

Business Process Outsourcing

An Effective Solution for Managing Producer Licensing

Executive Summary

Outsourcing the licensing department has produced documented results in helping financial companies leverage the industry's best practices, achieve greater efficiencies, and increase their return on investment¹.

Financial services companies increasingly are seeking efficiencies through Business Process Outsourcing (BPO), the end-to-end outsourcing of a business line or process. BPO clearly enhances control over business performance, whether by reducing costs, increasing the quality of processes, accelerating transformation throughout a business, creating a more flexible response to sudden external stresses, or through a combination of several benefits². With BPO, the relationship between the company and the outsourcer changes as the latter becomes more of a strategic partner than a traditional supplier³.

In today's environment, senior managers face growing pressure from regulators relating to producer licensing and market conduct issues. Financial services companies question whether it is enough merely to be compliance-competent. To adopt industry leading best practices and achieve service excellence, the resources of an outsource specialist—such as Kaplan Compliance Solutions' Licensing & Registration ServicesSM—may be essential. The standards that an outsource specialist can meet—increased productivity, efficiency, accuracy, paper flow management, and personalized problem-solving—simply may not be attainable by in-house compliance staff at an affordable cost.

Other benefits of outsourcing include:

- **Speed to Market**—Producer licensing is extremely complex. These data-intensive functions are not a financial service company's core competency. The sheer weight of the compliance burden is causing the industry to seek new solutions. In many cases, outsourcing these functions may be the safest and fastest way to take advantage of changing market conditions and meet the increased pressure to accelerate speed to market.
- **Reduced Compliance Risk**—Outsourcing offers a viable solution to the problem of constantly rising compliance requirements, and in a way that increases the confidence of senior managers that this spending is justified by return on investment. By outsourcing licensing functions and the supporting technology infrastructure, companies can greatly reduce their risk, while still producing synergies and savings. Much of that responsibility is effectively transferred to the outsource vendor.

The five critical advantages being realized today via the outsourcing of licensing processes include:

1. Increased accuracy
2. Nimble speed to market
3. Improved flexibility and scalability
4. Increased knowledge of requirements and regulations
5. Superior customer service

The Emergence of BPO for Compliance

Compliance process outsourcing allows companies to leverage best practices and increase service to producers.

BPO has moved into the compliance area due to the increased complexity of producer licensing and increased staffing demands.

Many companies experience complex compliance demands because they dually-license salespeople and supervisors in both insurance and securities. There is a high degree of complexity associated with obtaining and maintaining insurance licenses and securities registrations (variations among 51 jurisdictions, resident and nonresident rules). Tracking the licenses and registrations for a large producer force is challenging and labor-intensive.

BPO simplifies these tasks and allows firms to leverage the regulatory knowledge, industry best practices and technology of the outsource provider. It can be more effective to outsource, rather than hire staff and make the capital commitment to develop and maintain the required technology in-house.

BPO for compliance is now emerging as a way for financial services companies to outsource the entire process of licensing and continuing education. The outsource vendor stays abreast of developments at the state departments of insurance and FINRA®.

The financial services industry's positive experience with outsourcing has created momentum for the concept. It is useful to evaluate specific reasons why outsourcing the licensing functions is an effective strategy:

- 1.** Licensing is not a core competency of most insurance or securities firms. Outsourcing gives companies an immediate best practices solution.
- 2.** The licensing process is data and communications intensive, driving a company's labor costs higher as demand increases during peak recruiting periods.
- 3.** New technologies are emerging, forcing changes in legacy systems. Outsourcing vendors employ the latest technology and can quickly adapt to new industry interfaces.
- 4.** Outsourcing can provide the economies-of-scale enabled by centralized processing and uniformity.
- 5.** Paper-based licensing systems employ many workers with back-office clerical skills. Modern systems require a combination of computer ability, regulatory knowledge, and interpersonal skills. Leading outsource vendors specialize in recruiting and training qualified professionals.

Benefits of Business Process Outsourcing for Compliance

Outsource vendors can offer economies of scale and best practices.

The experience of companies that have outsourced insurance and securities licensing functions suggests that the following benefits can result:

