

## 18 Compliance

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# C-Zone

A weekly overview of claims, compliance, company and career issues

## ComplianceZone

**Pressures of compliance, competition and business reporting require efficient and reliable systems that can be implemented only by a technology-based solution. Debbie Baker reports**

# Technology to the rescue

**T**he challenge of driving unnecessary time, cost and risk from current trading practices is an ever-present consideration for insurers and brokers. Distribution, or 'route-to-market', remains a primary plank of any insurer's business strategy. While distribution, may be the ultimate objective, the market now recognises an additional and increasingly vital dynamic: the ability to exchange information speedily and securely between the insurer and the distribution channel.

This new dynamic is being driven by ever-increasing customer expectation and the need to generate competitive advantage.

But regulatory compliance is a primary concern and will have a direct impact on customer service and business reputations. For example, from 1 January 2008 brokers must submit client records to the motor insurance database (MID) within seven days, down from the existing 14-day requirement. The time frame is expected to be reduced further in the future.

### Vehicles seized

If clients are not registered on the MID, they will be considered uninsured drivers and risk having their vehicle seized by the police, even if they are legitimately insured.

Brokers that meet or beat the seven-day deadline will serve their clients in two ways: not only will they meet their duty to treat customers fairly, but they will also help combat uninsured driving, which has an impact on honest policyholders' premiums.

For insurers and their broker channels, a factor complicating swift compliance to the new regulation is the integration of the different technology platforms utilised across the sector.

Most insurers face integration problems with their legacy systems and use technology which has been developed to accommodate EDI. In contrast, brokers have developed bespoke technology to support their internal business processes and the output from this technology is predominantly in extensible markup language (XML).

To meet the MID's seven-day requirement, insurers need to be able to harness the speed, efficiency and accuracy of processing, eliminating the human error and delay that are often associated with rekeying data.

There is a commonly held belief that finding and implementing such solutions will



require heavy investment, staff retraining and continual upgrades. But that is not a foregone conclusion. Brokers can embrace an open standards-based solution to 'sweat' their existing technology systems and avoid costly and time-consuming retraining of staff.

Connectivity hubs such as the Kewill Insurance Xchange establish a seamless connectivity between parties that ensures data is exchanged in a consistent and structured manner regardless of the technology a product provider, third party database or broker has installed.

Once connected, data transformation is applied to the connectivity hub so that if one party captures data in a structured format, it can deliver this data to its business partners in whatever format they require.

The beauty of this type of solution is that it facilitates information tracking, which ensures that both broker and insurer can see when information has been sent or received between the parties, the MID and third party databases.

Contract certainty is another area that will benefit from fuller integration of full-cycle EDI as electronic trading and straight through processing can ensure that brokers have timely access to required documents and wordings.

However, there are large numbers of products that are not electronically traded. Typically, these are the more complex risks that require a bespoke approach to underwriting and policy administration. This poses a greater

challenge for compliance to the contract certainty code of good practice than risks administered under insurer 'packaged products'.

The code requires complete and final agreement of terms between the insured and insurer before inception and that the wording of the full policy and any endorsements be agreed before the insurer formally commits to the contract.

Appropriate evidence of cover must be issued within five days of inception/renewal, for retail customers, and within 30 days of inception/renewal for commercial customers.

### Secure basis

Should brokers or insurers be unable to trade these risks via electronic trading or straight-through processing, they must still have the ability to process policy information on a secure and timely basis.

This, once again, highlights the inability of many databases and technology platforms to integrate or communicate and the need for a solution that can manage data regardless of format, enable secure straight through processing and exchange important policy details between the broker and insurer.

The principles behind a strategy to embrace an open standards-based system or connectivity hub can be applied in these cases.

A gateway or connectivity hub that specialises in the collection, transformation and delivery of information electronically, regardless of the technology platforms used,

would allow brokers and insurers to gain a cost-effective route to achieving compliance with contract certainty requirements.

It would also enable increased business agility and better customer service by improving speed and efficiency, and reducing operating costs.

The ability to interact electronically with third party databases can also facilitate regulatory compliance by speeding up the verification of customer identity. This is particularly important for complying with money laundering guidelines.

Profiling a client at inception of policy or point of sale has obvious underwriting benefits, and databases such as the claims and underwriting exchange (CUE) help insurers to improve the profile of the risk.

CUE holds records on around 18.5 million motor, 20 million household and 3.5 million personal injury claims.

Finally, the impact of the Sarbanes-Oxley Act warrants consideration. Although the Act does not specifically mandate investment in technology, the level of financial reporting it requires, which draws upon transactional data from accounting, underwriting, policy administration, claims and risk and capital management, is dependent to a large degree on IT systems.

Therefore, technology that enables the exchange and integration of this type of data should be part of planning to meet the Act's requirements.

In summary, installing technology that allows for an open standards-based approach or connectivity hub makes good business sense. It provides a cost effective, flexible and scalable solution to dealing with the dynamics presented by the evolving regulatory landscape.

The added bonus of this strategy can be found in enhanced risk management, improved IT architecture and data quality, and reduced operational costs through the automation of time consuming manual processes.

In short, an electronics strategy you will allow you to communicate more effectively and trade more business safe in the knowledge that you can adapt to meet the regulatory requirements of today and tomorrow. **IT**

→ **Debbie Baker is insurance unit director at Kewill**