THE CHANGING ROLE OF COMPLIANCE IN THE INSURANCE INDUSTRY

White Paper

How the changing role of the compliance function can help deliver a more robust business model
Compliance and Conduct Risk in Insurance Forum
5-6 November | Tower Grange Hotel, London

www.ethicalcorp.com/insurance-culture

Culture, conduct and your customer

Europe’s most senior meeting of C-Suite, compliance, and conduct risk business executives

Create that bigger positive impact for your company by achieving better customer outcomes through culture change.

87% of your industry peers believe managing conduct risk effectively increases your competitive advantage

DRIVE good conduct forward for the business to deliver the best outcomes for customers

UNDERSTAND what good culture looks like through the use of behavioural economics

CREATE an effective framework that gets the front line to understand their conduct requirements and puts customers at the heart of the business

PREPARE yourself for the evolution of the compliance officer – speak the language of the business and develop a commercial mind-set

KEEP AHEAD of regulatory change: angle your compliance strategy to meet regulator’s expectations

HEAR FROM THESE LEADERS:

Standard Life: Raj Singh, Group Chief Risk Officer
Prudential: Lee Augsburger, Chief Ethics and Compliance Officer
Willis: Mary O’Connor, Global Head of Financial Institutions
Direct Line Group: David Baker, Director of Group Regulatory Risk and Compliance
Argo: Alex Hindson, Group Chief Risk Officer
Delta Lloyd: Vanessa Van Der Does, Director of Group Integrity

Secure your place at www.ethicalcorp.com/insurance-culture
Just as compliance officers in the banking and financial services fields have seen their roles change from consultants to advocates, increased government and industry regulations and practices in the insurance arena have started reshaping the responsibilities of insurance company compliance officers.

Compliance has evolved over the years from a purely advisory role to more of an internal audit function. Local compliance officers have to do reviews of controls. The way insurance compliance officers monitor aspects of the business is being overhauled. The role and scope of the compliance function is being reshaped; while traditional compliance functions have involved the conduct of business matters and solvency, now compliance officers need to make their control environment work in practice and be able to express an opinion on how well it’s working or not working.

More and more, insurance industry compliance officers are assuming an assurance capacity and being called upon to provide their views on corporate decisions and policies; this is new for the compliance role. For example, they are asked to express opinions on the risks and adherence record pertaining to a broader set of laws and regulations than has traditionally been the case, rather than just offering advice on policies and controls.

If you want to know more about the changing role of the compliance function, join our Compliance & Conduct Risk in Insurance Forum in November: www.ethicalcorp.com/insurance-culture
In addition, many compliance officers need to audit type checks to determine if they have a good control in place, which goes further than just issuing policies and working with the business. While the compliance function is well-developed in the UK, it is taking shape in continental Europe and catching up fast with the UK.

The increase in insurance industry rules stems from the movement to bring more regulations to the financial industry, says Lee Augsburger, chief compliance officer of Prudential Financial Inc. in the U.S. “It comes from financial regulators who want capital requirements for insurance companies. But the capital structure of insurance companies is much different from banks. The regulators are expecting a level of capital for insurance companies’ stability as well.”

The largest insurance companies are being viewed by regulators as having as big an impact on the economy as banks. “Now regulators are expecting us to have compliance programs that look like banks,” Augsburger adds.

While regulators used to affirmatively test business processes for compliance with specific regulations, more and more the question is: ‘How does your compliance system prove that the company is NOT violating any regulation?’ It requires a lot more discipline and documentation.”

But while a bank could conceivably lose all its money in one day if depositors chose to withdraw all their funds at once, the likelihood of all insurers making simultaneous claims is remote,” Augsburger notes.

The insurance industry, though, both through policies and annuities, is making long-term commitments to its customers, he adds. “Compliance grows out of a culture of trying to do the right thing in the first instance. Particularly in the life insurance industry, we

Want to find out more? Pru, Standard Life, Swiss Re and Legal & General lead the conversation on behavioural change at our culture change forum at:

www.ethicalcorp.com/insurance-culture
make promises that won’t be fulfilled for 50-to-60 years—it’s not a question of what happens in the next quarter—customers trust us to be here in 60 years. Anything that undercuts that integrity undercuts our reason for being. It really is a trust issue.”

The overall goal of today’s compliance officers remains to mitigate compliance risk, notes Dr. Thomas Loesler, chief compliance officer of Allianz, an international financial services company. “We are advising, implementing and assuring that legal and regulatory requirements are being met. Because of the many stakeholders, customers, enforcement agencies, data processing authorities, these expectations must be met.”

Other responsibilities include revisiting programmes that have been in place for years and refreshing them and ensuring there is a code of conduct. Compliance officers need to say with assurance that everyone knows all the fundamental aspects of the code of conduct, keeping compliance topics fresh and in front of people’s minds.

