Vertafore

Building a Foundation for Compliance Changes

A blueprint for insurance and securities professionals.

In the complex, and ever-changing world of insurance and financial services, one thing always remains consistent: the importance of adapting to complex regulatory changes effectively and efficiently. Across regulators, agencies, education providers, securities firms, and carriers, we often find industry representatives asking the same questions:

What's so hard about keeping up with change? How can I plan ahead?

In this eBook, we will share some of our secrets to building the foundation to help you understand the inner-workings of regulatory change to improve your compliance practices. We will show you the process of a regulatory change from the ground up to show you ways to proactively monitor for changes, share best practices to adapt to those changes, and bring awareness to potential issues that can happen along the way.

The complexities of regulatory change

A regulatory change generates an extensive web of dependent and inter-connected changes impacting technology, business processes, and practices across all stakeholders involved in getting and keeping agents, advisors, adjusters, and other licensed individuals authorized to sell or service insurance or securities. Even a seemingly small change can have a large ripple effect of changes on the industry, which in some cases, can cause that web to tangle.

Having processes and action items prepared will help you maintain compliance and, in some cases, can help your business get ahead of the competition.

Step 1: Educate yourself

It is very important to be aware of current regulatory news in this industry because chances are, it will affect your business. The first step in deciphering the impact of a change is to make sure you fully understand the change. One important thing to be familiar with when you're getting started is the various stakeholders that influence and decide on changes to help shape a regulatory change.

Who's involved?

In the insurance industry, these influencers include legislators, interested trade groups, insurance department staff, and the NAIC/NIPR. On the securities side of the industry, legislators, Self-Regulatory Organizations (SROs) such as FINRA[1], the SEC[2], and state securities regulators are the primary influencers. Trade groups also lobby for the interests of their members on a group by group basis.

Federal and state legislators, state insurance and securities regulatory agencies, FINRA, SEC, and other federal agencies (such as the Department of Labor) receive input and influence from these stakeholders that can sometimes drive a change. By paying attention to these groups and their activity, you will stay informed on what's to come.

What prompts the change?

Changes to state and federal legislative statutes have a few drivers: consumer protection concerns to become more uniform and reciprocal with other jurisdictions (such as adopting an NAIC model act); and for security, operational, and technical reasons.

Various industry groups have individual goals that are driven by their members' particular needs and interests. The role of the NAIC and its Producer Licensing Working Group (PLWG), for example, includes developing national uniform standards for insurance licensing for producers, adjusters, and other licensees. When new uniform standards are developed, states generally have to modify their existing laws to align more closely with those uniform standards. Because each state legislature passes the changes according to their own process, the standards are not always completely uniform.

Often, all impacts of a change and related costs to the industry aren't known when change is made. Some impacts and costs may eventually get passed on to consumers or reduce the industry's margins, which are already thin. Consequently, a reduction in the cost of regulatory change can impact consumer service and industry financial health in a very positive way.

[1] Financial Industry Regulatory Authority (FINRA)
[2] The U.S. Securities and Exchange Commission (SEC)

What happens when a change is made?

Once a regulatory change is decided upon, the long sequence of dependent changes is set in motion.

Step 1

If the change is legislative or statutory, the regulators (State departments of insurance and/or self-regulating organizations like FINRA) interpret the change and determine how they will implement and enforce the change.

Step 2

The change plus any effective dates, grace periods, exemptions, etc. is communicated to the industry. How long the industry has to comply can vary substantially. The shorter the lead time, the more chaotic and costly it is for regulators and industry to implement a change.

Step 3

The regulator works with their solution providers and/or internal IT to update their procedures, regulatory management systems, and integration points with NIPR, NAIC, solution providers (like exam vendors, Vertafore, etc.), and the industry. These changes can be complex process changes, software changes, rule changes, or data changes, and often a combination of all four.

Step 4

Industry utilities and standards including the national producer database (PDB), the NIPR gateway, FINRA Web CRD, ACORD standards, and the DTCC services may need to be updated and communicated to solution providers and the industry.

Step 5

Solution providers and the industry, often in parallel with Step 4, update their procedures, compliance management systems, integration points (internal, business partners, other solution providers, regulators), compliance data, and other downstream operational management systems.

Step 6

The change becomes effective and all of these dependent process, software, integration, and data changes also go-live.

Of course, with all these moving parts, there is substantial opportunity for issues to occur that impact business and add delays or costs until they are resolved. Therefore, the true secret to success and not falling behind the regulatory change curve is to be proactive.

