

ELECTRONIC WORKFLOW ENHANCES ANNUITY SALES, PROCESSING AND COMPLIANCE FUNCTIONS



BY MATT ESSIEH

FOR YEARS, electronic workflow has been touted as a critical solution to the challenge of managing efficient retail investment programs in bank brokerages and insurance organizations. Yet, adoption of electronic workflow by financial service companies has been slow, hampered by lack of uniform internet access in branch offices, relegated to a low priority position in corporate budgets or by IT departments, or simply too overwhelming a change for program managers to consider.

Today, electronic workflow is clearly an idea whose time has come. Forward-thinking organizations have realized that in the complex world of managing retail investment programs, efficiency demands a move beyond paper forms and manual processing.

This is particularly true in the world of annuity sales. The proliferation of products and vendors has created tremendous complexity in the timely processing of transactions and compliance review, aggregating and monitoring client data, and tracking sales and commissions. Dealing with this complexity is adding operational cost at a rate that is not sustainable, and organizations are looking for efficiencies in order to remain competitive in this lucrative category. The winners will be the companies that embrace the benefits of moving toward a paperless sales and processing environment so that staff resources are focused on client-facing activities that generate revenue.

Today's annuities landscape

Annuity and variable life products play a key role in retirement accounts for many Americans, particularly with the dramatic decline of employer-sponsored pension plans. A look at the numbers provided by NAVA, the Association for Insured Retirement Solutions, tells the story:

- By 2007, total annuity assets had grown to over \$2 trillion.
- Total annuity sales in 2007 were \$255 billion, including fixed annuities.
- Total variable annuities sales in 2007 were \$182.2 billion, a 15.8% increase over 2006.

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As more baby boomers move into their retirement years and are responsible for their own retirement income, we can expect annuity growth to continue. This is great news from a revenue perspective, but will place additional resource pressure on sales organizations trying to manage their programs with manual or quasi-automated systems.

Sales demand isn't the only factor driving the move to electronic workflow. Increased compliance requirements are adding additional burdens. Reg. 2821 put new suitability review requirements into effect last May, and requirements for increased speed and efficiency of annuity sales processing are coming next. Organizations selling variable annuity products are subject not

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only to a myriad of SEC and FINRA regulations, but also to state insurance regulators. Sales reps and agents must be licensed in each state in which they sell these products, and continuing education and licensing renewals must be timely and clearly documented. Staying on top of these regulatory imperatives is increasingly difficult without a technology solution to automate and integrate compliance surveillance into workflow.

The push for straight-through processing

NAVA's Straight-through Processing Standards Initiative (STP) recognizes the need to streamline and standardize the annuities sales process. The Depository Trust & Clearing Corp. (DTCC) says that customer expectations "...are accelerating at almost warp speed." Clearly, the industry is moving closer to straight-through processing so that transactions can be cleared and reported in a timely fashion.

But many electronic workflow and e-forms processing systems have thus far garnered mixed reviews. Off-the-shelf solutions can be too rigid and require an "all or nothing" approach that would frighten off any program manager who needs to maintain

continuity and sales momentum during a transition. Systems designed for large enterprises can be too complicated and too expensive for mid-size and smaller organizations. Clearly, the industry requires appropriate, affordable technology that supports e-forms, e-signatures and e-document management, and is scalable and flexible enough to meet a variety of organizational needs.

Technology solutions must demonstrate ROI

According to industry commentator Ken Kehrer, banks are rethinking where they spend their technology dollars to achieve the best return on investment. Until recently, many banks focused their investments on customer relationship management (CRM), financial planning software and other front-office tools, many of which are underutilized by the sales reps for whom they were purchased. Today, banks are making technology investments to enhance efficiency through electronic workflow in the back and middle office.

In his 2007 study of bank-brokerage units, Kehrer says 64 percent of banks interviewed have already invested in technology to handle suitability review, and 23 percent said they will invest in the next year. About 63 percent have already invested in electronic imaging, with 21 percent saying they will invest in the next year.

“If you look at profit penetration of bank brokerage units relative to the size of the bank, the top 25 percent of successful bank brokerages are much more likely to have made investments in technology to streamline back- and middle-office functions,” says Kehrer.

Phased approach works best

As any banker who is moving toward electronic workflow will tell you, you can't expect to do it overnight. Most bank brokerages and insurance departments operate in an environment filled with paper, from trade tickets to account applications, and many employees and sales reps are comfortable in a paper-based environment. So, among other things, you must consider human resistance to change as you move your operation forward into the electronic age.

That's why a phased approach makes sense. You can begin automating tasks that represent the easiest way to eliminate the most circulation and handling of paper. Start with transactions that go through clearing firms, such as DTCC, that accept data electronically. Once you've adapted your workflow to take advantage of those capabilities, then you can tackle electronic workflow for your direct business. The key is to be sure you have flexibility in the system you select, so that it can be adapted to the specific needs of *your* organization. This is not a good place to try a one-size-fits-all application. Find a technology partner who will take the time to understand your existing processes and what you're trying to accomplish, and who has the industry experience to tailor a system for you.

Typically, you'll want to look for electronic workflow and e-forms systems that will give you improvements in these functions:

- Ensuring that reps gather complete, accurate information on the client's application before submitting it for approval. This reduces “Not In Good Order” errors and omissions that can delay processing.

- Simplified data entry—i.e., information keyed in once populates multiple forms.
- Capability for verification of electronic signatures.
- Ability to transmit information to carriers and vendors—either directly or through DTCC—with speed and accuracy.
- A means to track the progress of an application or order, including the ability of client service staff to view forms on-screen for better response to client inquiries.
- A means to complete timely compliance review without the bottlenecks that plague many manually-based operations. This will be especially important when the Reg 2821 provision requiring no more than seven-day variable annuities processing goes into effect.
- A clear electronic audit trail for regulators.
- System redundancy. As organizations move away from storing paper, it is imperative to have sufficient redundancy and off-site electronic storage to ensure that data is safe and retrievable.

Getting started

Many organizations that move to electronic workflow for managing retail investment sales seem to dread the process. Program managers worry about a drawn out transition process that could disrupt day-to-day operations, distract staff and frustrate high-production sales reps who may not see the value of changing how they work.

If you are ready to begin a transition toward a less paper-intensive environment, here are some things that will help ensure a positive outcome:

1. Determine the areas where you would like to gain efficiencies, and articulate what you want to achieve as well as the current barriers you face. (Hint: The barriers may be more than just technological. Do you have corporate policy or internal business issues that need to be addressed first?)
2. Have a clear, detailed understanding of your existing manual processes so that you can thoroughly describe or diagram them for your technology solutions provider. The more your technology partner knows about your existing workflow, the more benefit you'll see as processes and data are linked electronically for maximum efficiency.
3. Be sure that any forms you wish to adapt for electronic processing have been recently reviewed and approved by your legal or compliance department. This is especially important if you hope to standardize your forms for use in multiple states.
4. Consider your growth forecasts so that you can scale your electronic workflow capabilities appropriately. One of the advantages of a tailored solution over an off-the-shelf product is that you can right-size it for your particular situation.
5. Select a technology partner with a consultative point of view who can address changes that come up as you move toward electronic workflow, because changes always do come up. □