



CLEAR VIEW



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Bringing you the best ideas from around the insurance and financial services industry

GETTING MORE BANG FROM YOUR AUDIT “BUCK”

Companies and staff are constantly challenged to improve efficiency and effectiveness. Not only is this a prudent bottom-line activity, it generally helps the system run more smoothly. The real test, of course, is doing more with less – fewer resources, fewer staff members, or even the same staff and resources for a growing company.

In the Internal Audit realm, perhaps the following interesting and ingenious ways of meeting this challenge will be of help.

CONTROL QUALITY CONTROL

Quality Control or Quality Assurance (QA) is hardly a new concept. This practice definitely helps stretch the Audit resources by continually, with a planned and controlled methodology, testing human and system quality of work. By constantly pushing to find weak spots, the company can easily fix small problems, while also identifying larger issues for Internal Audit to look into more deeply.

A particularly important role for QA to play is as a mini-audit follow-up in those areas covered by “real” audits. Once measures are instituted to fix those “larger issues,” smaller tests can be conducted – still by someone outside the department being tested – to ensure that (a) the measures were designed that addressed the issues, (b) the new procedures were communicated and are being used and (c) the “fix” is actually effective.

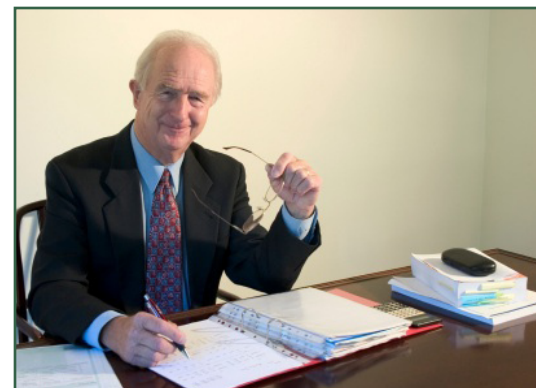
Business Quality Reviews have been mentioned in previous CLEARView articles. These are simply the mini-audits applied on a regular basis throughout risk areas of the company. (See March/April 2007 for the most recent discussion.)

Daily use of QA can be important in high policyholder impact areas like customer service, policy issue and complaint handling. Best practice companies ensure that QA is an on-going protocol, part of managerial duties. The best processes may involve random selection, meaningful percentages per week, and continual training. For instance, one system for the policy issue department of a large company has the random selection programmed into the computer system. Each department Lead has a certain number of policy issue files to review each day, with the result that, each week, an equal number of files from each processor is reviewed by a revolving queue of Leads. Keep in mind that “meaningful sample” to a Regulator can mean anything from 25% to 100%.

LET THE BAD GUYS BE GOOD GUYS

Another area that generally has pretty constant QA is the Customer Service Department. Many companies now use a Call Board that notifies managers of details such as how many calls are “live” at any given time, how many calls have been dropped, how many Representatives are idle, and even how many Reps have been on one call longer than the preferred standard. Some companies actively use the Call Board to

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re-assign Reps to paperwork duties, for instance, when incoming calls slow down. The statistics supplied by the monitoring system can be trended for hiring and scheduling justification.

Part of the QA for this Department often involves taping telephone conversations and then having managers or Leads audit the calls for training issues. The continual training and improvement part of the process has been known to result in resentment, or push-back, or just personnel friction, in some companies.

One company found a creative way to dramatically lower this potential for friction. Management changed personnel and procedures so that the Customer Service Representatives were first trained by certain people; then the same ones who trained the Representatives would then be those who audited calls, and continued the training they had started! Because the Reps perceive the “auditors” as first and foremost “trainers,” the conflict and resentment virtually disappeared.

TAKE SOME PRESSURE OFF (EVERYONE)

So, after the Audit report on the Whatever Department flows up, is accepted, and Big Kahuna decides that Audit’s recommendations will be put into action, what happens in your company? Here’s how it goes in at least one large company:

Suki Suit (Head of Audit), Bob Bowtie (Auditor of the Whatever Department), Wilma Whoever (Department Head) and a fourth person, who we’ll call Frieda Facilitator, all sit down with the Audit report. They rank the Audit findings in order of urgency, and then focus on those that rank #1 on the list. Each of those items is assigned a time-line, some perhaps overlapping others of the top-ranking issues; and then an Action Plan is designed for each of the items.

Perhaps there are three top-priority items, and the estimate is that two of the three can be handled with Action Plans running concurrently for three months, and the third will need an Action Plan beginning in about six weeks, and running eight months, because there are I.T./Systems changes needed. Backdating is done, or sub-time-plans are assigned to the three priority items and formalized in meeting notes. Bob Bowtie and Suki Suit then leave the meeting and leave the process.

Wilma and Frieda will carry the ball from that point forward. The upside to this, from Audit’s perspective, is that Audit’s resources are not tied up in follow-ups, monitoring or taking action. Another advantage to the company is that the follow-up audit (perhaps in six months, perhaps 12) will be “clean.” That is, no one in the Audit Department will have any detailed, intimate knowledge of how the Action Plan worked out beforehand, so there’s no prejudice for or against the changes. When Bob Bowtie comes in again, there will be a fresh start, so to speak.