Step 2: Listen for upcoming changes and be proactive

Proactive monitoring and planning are two of the most important steps to effectively manage regulatory change. Unfortunately, this takes a lot of time and effort. To illustrate, over the last ten years there were between 250 and 860 regulatory changes per year to track, plan and adapt to. In some cases, **that's more than two regulatory changes per day.** This means thousands of updates to processes and systems in order to comply, and the pace of change continues to accelerate.

To help you proactively monitor and stay ahead of current and potential changes, there are industry groups and resources to assist you in planning for the change and even share best practices.

Resources

To make proactive monitoring less burdensome, here are just a few of those resources:

1. **Sircon Customer Notifications:** The Sircon Regulatory Compliance Services team at Vertafore proactively monitors insurance and securities changes to provide customers with proactive notifications and keep our solutions updated.
2. **e-PAL:** This Sircon solution from Vertafore is a comprehensive reference tool with a knowledgebase of insurance and securities compliance rules and regulations focused on licensing and registration. There is a weekly bulletin of changes and a hot line to call with questions.
3. **Best Practice/Handbooks:** The NAIC PLWG[3] maintains the State Producer Licensing Handbook, with the intent of establishing standard practices that support the uniform standards and model laws. Another example is the SILA Best Practices Handbook which has a growing list of best practices on a number of insurance licensing and securities registration topics.
4. **State Regulatory Agencies:** At each legislative session, multiple bills are introduced. Some address model laws, while others stem from state-specific needs. Laws may include some level of detail, but often the practical impact is not finalized until rules or regulations are formulated at the insurance or financial services department level. Rules and regulations supplement the statute in a state. After a law is passed, new or modified rules or regulations may be required. These are small but important details to monitor because some existing rules or regulations may be modified without law changes.

[3]National Association of Insurance Commissioners Producer Licensing Working Group (NAIC PLWG)

5. **NAIC:** The NAIC Committees create model laws that all states are encouraged to adopt. At this early stage, you can monitor (and potentially influence) the direction industry regulation is heading. Expect states to take action on these items within 1 to 5 years.

6. **Federal Regulatory Agencies:** Most laws regarding securities products are at the federal level. Federal laws are important to monitor for insurance as well because they can preempt state law. In the past couple of years, federal laws like NARAB II have done just that. FINRA and state securities regulators provide communications to the industry related to rule and regulation changes.

Get involved!

Many industry groups provide services to their members to help stay on top of regulatory changes. SILA[4] is a key group to consider joining. A few other examples include:

- The Council of Insurance Agents and Brokers[5]
- Independent Insurance Agents & Brokers of America[6]
- National Association of Professional Agents[7]
- Association of Registration Management[8]
- Securities Industry and Financial Markets Association[9]
- National Association of Insurance and Financial Advisors[10]
- Insured Retirement Institute[11]
- American Property Casualty Insurance Association[12]
- National Association of Health Underwriters[13]

[4]Securities and Insurance Licensing Association (SILA), [5]The Council of Insurance Agents and Brokers (CIAB), [6]Independent Insurance Agents & Brokers of America (IIABA), [7]National Association of Professional Agents (NAPA), [8]Association of Registration Management (ARM), [9]Securities Industry and Financial Markets Association (SIFMA), [10]National Association of Insurance and Financial Advisors (NAIFA), [11]Insured Retirement Institute (IRM), [12]American Property Casualty Insurance Association (APCIA), [13]National Association of Health Underwriters (NAHU)

Step 3: Process changes

Whether a change is legislative, operational (rules and regulations), or technical, the process starts well before the change goes into effect. Carriers, distributors, securities firms, agents/advisors, and education providers alike have to determine the implications of regulatory changes in order to maintain compliance as things change. This means not only listening for potential changes, but creating plans prior that are ready to be implemented immediately as the change is approved.

As you're analyzing a change, there are several questions and items you should consider:

1. How will this impact my business policies?
2. What, if any, operational changes are needed?
3. What are the data and system impacts?
4. What could go wrong and how will we handle issues?
5. How can we leverage this change forv competitive or operational benefit?