- **Increased speed and accuracy**—Outsourcing significantly increases producer speed to market by as much as 75 percent. Leading outsource vendors consistently have demonstrated an ability to shorten processing cycles. For example, the current best practice among outsourcers is 24-hours guaranteed to process appointments. Outsourcers achieve lower error rates through a combination of superior workflow systems, expert staff and quality control.
- **Managing change and complex requirements**—As broker-dealers enter the insurance world and vice versa, outsourcing can help them adjust quickly and accurately. It can be slow to develop expertise internally when entering a new facet of business with new compliance rules. Outsource vendors have more capacity and scalability and are always very knowledgeable about changing rules and regulations.
- **Improved producer productivity and satisfaction**—Many companies now believe their prime customers include producers in the field. This is especially true in companies that rely on independent distribution. For most producers, compliance is more of a burden than a benefit. Companies can increase producers' goodwill by reducing their burdens, delays, errors and frustration.
- **Direct cost savings**—When companies outsource, they realize strong operational cost savings from many sources:
 1. Staff reductions—because companies no longer need to augment staff for peak licensing and compliance periods. Direct cost savings of up to 30 percent have been reported by one leading vendor when replacing an in-house insurance and securities licensing unit with an outsource relationship⁶,
 2. Reduction in capital requirements to upgrade from paper to electronic systems; and
 3. Savings generated from regulatory fees previously paid due to processing errors. State insurance departments may reject submitted paperwork for a myriad of reasons, and in-house staffs often experience rejections on 5 to 10 percent of all submissions. Each re-submission typically costs time and extra fees. Outsourcing provides documented rejection rates of less than 1 percent⁶.
- **Leverage best-practice workflows**—Some companies resist outsourcing because they believe their own employees provide special care in document handling that no outsourcer can match. In fact, service quality fails as the frustrations caused by lengthy processing cycles grow. The need for special care greatly decreases with shorter processing paths and lower error rates.

Few companies have the tools internally to interpret the growing body of licensing-related information available.

- **Actionable productivity reports and metrics**—A growing body of licensing-related data is available, but few companies have the tools to interpret this data and derive actionable improvements in productivity and profitability. For example,

1. Is the cost of carrying non-resident insurance licenses justified by out-of-state sales generated?
2. What percentage of appointments is not producing sales for the appointing carrier?
3. What is the retention rate among dually licensed producers (insurance and securities), compared to single-licensed?
4. Which CE courses have the highest correlations with sales gains?

Outsourcing utilizes best-practice tools for turning an ocean of producer data into actionable management reports.

- **Agile facilitation of industry interfaces**—Outsourcers can accelerate the use of electronic compliance-related databases and gateways for transmitting licensing information. Outsourcing can help clients benefit from new direct-to-gateway interfaces as they become available.

Outsourced Services from Kaplan Compliance Solutions

Kaplan's Licensing & Registration ServicesSM (LRSSM) team acts as the compliance department for our customers, bringing experience and new efficiencies to all compliance activities. We are the largest NIPR[®] Authorized Business Partner and the largest processor of electronic appointments/terminations with state insurance departments. Kaplan services more than 100,000 active producers, processing more than 400,000 agent appointments yearly. Our client's monthly state rejection rate is less than 1 percent, which is less than one-tenth the industry average.

Appendix A—Compliance Functions to be Outsourced

An expert outsource vendor can complete these activities on behalf of their client(s):

Licensing Services

- New state insurance licenses
- License renewals
- CE enrollment and tracking
- Firm Element enrollment and tracking
- License amendments
- Duplicate licenses
- Prelicensing enrollment
- Fingerprint filing

Securities Services

- New registrations (U4 processing)
- Terminations (U5 processing)
- Investment Adviser filings
- FINRA® exam scheduling

Appointment Services

- New state appointment filings
- Carrier appointment requests
- Terminations and appointment renewals
- Background investigation requests

Additional Services

- Database cleanup services
- Call Center Support
- Letterwriting
- New hire processing
- Name & address changes

Via outsourcing, securities firms can maintain records in other areas that have recently come under increased regulatory scrutiny, including:

Outside business activities—Registered representatives are required to notify their broker/dealers of any business activities conducted away from their firms, including sales of unregistered products. In approving outside activities, the firm also must assume certain critical regulatory responsibilities. All requests and notifications must be documented.

Multiple SRO jurisdictions—Many securities firms and registered representatives are subject to rules of multiple self-regulatory organizations, including FINRA®, Municipal Securities Rulemaking Board, state securities commissions, and other entities. Compliance records should identify the specific jurisdictions that can apply to each registered person or securities transaction.

Attendance at mandatory compliance events—Most securities registrations now require individuals to attend compliance-training meetings. For registered representatives, this meeting is typically held annually and attendance must be documented before licenses can be renewed.

Branch reporting—FINRA® is increasing its scrutiny of supervision at the branch level. This has created new compliance responsibilities related to identifying branch managers, affiliated representatives, and branch activities.

References

- 1** Based on the documented experience of a leading BPO vendor.
- 2** Accenture. November 2003. *Gaining Control Through Business Process Outsourcing*. Executive Discussion Forum, Philadelphia, PA.
- 3** Basel Committee on Banking Supervision. August 2004. *Outsourcing in Financial Services*.
- 4** Penrose, Paul. 2005. *IT budgets up as firms wilt under compliance burden*, excerpt from the Financial Technology Strategies 2005 Report. <http://www.finextra.com>.
- 5** One outsource vendor has documented reducing the average total time required to license a new insurance agent from 16 days to six, representing a 75% reduction in speed to market.
- 6** Based on the documented experience of a leading BPO vendor.