So who is Frieda Facilitator, where does she come from, and how does she fit into this scenario? Frieda is a detail oriented, compliance-focused person who has excellent verbal and written communication skills. She moves easily among all levels of the company, from mailroom to CEO. Hopefully, she is a creative thinker (outside the box) but a team player

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CLEAR Market Practices

LET’S SEE, DID WE DO IT . . . OR NOT?

With thousands of changes to laws, regulations, bulletins, Attorneys General opinions and other miscellaneous modifications to laws crossing your desk every year, do you ever wonder if you are staying current?

If you use The CLEAR Report and CLEARTrack, you won’t have that problem. Each week we publish updates to laws, regulations, bulletins and opinions for your use. Unlike most competing services, you may share that information with any others in your company who need to know what is happening for the same low subscription fee.

But, how do you know if others have made the necessary changes? It’s simple . . . using CLEARTrack. You may elect to activate this no-cost supplement to your subscription, to enable tracking of items that are reviewed and addressed. Simply look at the comments of the person assigned to the issue, and you will see at a glance when the needed modification was completed.

CLEARTrack helps you keep current with changes, for more peace of mind when you are notified of your next market conduct exam! For more information about The CLEAR Report and CLEARTrack, and how they can help you with regulatory compliance, contact us at info@clearreport.net for a trial password.



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and a follow-the-rules kind of person. Those personality traits will lend themselves to seeking solutions when Wilma runs into a snag in the Action Plan(s), but will keep the Plan moving forward without cutting corners.

She may come from an affiliated department to the Whatever Department; or from Compliance, either corporately or within the same Division as Whatever; or she may be pulled from a Special Projects Team. If the Special Projects Team is fairly small, the entire team might be assigned to the Action Plan monitoring.

By bringing in a person like Frieda to help the Department manage the improvements outlined in the Action Plan, the Department has a friend working with them and doesn't have "Audit breathing down their necks." The whole atmosphere of change is a more positive one from start to finish.

TAKE A HINT FROM THE REGULATORS

Market Conduct Exams (MCE) will many times focus on whether a company follows their own procedures. This can be in any category from Advertising Files (composition, retention, distribution records) to Claims (turnaround, interest timing, fair dealing). The reviews suggested below do not have to be full-blown audits, but can be targeted Compliance Reviews, performed by members of the Compliance Department or Compliance Team, depending on the structure of your company.

One of the best ways to prepare for an MCE, whether you've received notice yet or not, is to review a Department from the Examiner's perspective. Pull out the written procedures – not the ones on sticky-notes or those from two years ago that are still posted on the intranet – and follow the process to see how closely it matches. After that exercise, it may be time to update the official Procedures and to refresh them on the intranet. Here are some examples from actual companies.

Advertising Compliance

Specifically in Advertising File review, select test pieces to see if the Keepers of the Files can determine how many of the pieces were available to consumers. The majority of states require, in life insurance law, that companies retain "extent of distribution" for each piece. That way, if they find a piece that violates their advertising law, they can multiply the fine by the number of consumers who may have been exposed to it. This is not a bad exercise for any type of insurance product, because the same yardstick may hold true. If an Examiner assumes a certain distribution of a piece, the company may be able to negotiate the fine down if it is able to prove a more limited distribution.

One company was recently fined for not being able to trace the extent of distribution of either their co-op advertising pieces or their web-based print-on-demand pieces.

Additionally, run checks to see if the company has sent Advertising Affirmations in to the states that require them for the past several years, and that this is provable.

Legal Compliance

Prior to an announced MCE, or for a state to which the company is particularly sensitive, pull the company's records of changes to laws and regulations for the time period specified, or for any three-year period, if this is a non-MCE drill. Select important changes to review, but not the high-visibility changes, like HIPAA or Anti-Money Laundering (AML), that everyone knows was done. The selections should include any changes to forms (such as Guaranty Association or Complaint Notices), filing requirements (conversion to electronic/SERFF filing), mandated benefits (such as increase of student-eligible age), producer training and subsequently required monitoring by the company such as the National Flood Insurance Program or AML.

Follow the trail of these legal changes to see if (a) they applied to your line of business and your distribution system, (b) an appropriate change was made, (c) if the change was made timely and (d) if the change stayed in place. For instance, if the Complaint Notice form was changed because of an Insurance Department location change, check to see that the form was modified correctly, that it was uploaded to the system, and that it currently prints out every time a policy is issued in that state.

If your company has a tracking system for changes, with a feedback loop in place to record what changes were made and when, most of this review can be done from a computer terminal. Only the actual policy issue reviews would need to be done physically.

Through this process, the company may find the need to improve its internal protocols for ongoing tracking. With a good tracking system in place, those responsible for MCE coordination will find that part of the task much simpler.