What should you be looking for when answering those questions? Here are some examples of specific things to consider:

- Will there be additional education or training to complete and how long do agents/advisors have to complete it?
- Is there a new license expiration date to consider?
- How may this impact your supervisory procedures? What do we have to do to monitor agents/advisors?
- Some regulatory changes will result in the need for a process change or a completely new process to be implemented. For example, a new education or training requirement can add a step to overall compliance tracking or there may be a new way to report completions.
- Who has to review / approve items and when do they have to review / approve them?
- If a state makes a change to a license type, license line of authority, appointment line of authority, how will that affect your sales authorization processes.

By answering these questions prior to the change passing, you're putting yourself in a solid position to be prepared. Regardless of the nature of the change, finding the most efficient way to adapt and leverage that change will help you keep your competitive edge. You will not be blindsided by the change, and you may instead be able to capitalize on it.

But what if the change isn't approved?

If you're proactive and following changes prior to final legislative or regulatory approval, you run the risk of being ahead of the change curve. When the final version of the change comes out, it can be different from prior versions. By being proactive, however, you can quickly adjust your planned approached as opposed to starting from scratch. Adopting agile methods will help your organization get better and better at adapting to regulatory change.

Also, some changes have a tendency of resurfacing — potentially with some minor changes — so make sure to document and archive your information. Because although it may take a while for a regulatory change to come to fruition, as soon as it does, you only have a short period to react.

Step 4: Communication is key

Once you're aware of a potential change or know that a law, statute, rule, or regulation will require change in your business processes, then it is time to get your team involved. Given all the stakeholders involved and the complexity of regulatory compliance, communication across the compliance value chain is critical.

Coordinate internal discussions

A successful process includes making sure your team is aware of how a new regulation will impact your day-to-day operations. To get started, ask yourself

- Is my staff going to be affected by the change?
- What is my plan for informing them of the latest changes and how it will affect their business?

Collaborate with compliance/legal, IT, operations, and sales to identify and communicate changes to your business, systems, operations, and especially to impacted customers. And don't forget about those adjacent to you – departments like new business processing, underwriting, claims and marketing might not need to know the details of a regulatory change, but they might like to know that something is changing that could affect their daily lives.

If the change is approved / finalized

It is not possible to over communicate regulatory changes to relevant departments in your company. This includes a full explanation of operational changes and how each employee is involved. If this plan was created in advance of the change being approved, it's a matter of informing employees that the change has been approved and a reminder of their action items. This will help your IT department understand what system and operational changes are needed, as well as help your carrier or distribution partners understand what must be done differently. Timing is critical. It is imperative to know when the change is effective and how long you and your team have to comply.

Inform your industry partners

Depending on the type of regulatory change, you may need to inform your insurance and securities distribution partners of your plan for complying with the change. For instance, individual agents, financial advisors, retail agencies, and marketing firms might need to know about the change and how it affects them. They may need to make their own system changes, so giving them enough advanced notice is important.

It is especially important to communicate with partners when the change involves professional training. On the life and annuity side, we all learned this lesson with the implementation of annuity suitability education and training regulations. We are in a dynamic environment with 50+ jurisdictions that are changing all the time, so keeping each other up to date on the latest best practices is important so that no stakeholder is left behind.

Inform IT and your solution providers

Perhaps the most important communication is with your IT team, including any third-party solution providers that you work with to get software, services and support. Having a plan in place to at least communicate with the IT team is a good start, but it can't end there. How are you making sure they are up to speed on what the change is, and when it is going to change? How fast are they going to be able to turn around any changes that are necessary? If you are working with a third-party solution provider, are you working with one that's already on top of regulatory changes, or are you the one having to inform them that there's been a change?

Inform your management team

Even with the best of precautions, bad things can and will happen. This can mean a ripple effect that will eventually be noticed, so perhaps the most important stakeholder you should remember to communicate with is your management team or steering committee, which spans functions and lines of business. This could include:

- C-Suite executives
- SVP, VPs and Directors
- Operational Managers

Communicating changes clearly and with as much lead time as possible can avoid any potential missteps along the way. After all, there can potentially be quite a few people that are affected. So the management team should know that you're on top of the regulatory change and that you've already been working with external and internal partners.

Step 5: Data impacts and process changes

Data impacts and related process changes are the most significant and important things to monitor and keep up to date post-change. When a regulatory update happens, your data needs to be updated simultaneously. You can start by asking yourself:

Did the regulatory change affect the quality of the data we have for our agents or advisors? How are we going to update our data and related processes?