Compliance officers now are internally the drivers of change for the compliance function, assuring that the board is really educated and employees understand the importance of compliance and why it is critical for every employee and the company, Loesler says. “More broadly, the mission is how does compliance look in an organization? The compliance officer works very closely with all business lines and functions in an organization. Making sure that the system works effectively is the biggest challenge, I say. You just can’t have compliance on Power Point or on paper only; you need to put more effort into operationalizing compliance, i.e., integrating it into the business processes.”

That also means including it in training in all aspects of the business so it is integrated into all operations. Allianz is increasingly encouraging the use of training agents, says Loesler. “At the end it
is more efficient; you don’t have the additional layer. You have to set a target and try as hard as possible to get rid of the parallel universe that compliance sometimes still is.”

Insurance companies tend to promote and foster the diffusion of a compliance culture through in-house and e-learning training concerning the importance of the compliance functions, the laws with which to comply, ways to avoid sanctions and reputational damages, and the code of conduct for internal purposes, according to Giorgio Ottogalli, Responsible Compliance, Gruppo Helvetia Italia, Helvetia Compagnia Svizzera d’Assicurazioni SA.

Sales practices have come under increased scrutiny by regulators so it is important that sales staff members participate in compliance training, adds Augsburger. “Sales practices are subject to extensive regulations and so are conduct practices around the company and the world.”

In Italy, compliance officers have such a myriad of regulations from different agencies to monitor that they often attend seminars or participate in working groups to stay up-to-date, Ottogalli says. “The legal situation in Italy is very complex and requires a deep knowledge not only of the insurance business itself, both on the life and on the non life side, but also of other activities with which there are potential interdependencies, such as digitalization, or other legislations that cross over with other sectors, such as, anti-money laundering, FATCA, privacy, antitrust, unfair commercial practices among undertakings, consumer protection from misleading advertising and comparative advertising, which may bring discredit on competitors’ products or cause confusion.”

The swiftly changing regulation landscape prompted 14 compliance officers from insurance and reinsurance companies to establish the Global Insurance Chief Compliance Officers Forum (CCO Forum) in

“"The best thing is the exchange of information – we have peers taking some measures, setting benchmarks, we compare perspectives and have dedicated working groups that work on certain issues.”

Dr. Thomas Loesler, chief compliance officer, Allianz

C-Suite from AXA, Pru and Delta Lloyd join Europe’s culture change leaders at the Compliance & Conduct Risk Summit on 5-6 November 2015: www.ethicalcorp.com/insurance-culture
January 2015 to keep current with new laws and exchange ideas. All of the member companies do business in more than 10 countries. Among the goals of the CCO Forum is to keep members up to date on compliance regulations and strategies.

“The CCO Forum mission to share global compliance best practices, educate stakeholders on compliance topics and how to best execute them,” according to Loesler, chairman of the CCO Forum. “It is also a forum for discussing how to participate in compliance in the future; some are rebuilding it, some are building it.”

No such forum has existed before, Loesler notes. “It first was more like a roundtable, a forum of people who work in similar organizations. We then thought it would be best to have a more formal group that regularly comes together...The best thing is the exchange of information – we have peers taking some measures, setting benchmarks, we compare perspectives and have dedicated working groups that work on certain issues.”

For insurance companies that want to make changes, the first thing to do is create a clear strategy of what the compliance function is, according to Augsburger. “You have to map out where you are and how you get to where you want to be. Look at the banking industry, that’s where some of the expectations are coming from; determine where the highest risk points are. Once you’ve completed that initial assessment, you can start to make changes. If something is not documented, it doesn’t exist. A lot of processes are people-dependent; but documentation is critical to migrating compliance to the next level.”

Upcoming challenges for European Union compliance officers include preparing for and implementing Solvency II, the planned reform of prudential standards for European insurers, which takes effect Jan.1, 2016. Insurers will have to revamp risk and capital management systems to give policyholders greater confidence in the products of insurers.”

“A more robust system will give policyholders greater confidence in the products of insurers.”

Lloyd's
management, as well as supporting information, documentation and modelling systems. The legislation calls for a new, harmonised EU-wide insurance regulatory system and replaces 14 existing EU insurance directives, according to Lloyd’s.

Goals include improved consumer protection by ensuring a consistent and heightened level of policyholder security across the EU. “A more robust system will give policyholders greater confidence in the products of insurers,” Lloyd’s notes. A modernised “Supervisory Review Process” is designed to redirect supervisors’ focus from compliance monitoring and capital to assessing insurers’ risk profiles and the quality of their risk management and governance systems. The regulations also are designed to improve EU market integration and the international competitiveness of EU insurance companies.

To prepare and implement Solvency II, it is essential for compliance officers to interact on a regular basis with the Risk Manager, who is the control function predominantly involved in Solvency II, and to keep abreast of the legal evolution, Ottogalli says.