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Life and Annuity Suitability

As you are aware, there is great concern among regulators about this topic. Laws have not been put in place for actual measurement of suitability on fixed life and annuity products yet, except for the requirements that sales be suitable (for seniors, in some states, and for all purchasers, in other states). Certainly, the company is responsible for providing guidance to producers about what may or may not be suitable sales, including replacements, for the company's fixed products.

Broker/Dealers are responsible to have measures in place for affirming actual suitability for variable products, although that measurement is still limited to "can they afford it in terms of cost and risk?" Insurers need to put procedures in place for monitoring of B/Ds. Since regulators are known to "go after" the insurer regarding complaints or fines, it's important for companies to be proactive in this area of suitability. During annual audits of proprietary B/Ds, the company should already be reviewing suitability information. Additionally, even for independent B/Ds, companies should be stepping up on-site visits, not to review actual suitability, but to review the B/Ds adherence to their own suitability sign-off procedures. Many FINRA findings each month reference the lack of sufficient monitoring procedures to ensure compliance; if an insurer discovers a weakness in the suitability sign-off area, it will benefit both the company and the Broker/Dealer to remedy the problem before a FINRA audit and finding.

IN SUMMARY

Although this article associates the examples with Internal Audit, many of them could be adapted and adopted by other departments of the company, for risk aversion in addition to their current practices. Whether or not your company embraces any of these tools, they may at least help spur additional brainstorming for your specific needs.

WANT SOME NEW IDEAS ABOUT PRODUCER RELATIONS?

Here are a few hot-off-the-press ideas for producer communications and relationship-building with the Home Office.

Spread it Around

Invite producers to talk about their best selling tips or one great lead-referral-program – whatever they're proud to talk about. The forum can be a web-cast, an e-newsletter, or bulletins from the home or agency office.

We've heard ideas about how a producer who sells to teachers and school districts keeps his momentum going during the summer "off." One regional manager talked about getting back to the selling basics by doing joint sales visits with her producers, doing hands-on training about discovering customer's insurance needs, proposing one or more solutions, and closing the sale. And "don't shy away from saying 'life insurance!'" Take pride in the industry you represent so well!

If more incentive is needed than a producer having this forum, offer discounted or free company promotional products or materials (that normally have a charge) for those who submit usable ideas.

Note: Ensure that the content of any story is approved by Compliance, first, and that there are no outstanding issues with the producer who's invited to share (justified complaints, investigations, etc.)



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Offer a Ridiculously Inexpensive C.E. Gateway

What better way to encourage your producers to get their required C.E. and even grow a little by taking additional courses, than subsidizing up to X number of hours a year for one low cost?

Making courses available through your website links and negotiating a bulk rate with providers is one way to attract and retain high-quality producers, those who are interested in selling ethically and knowledgeably.

Toss the “Hot Potato”

Offer to support a Compliance sub-committee as part of your producer Advisory Council. There are companies who have several distribution lines who have even formed a cross-functional Compliance Team among their representative producers. Training could be offered to these members annually to help them learn about regulatory concerns and tools for protection of the field.

This team can, potentially, offer a two-way conversation between the field and the compliance functions of the company. Concerns or complaints about compliance issues among producers could funnel through individuals on this Team, if producers are reluctant to speak to the Home Office about those concerns.

Producers in the field, and on the larger Council, could use this specialized team to help unravel problems in the field before the Home Office becomes aware of them. Conversely, Compliance in the Home Office could use this Team as a focus group annually, for suggestions on communicating and handling compliance concerns.

Liven Up Privacy Procedures

Every other month or so, send to all the agencies / field offices / broker-dealers a colorful (cartoon?) poster emphasizing privacy and the efforts to maintain confidentiality of files and information. One poster could stress locking up monitor screens when people step away from their desks; another could playfully accentuate the need to lock up files at night; yet a third could remind people about what information should and should not remain in policy-owner files.

For better use and retention of these posters, the first posters could be sent with nice-looking frames that would accommodate the subsequent posters, so the other posters could be shipped flat or rolled.

“Pump Up” Termination letters

Not a pleasant subject, but consider the need to improve this vital communication. First of all, make sure the company uses and retains producer termination letters for the satisfaction of Market Conduct Examiners.

Second, use the letter to briefly remind producers about important clauses in the contract they signed. Of course, if you have several levels and versions of contracts, be sure you use accurate information. These important clauses could include return of files, advertising materials and other supplies to the home office within X number of days. Another reminder could be to cease soliciting for the company immediately, and cease use of business cards or signage that would suggest a continued relationship with the company. Possibly the most important reminder is their agreement (assuming it was in their contract) to not entice either producers or customers away from the company and its products, for the two years or other length of time as stated.

Whether or not this last reminder will prevent a producer from churning his/her former business or trying to lure other producers away to his/her new company, it can be a valid document for the company. If the company identifies trends of these former producers replacing business and determines to (a) contact the producer's new company with the concern or (b) take the producer to task if the behavior is egregious, the letter provide additional support for the action.

If you have practices in your company that you think work well to build better relations with producers, please drop us a line. We'd love to hear from you, and share your ideas with others in the industry!