Insurance Regulatory Changes

The National Producer Database, also known as the PDB, is comprised of information reported by the state departments of insurance. When a regulatory change affects the data that departments of insurance submit to the PDB, the nature of the change influences how much data we'll see changing in the PDB. Sometimes these changes touch every producer that sells in a state – think of projects like the Producer Licensing Model Act conversion in the 2000's, which converted "Agent" and "Broker" licenses into "Producer" licenses (aside — some states still haven't been adopted those model law changes from more than 15 years ago!).

Synchronize credential data with the PDB

Industry participants who have the appropriate clearances are able to access PDB producer information in the form of a downloadable PDB Report, which is accepted as proof of licensure in lieu of a license copy in all jurisdictions. Interacting with the PDB in a smooth, efficient manner is critical in our industry, since maintaining proof of licensure is an essential component of compliance.

The PDB is kept up to date by the states working with the NAIC. When producer data changes – say, a license changes status from active to inactive – a nightly procedure moves that data from the state department's own management system to the State Producer Licensing Database (SPLD), which is the state regulators nationwide database managed by the NAIC. This is then used to create the PDB using an FCRA compliant subset of the SPLD information. The data changes are then reflected in the next report pulled by an industry participant.

Whether it's a "simple" status code update, or a wholesale change to every license in a state, we have to consume the information on a PDB report – read it, translate it, and use it to update our own systems of record. You can easily manage this task for a single producer and a single report— it isn't too hard to read a PBD report and figure out what has to change has to be made in another system. The problem is that there are hundreds and hundreds of producers renewing licenses every hour, every day, all year long. And that's just the planned changes for license renewals, not the changes that affect thousands of producers in a single night due to a regulatory change.

For example, a state decides to separate their "Property & Casualty" appointment line of authority into separate "Property" and "Casualty" appointment lines of authority. Easy enough for a human to interpret, but look at it from a data and systems perspective— what was previously a single appointment type is now two appointment types. An old code needs to be invalidated, and the two new need to take its place. Any system rules written that depended on the previous definition will require attention. It's no wonder that carrier data gets out of date, and what was such a simple change can lead to compliance issues down the road.

In many cases, carriers and agencies utilize an IT solution to make efficient and effective use of the PDB data instead of trying to track it manually, and ensure its accuracy to help with the business of authorizing producers to sell insurance products.

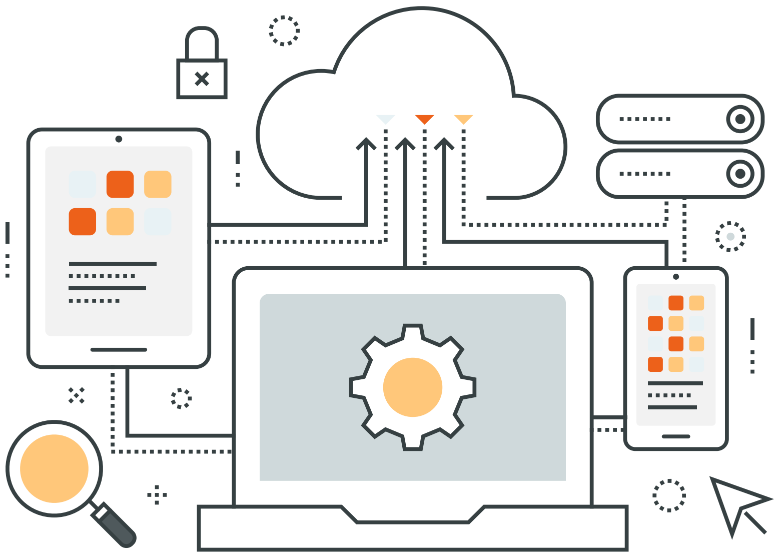
Keep Your System Translators Informed

If you've written a PDB data interpreter, it is likely to have some layer that translates between the PDB codes – computer system interpretations of a license, line of authority, or other regulatory credential – and the codes used by your system of record for producer information. When big regulatory changes occur, these translator layers almost always needed to be updated so that our nightly PDB report consumption continues correctly. For Vertafore's Sircon solutions, we manage these updates for our clients as a part of our service.

This is a massive challenge, and unfortunately the data is not always what you might expect. Sometimes idiosyncrasies exist, such as a license expiration date being flip-flopped with the effective date. If you weren't aware of situations like that, well, you may get some pretty crazy data situations that can confuse your systems that determine authorization status.

