

Industry Currents: M&As, greater compliance scrutiny suggest producer data inaccuracies ripe for closer examination

By Bruce Shutan
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The recession has forced insurance industry executives to focus more on strategic issues than ever before, but in the process, they may be underestimating the expense of mundane matters that go unnoticed. One such example is the need to update producer data, which can produce an immediate return on investment (ROI).

As the number of mergers and acquisitions swell with pressure to reduce expenses and acquire more capital, M&A activity represents a golden opportunity to scrub clean producer data. There's usually a tight deadline for completing thousands of producer appointments and appointment terminations so they can be coordinated with new product rollouts. But such projects often are considered an after-thought when two companies are forced to address more pressing priorities under intense time constraints.

"If you're paying renewals for appointments and licenses of producers who are not actively selling for you, then you're potentially paying millions of dollars in fees for no reason at all." - Zach McCoy

Moreover, with insurance carrier staffers being asked to do more with fewer internal resources, there's not enough time or expertise for special projects such as identifying and removing inactive producers from their rosters.

And at a time of increased scrutiny into how insurers operate in terms of their finances and operations, government regulators likely will take a closer look at general practices and procedures associated with producer compliance, says Zach McCoy, senior vice president of operations and business development for Kaplan Compliance Solutions (KCS), a division of Kaplan, Inc. and industry leader in this area since 1987.

One reason is that states are looking for ways to stem significant revenue losses and insurance departments can use stepped-up enforcement as a means of paying their own staffers, adds Lisa Hastings, KCS's senior vice president of client services. Compliance, of course, helps ensure that distribution channels have been properly qualified and help to protect consumers.

Reduced compliance risk

It's imperative that insurance carriers provide updated and accurate producer data that are in compliance with various state statutes. Otherwise, having flawed records could lead to increased fines and unnecessary costs for renewing licenses and appointments for low-producing agents.

"If you're paying renewals for appointments and licenses of producers who are not actively selling for you, then you're potentially paying millions of dollars in fees for no reason at all," McCoy explains.

The unfortunate outcome in many cases is that action isn't taken until after fines already have been imposed. Those penalties, which vary from one state to the next, may depend on the number of violations or even an auditor's mood. The most severe case Hastings has seen involved a multistate audit of about \$50 million. She says it's not unusual for there to be a \$500 fine for each day that an error was recorded and that an auditor's travel and living expenses also must be factored into the mix.

"You pay for the auditors to live at your worksite for a while, and the more they find, the longer they get to stay," she says. "It can really add up."

Carriers can reduce their costs by completing special projects such as scrubbing producer data clean, as well as performing mass appointments and mass appointment terminations of producers to various state departments of insurance. The challenge is that these types of projects are tedious and labor-intensive.

When cleaning up data it is pretty common for companies to find producers who have failed to renew their licenses, appointments missing for policies sold, and regulators not receiving the necessary paperwork on producer's status or transaction request.

Asking the experts

Turning over producer-auditing chores to a firm that specializes in this area can add up to significant dollars and appeal to CFOs who increasingly are under the gun to justify the value of any services for which they're paying and seek positive ROI projects.

KCS's licensing and registration services department, whose staffers have more than 340 combined years of experience in the field, uses a sophisticated software platform to keep producer data updated as well as conduct a full business process analysis that suggests ways to streamline the renewal process. This consultative role helped one client recently save 18% from a hard-dollar expense perspective, in addition to dramatically improving their compliance processes.

There's also a need for speed. One client recently estimated that a mass-termination project would have taken about eight months internally – a task that was completed in less than 30 days thanks to KCS's economies of scale.

The upshot is that KCS customers whose data is scrubbed clean will know their compliance position and offer better service to producers who will be getting requests processed in a more timely fashion, which Hastings says gets them out into the marketplace selling faster and with a better level of experience. And as insurance companies compete for independent producers with big blocks of business, providing good service is essential in helping keep them satisfied.

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About the Author

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