expected, insurance companies took their toll of operating losses. Rates began increasing to make up for the deficit. The continuing after-effects of the 9/11 tragedy also played a role in a quick hardening of the market. Developing new products quickly became a business imperative.

Unfortunately for most insurers, the process of product development and state filing remains manual, paper-based and time consuming. Email has replaced some meetings, and change-tracking in Microsoft Word offers limited collaboration abilities; but the underlying problem still remains: ensuring that all applicable parties review and provide input before the product is filed. Checklists and status reports have become essential, but the process is still primarily manual, taking valuable resource time away from product development. Often, more time is spent managing the process than is spent on getting the product out the door. With the emphasis placed on process management, the cost of business has been driven up, not down.

More and more, insurance executives need answers to such questions as:

» How long does it take us to get a product to market?
» How much is this product going to cost us?
» Where are the bottlenecks in the product development and filing process?

These are the issues that are now driving new product development. New technologies are needed to provide insight and answers to those questions.
Technology Needs in Today’s Regulatory Environment

Insurance companies face significant market pressures to create and launch products in a very short time. Minimizing time to market is a key competitive driver.

Companies need to manage the process and provide accountability to all areas throughout the process, and they need to be able to benchmark time to market and measure against internal targets. The e-mail distribution lists of the past do not provide the quick measurable responses or the collaborative environments necessary to accelerate product development.

For most insurers, modifying legacy systems to support new product development is not an option; they see it as too difficult and expensive. New technology must be implemented to meet product development demands going forward.

Insurers need the ability to:

» Track a new product through all its various stages.
» Ensure input received from all appropriate parties.
» Measure the time required to bring a new product to market.
» Produce management reports to improve accountability.

New software is required to track measure and improve the process of product development.

Today’s Compliance Solution: Enterprisewide Automation

The solution to competitiveness in today’s marketing is to drive the product development process with an enterprisewide automation solution — one that addresses both product development and compliance challenges. Insurers can realize significant improvements in time-to-market by implementing a single, centralized repository where insurance professionals can collaborate on the documents, forms and language used in developing insurance products.

Workflow-driven processes can virtually eliminate errors and omissions by ensuring that all required parties have reviewed the documents prior to sign-off. In this scenario, the focus is on overall process management and improvement, as opposed to product content. When considering a software solution, companies should consider a system that mirrors the five key phases of product development and compliance. With an integrated, enterprisewide suite, insurers should have the ability to automate the entire process of new product development.

In an integrated, enterprisewide environment, the first phase, project initiation, is completed on the desktop. The project manager has a great deal of flexibility in determining the applicable workflow components and review process for each product.

For second and third phases, definition and review, a browser-based interface lets underwriters, actuaries, lawyers, marketers and other insurance professional log in, share information, post messages to each other, and track the status of product development projects. Ideally, this collaborative workspace should resemble a Web form, with drop-down boxes, check boxes and text areas, ensuring that all parties find it easy to use, with minimal training. The point is not to reengineer the process of product development, but to automate it, thus ensuring that it is done faster, and done right, every time.

Integration with the filing and compliance departments completes the final two phases of product development: filing and approval. Once documents and forms have been approved by the product development department, they should be routed electronically to the insurer’s filing and compliance unit. This ensures that all necessary forms,
documents and rates come attached to the new product, and nothing goes missing. All these documents are deposited in a centralized repository, so that all information related to a new product can be found in one place.

Ideally, all filing forms should be easily accessible. The collaboration area should provide a workspace where filing and compliance professionals can research state rules and regulations, rather than the traditional research method of hunting through printed manuals.

The fifth and final stage, approval, can be automated through full integration with SERFF, the System for Electronic Rate and Form Filings. SERFF provides a way for insurers to submit their filings to the states electronically, rather than mailing multiple paper copies to the various DOIs. Any automation effort should attempt to leverage and extend SERFF, giving insurers the ability to automate the entire process from research and preparation to submission the filing. Ideally, a completed filing would be submitted to regulatory bodies with the click of a button. Two-way communication with SERFF would let insurers track the approval status of a filing and receive updates from the various DOIs.

As illustrated above, today’s compliance solution dictates that companies should strongly consider implementing an enterprise automation strategy. That strategy should include clear, consistent processes as well as a software solution to automate the process. Oracle Insurance Compliance Tracker provides a workflow that virtually eliminates errors in the product development and filing process. Oracle Insurance Compliance Tracker automates the entire filing preparation process by providing the latest filing requirements and forms and integrating directly with SERFF, ensuring up-to-date reports and speeding time-to-market.

Speeding Time to Market
Any effort to automate the product development process should include the ability to generate numerous reports, allowing managers to track status, productivity and time to market. Such reports should have multiple parameters, allowing insurers to slice and dice the data to meet the company’s business needs.

Project teams need the ability to track where a product is in the development cycle, identify bottlenecks and revise the workflow to accelerate the process. Such measurement is necessary in today’s market to benchmark and forecast current and future product development projects. Access to detailed historical data will provide insurers with a powerful tool to develop accurate forecasting methods for future product development projects.

Benefits of Automation
Insurers who undertake efforts to automate the process of new product development can expect to realize the following benefits:

» Accelerated speed to market.
» Increased product integrity.
» Agility to respond quickly to market changes.
» Ability to “out-respond” the competition.
» Increased insight to capture the “a-ha” moments quickly.
» Benchmarking and target-setting for product development projects.
» Improved insight into product status, productivity, and production.
» Improved workflow to manage the entire product development process.
» Increased accountability throughout the product development process.
Business Process Re-engineering

New technology alone will not provide the full answer. In many cases, insurers will need to enlist the aid of industry experts in product development and compliance automation. Insurers should take care that such experts have deep domain expertise in the industry, with many hours of experience and intimate knowledge of insurance practices. Efforts to adapt horizontal automation processes to the insurance sector, such as those found in manufacturing or other industries, have historically been less than successful, and are not recommended.

Avoid Common Pitfalls

Updated technology can address many of the current compliance challenges; however, many companies have a decentralized IT infrastructure. Different lines of business have different systems and often each line maintains its own sub systems for claims, billing and customer service. Companies have designed systems infrastructures around specific policy needs. This lack of business transparency is a large barrier to compliance mandates. Companies will need to create a customer centric or policy centric approach to IT infrastructures. In order to increase operational efficiency, cost management, risk management, sales and customer service all have to be taken into account. This mandates different reports from multiple systems for the compliance officer. The consequences for compliance issues are duplicate data and data corruption issues.

While there is a cost to put technology and processes in place to assist with governing data and policies, the cost businesses could incur if they fail to implement policies and procedures can result in fees and fines, and the hit to a company’s reputation when the media publishes the fines can adversely affect sales. Expense of technology will be compounded by potential revenue loss due to deficiencies in mitigating risk and possible missed opportunities to refine processes to increase business value.

Oracle provides products and services to cover the entire insurance business lifecycle and offers consulting services and software that can help insurers alleviate many redundant processes and policies with clean, integrated solutions.

Conclusion

Documents are still the core exchange of information and exist electronically, as hard copies, and as fax. A workflow driven solution will help drive an efficient process with straight through processing. Measuring the effectiveness of a compliance program and having the ability to prove and defend its success to regulators, business partners and auditors is a task often not thought of.

Insurers who undertake to automate their product development processes stand to gain not only in the product and compliance areas, but in all operational areas that participate in or are affected by the product development process. Automation not only reduces costs and increases speed to market, it provides visibility, accountability and measurability. This allows insurance executives to sharpen their focus on corporate business imperatives: namely, maintaining competitive advantage and increasing market share.