Securities

In the securities industry, registration information is more uniform and stable than in insurance, but the rules are more complex. Policies and procedures are more likely areas that your business can expect to change as opposed to data. For example, the consolidated FINRA Rule 3310(e). A regulation like this drives changes to supervisory procedures in order to comply. Interestingly enough, the rule requires firms to validate the accuracy of advisors' Form U4 data.



Synchronize your data with Web CRD

Web CRD[14] is a web-accessible application associated with the Central Registration Depository. The CRD is similar to the PDB, but operated by FINRA for U.S. securities credentials. It holds registrations, disclosures, employment history, professional experience, exam status, and continuing education status for broker-dealers and their registered representatives (often called reps or advisors). Firms view CRD as the trusted data source for the industry and leverage CRD data as part of managing their books and records requirements.

Registration data is typically maintained by the staff within firms by filing updates on behalf of their registered representatives. Therefore, to ensure that broker dealers and reps are authorized, there are a number of ways that this process is handled:

1. Firms, their reps, and consumers access BrokerCheck[15] on FINRA.org.
2. Staff within the firm access Web CRD report queues.
3. Firm systems download reports via integration with Web EFT[16] which allows for batch transfers for firms with higher transaction volumes.

[14] Central Registration Depository (CRD)
[15] BrokerCheck (BrokerCheck)
[16] Web Electronic Filing Transfer (WebEFT)

Today, the industry often remarks that Web CRD is "good enough", but there are still a few challenges that firms run in to including:

- **Limited options for accessing data.** Receiving data from Web CRD and Web EFT are only available to registered broker-dealer firms, and these firms are only allowed to access data about reps that are registered with them. If you aren't a registered firm, there are no data feed options, just the BrokerCheck website intended for securities consumers. This impacts the industry because carriers want to have access to rep and firm securities data for sales authorization purposes for dually (insurance and securities) regulated products like variable life and annuities, but today that's not available. In order to use FINRA information in sales authorization situations, the carrier would have to manually track a rep's registration information.
- **Lack of workflow for maintenance-related tasks.** For example, if a firm would like to allow reps to report changes and thus initiate filings, this is not available through Web CRD. The firm would need additional technology (such as an internal build or outside vendor) to support that.
- **Alerts and notifications for only a few events.** Changes in registration data drive processes within firms, but firms are only notified about certain changes. Some solution providers, like Vertafore, provide notifications for all necessary updates for the entire rep sales authorization lifecycle.
- **More complete reporting.** Web CRD has reporting capabilities, but they are standardized. Ad hoc reporting capabilities from solution providers are very helpful to firms to better assess where they need to focus their attention.

Despite these listed challenges, tracking Web CRD data is not the firm's greatest challenge in a regulatory change.

Procedural changes

For securities firms, the bigger challenge usually comes from the procedural and process changes needed to comply with a regulatory change, rather than from data changes. It's not an automated data update or translation, but the need for the firm to collect data from a rep or to process more registrations or amendments. If new necessary information is missing or new processes aren't implemented, it could introduce risk to the firm. It could also cause processing issues such as trying to file an update using incorrect data, which would result in failures, errors, and rework.

As with insurance, an automated system that helps keep track of these necessary changes can ease the effort and reduce errors.

More than "just" data

It doesn't end there. When a regulatory code (line of authority, license type, appointment type, etc.) changes, updating your system of record for producer / advisor information with a clean, accurate copy of the PDB or Web CRD information is only half the battle. Updating your data and processes is important, but so are all those system elements that help us understand what the data means. These, of course, are the business and regulatory rules that govern your system's behavior – chances are good that they are going to need some maintenance as well. This could include:

- **Sales Authorization rules** that let the carrier systems know whether this producer has the right regulatory credentials to sell and service.
- **Transaction rules** that verify a regulatory transaction such as a license or registration application, license or registration renewal, appointment, appointment termination, and U4, U5, and BR filings are valid requests that match the state or FINRA rules for request processing.
- **Data Integrity rules** that ensure that producer and rep data is resting in a valid state. For instance, certain appointment types may be valid only if the producer or rep holds a certain license, registration, or line of authority.

Do you have the latest data, procedures, and rules in place?

As you can see, understanding and interpreting the PDB and Web CRD's information isn't easy. Your system of record must hold the most accurate, up to date required information and you have to change processes accordingly. Depending on how extensive the change, an automated system can significantly ease this process. We've seen many organizations struggle to master this process.

Don't wait for audit failures and fines to find out that your information isn't correct.