“The new regulation will mainly have significant impacts on the governance, which shall ensure a transparent and appropriate organizational structure, a clear and adequate allocation and separation of roles and responsibilities, an effective system for the collection, the management, and the transmission of data, and an appropriate definition and control of risks, in each and every aspect,” he continues. This includes underwriting risk, reserving risk, market risk, credit risk, liquidity risk, operational risk, group risk, non-compliance risk and reputational risk in their current status and down the road.

“It also will have a substantial repercussion on the strategic decision-making processes concerning, for instance, investment decisions.”

“I think the future of compliance looks much the same as today, but I see a lot more discipline in how it is carried out and a lot more documentation about what we’re doing.”

Lee Augsburger, chief compliance officer, Prudential Financial Inc.

If the briefing is of value, have a look at our agenda on culture change and good conduct:

www.ethicalcorp.com/insurance-culture
As regulations continue to increase, grow more complex and affect more aspects of the business, the insurance industry may have to develop a more centralised and single global pyramid when it comes to governance, compliance and control. Most businesses currently are operating to local standards; while in the past they have given lip service to global standards, they are changing to global standards. Local people are in compliance and the audit department will now report into the centre of management instead of having a dotted line into the centre.

Traditionally, it’s been very difficult to make changes internally in insurance companies, because of their conservative nature. That also makes it hard for firms to keep up with the swiftness with which regulatory context is changing. Companies are starting to see fines are getting bigger and this is appearing nearer the top of the risk management approach. The key challenge is recognizing the cultural and accepting it.

“I think the future of compliance looks much the same as today, but I see a lot more discipline in how it is carried out and a lot more documentation about what we’re doing,” says Augsburger.

“The compliance function is getting much sharper, operating more as an audit function, which is another elevation of the level of compliance,” he continues. “In five years, we will see much sharper, crisper reporting on the evidence of compliance.”

The U.S. Department of Labor estimates that the compliance function is expected to grow by 14 percent by 2020, Augsburger adds.

Want to find out more? Pru, Standard Life, Swiss Re and Legal & General lead the conversation on behavioural change at our culture change forum at: www.ethicalcorp.com/insurance-culture
The role of the compliance officer, in addition to his/her usual and recurring control activity, should be more proactive in taking part in the redefinition process of organizational and procedural changes, in order to properly and preemptively assess the adequacy of the measures taken and decisions made, and to prevent potential risks of non-compliance, according to Ottogalli.

“In this regard, the compliance function should promote and recommend the establishment of working groups within the organization to ensure regular, professional and reliable consultancy for the correct interpretation of new laws and regulations, in order to accurately control their gradual implementation,” he explains.

Right now, compliance officers advise, monitor, test and report. The testing and reporting of the future will be much more focused. “It will be like a regulatory audit, where you have a specific issue and conduct an audit on that regulatory environment. It will be a more deliberate, almost forensic, type of activity.”

At the end of the day, if you don’t have a good program, you will be charged with violations, adds Augsburger. “Having an effective testing and monitoring program is critical in avoiding that risk.”

“I’m seeing a lot more dialogue in the insurance industry that didn’t exist 10 years ago,” according to Augsburger. “Insurance companies [in the U.S.] typically are sitting at the confluence of pretty substantial regulatory bodies. It’s a very complex business; the regulations have doubled in my career. Without regulatory experts, it is almost impossible to be in this business.”

In-depth responsible business research and intelligence

Ethical Corporation is the leading provider of responsible business intelligence to executives worldwide. We produce robust and accessible business intelligence reports, which focus on cutting-edge sustainable and ethical business management issues, and are based on in-depth research with leading multinational companies.

© Ethical Corporation 2015
All rights reserved

BRANDS TAKING PART IN THIS SUMMIT:

www.ethicalcorp.com/insurance-culture

Secure your place at www.ethicalcorp.com/insurance-culture

Compliance and Conduct Risk in Insurance Forum
5-6 November | Tower Grange Hotel, London

www.ethicalcorp.com/insurance-culture

Culture, conduct and your customer

Europe’s most senior meeting of C-Suite, compliance, and conduct risk business executives

Create that bigger positive impact for your company by achieving better customer outcomes through culture change.

DRIVE good conduct forward for the business to deliver the best outcomes for customers

UNDERSTAND what good culture looks like through the use of behavioural economics

CREATE an effective framework that gets the front line to understand their conduct requirements and puts customers at the heart of the business

PREPARE yourself for the evolution of the compliance officer – speak the language of the business and develop a commercial mind-set

KEEP AHEAD of regulatory change: angle your compliance strategy to meet regulator’s expectations

HEAR FROM THESE LEADERS:

Raj Singh
Group Chief Risk Officer
Standard Life

Lee Augsburger
Chief Ethics and Compliance Officer
Prudential

Mary O’Connor
Global Head of Financial Institutions
Willis Group

David Baker
Director of Group Regulatory Risk and Compliance
Direct Line Group

Alex Hindson
Group Chief Risk Officer
Argo

Vanessa Van Der Does
Director of Group Integrity
Delta Lloyd

Secured your place at www.ethicalcorp.com/insurance-culture