Missteps

Mistakes can happen. No matter how foolproof you believe your plan or communications and regulatory operations may be, problems can come up when something gets missed, someone wasn't ready, a team doesn't respond quickly enough, a system breaks or software doesn't respond correctly, data isn't converted or updated correctly, or just through a simple misunderstanding. It happens often, and when it does, it is important to put your best foot forward by being prepared to react and adjust.

But, if you are still unsure that your compliance practices are current and accurate, (whether your organization or a current provider) there are additional providers that can help you mitigate the impact and resolve issues faster.

You don't have to do it yourself.

If you are still unsure about your regulatory operations or compliance practices, solution providers can help you mitigate the impact of regulatory changes and resolve issues faster.

When considering new or assessing existing solution providers for your business, it is critical to understand how they handle regulatory changes from start to finish so you can be confident that your business has a solid solution with the least total cost. Make sure that you or your solution provider has an expert understanding of the entire securities and insurance compliance lifecycle and value chain, and that understanding spans all the stakeholders in the value chain.

This expertise isn't something that can be learned quickly, and often the expertise that is available is limited to one or two perspectives in the value chain.

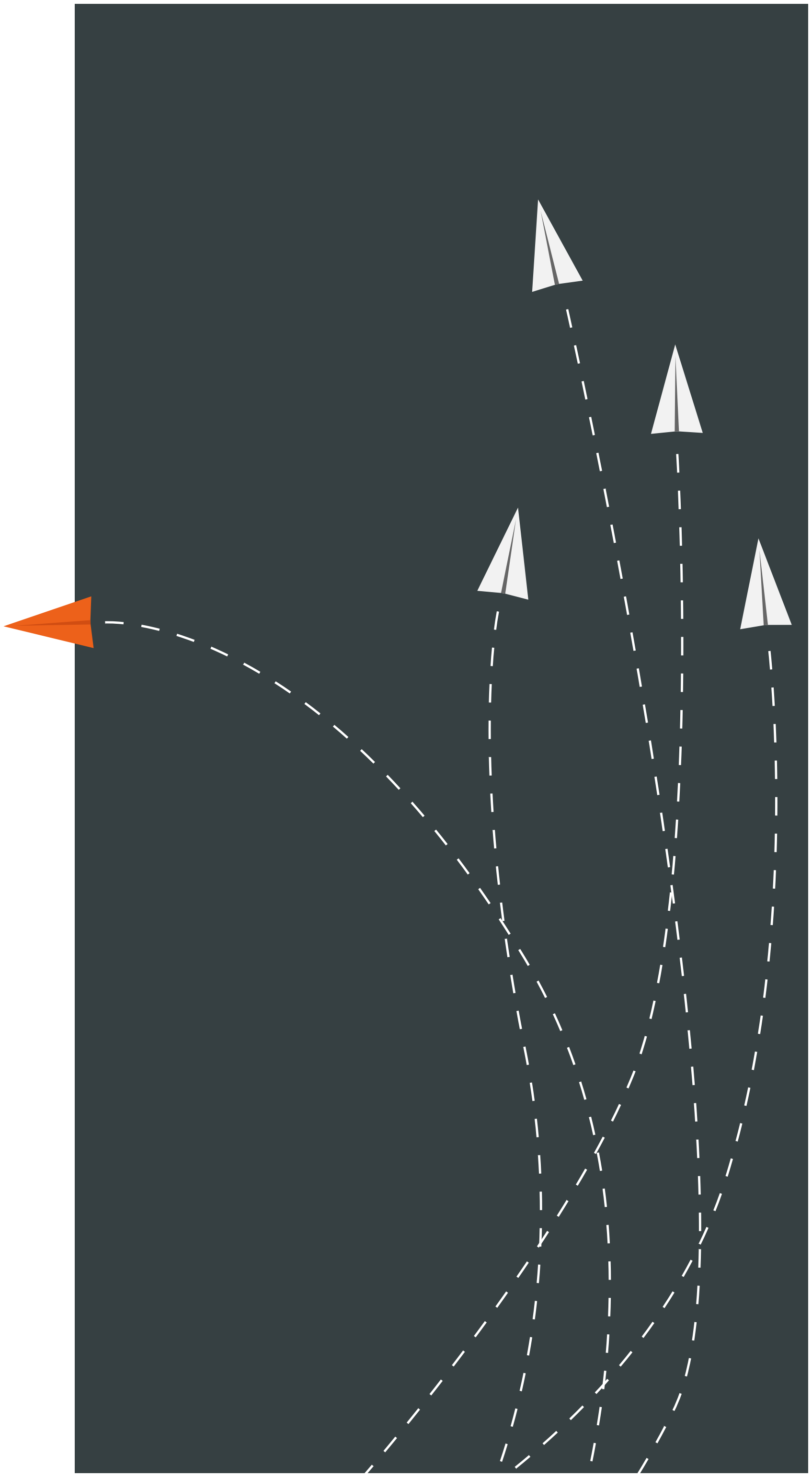
Here are six questions that can help you kick off your conversation with solution providers:

1. **How do you stay well-informed of regulatory changes?**
2. **How do you analyze and implement regulatory changes?**
3. **How do you connect / integrate with all the impacted stakeholders?**
4. **Are your processes automated?**
5. **How do you communicate changes with your customers?**
6. **How do you tie insurance and securities compliance requirements together, especially for dually regulated products?**

How does Vertafore monitor changes?

At Vertafore, our Regulatory Compliance Services (RCS) specialists in the Sircon solutions team monitor upcoming legislative actions and rule changes, as well as operational and technology changes. To ensure that our customers stay compliant, we follow the same steps we just showed you!

RCS also works with the state regulators who use our regulatory solutions to implement changes and business partners like the NIPR. Our team of dedicated specialists focus solely on these changes. They monitor changes, work with the Sircon product teams to implement any change necessary in our products, and send notifications to customers regarding the change. Those change notifications provide helpful information about the change by breaking it down to a more digestible read and include some helpful information on how to notify your teams and properly adjust to the change. In this case, we do the proactive monitoring, process planning, change, and follow-up for you.



Here's a quick overview of our relationships and teams that help us monitor change:

- **e-PAL:** As mentioned previously, our e-PAL regulatory analysts monitor states, FINRA and other sources of regulatory changes. As legislation, rules, system and peration changes are approved, they make changes to e-PAL content and send e-mail notifications to e-PAL subscribers to keep them up to date. When the e-PAL team spots a change, the RCS team then analyzes and applies those changes to products to ensure customers comply with the changes. The changes are carefully planned to implement them in the most efficient way.
- **State team:** That brings us to our next group of specialists who work directly with the states. Sircon for States is used by 23 states, so we consult directly with those states to determine how to best implement their regulatory changes.
- **Industry team:** This group of specialists implement regulatory changes in our products used by industry customers including agencies, carriers, securities firms, education providers, and individual agents, advisors, adjusters, etc.
- **NIPR relationship:** We are the only solution provider that partners with the NIPR on both the state and the industry sides to implement regulatory changes. We work in conjunction with the NIPR to make sure transactions flow successfully.
- **SILA relationship:** We work closely with SILA to deliver updated content each month for the SILA Digest so that their members can get updated regulatory information in an easy to use digest format.
- **FINRA relationship:** We attend FINRA update meetings and monitor rule changes on behalf of our customers to ensure we understand and manage both regulatory/rule changes and operational/technical.

Why Sircon?

Vertafore's Sircon solutions reduce compliance risk through a more efficient producer and advisor lifecycle. Our regulatory expertise, dedicated staff, relationships, and processes have helped us complete over 323,000,000 regulatory transactions over the last 15 years, and we process over 33,000,000 transactions annually to help our customers comply. Over that period, we have implemented thousands of regulatory changes, from 250 to 860 per year.

We provide the only software and services solution set for all industry stakeholders that affect the agent/advisor lifecycle — carriers, securities firms, agencies, producers, education providers, and regulators. Vertafore's Sircon solutions team also actively works with organizations that help create standards and best practices. We are members of SILA, IRI, ACORD, and DTCC and we participate in or lead their working groups related to compliance.

Since we are an authorized business partner of the NIPR, and we have 23 state regulatory and many securities firm customers, we also work closely with the NAIC, NIPR and FINRA on regulatory changes, and operational and technology initiatives. And most importantly, we provide solutions to all the key participants in the value chain. We do this intentionally to ensure our solutions are accurate, current, and efficient throughout the value chain.

The result is that our partners enjoy the confidence of consistent and transparent regulatory credentials. So, if you feel that your regulatory response practices can be improved, don't be afraid to seek advice.

Carriers, are you checking all the compliance boxes?

Vertafore

999 18th St | Denver, CO, 80202 | 800.444.4813 | Vertafore.com