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## Annuities Business Becoming Paperless

**Pacific Life and other firms are triggering automated transfer services and initiatives. By Daniel Joelson**

**BUTTRESSED BY THE EFFORTS** of annuities associations, technology firms and broker/dealers, Pacific Life Insurance Co. is among the insurance firms leading a long-term, yet determined drive to make the annuities business paperless. Though its work is in an early stage, Pacific Life likes the results it has seen.

Since Pacific Life began using an automated system for annuities

called Automated Customer Account Transfer Service/ Insurance Processing Service (ACATS/IPS), the carrier is boosting its speed in obtaining notification of customer requests to change broker/dealers, while significantly improving customer service. For instance, now Pacific Life gets almost immediate notification of customer requests to change broker/dealers, whereas before it took at least six weeks.

Pacific Life's move to automation began in June 2005 when it adopted ACATS/IPS, a service that enables broker/dealers to provide insurance carriers with information regarding broker/



dealer changes for insurance products. This allows the broker/dealer change process for annuities to occur at the same time as for all other securities in a customer's brokerage account.

Pacific Life turned to automation partly at the behest of several large broker/dealers, who requested that the carrier make the move. The National Association of Securities Dealers (NASD) mandates that

broker/dealers automate customer account transfers for annuities, so some have been eager for carriers to enter the equation. (Insurance firms have not been mandated to adopt an automated system).

Another catalyst for Pacific Life was the need to enhance customer service, according to Frank Norton, e-commerce program director of annuities and mutual funds for the Newport Beach, Calif.-based firm, which provides life insurance products, annuities and mutual funds, as well as investment products and services.

“We looked at it from an internal perspective,” says Norton. “We said not only can we provide outstanding customer service to our broker/dealers, but we should be able to save some transaction processing times and free up our customer service reps” to concentrate on other duties, says Norton.

## OTHER BENEFITS

With ACATS/IPS processing, there are two other basic transactions besides customer account transfer transactions: the rep change transaction and the brokerage account number change transaction. When rep changes occur, Pacific Life uses its automated system to ensure that its reps are paid promptly—the importance of which cannot be overstated.

“We are a commission-driven industry,” Norton points out. “The reps want to get paid, they want to get paid correctly and they want to get paid on time,” he says. If a carrier lists the wrong representative on the contract, it takes longer for the right person to get paid. If data isn’t handled correctly, consumers might get the impression that the variable annuity processing companies aren’t worrying about the customer experience. “And nothing could be farther from the truth,” says Norton.

Pacific Life processes 1,000 brokerage account number-change transactions per month—which is one of the carrier’s larger volume transactions—and 200 go through its automation system monthly. By eliminating the need for unnecessary manual intervention, automation reduces errors. In fact, during the first few months in which ACATS/IPS was live, Pacific Life experienced no errors, so customer service reps didn’t even know the system was in production. The ACATS/IPS adoption helped Pacific Life earn the top ranking among a group of insurers in terms of brokerage account changes, according to a survey in 2006 by Operation Managers’ Roundtable, Washington, D.C.



Randi Gordon

—Depository Trust and Clearing Corp.

## GATHERING FORCE

Pacific Life is an early adopter of ACATS/IPS, which is provided by Insurance Services, a unit of National Securities Clearing Corp., which is a subsidiary of the New York-based Depository Trust and Clearing Corp. (DTCC).

Since expanding ACATS/IPS in 2005 to cover insurance products (it had only concerned fixed income, equities and mutual funds previously), Insurance Services expects to continue experiencing rapid growth. It planned to have 12 insurance carriers and 14 distributors using ACATS/IPS by the beginning of 2007, according to Randi Gordon, vice president of product

management for DTCC Insurance Services.

Insurance clients include AIG SunAmerica Inc., Los Angeles, and Hartford Life Inc., Hartford, Conn. One way that legions of insurers may soon automate annuities is if they are given an ultimatum, as Merrill Lynch did with its carriers. Merrill Lynch is “a very strong driver of adoption,” says Gordon. “They normally will mandate their top carriers to adopt by a given date if they want to remain a top carrier, as do many of the large distributors.”

Yet, the converse can also be true, with insurers such as Pacific Life urging major annuities distributors to ante up. “The big issue right now is getting more of the large distributors to fully automate their platforms,” Norton adds. “They’ve all committed to it; it is just the old resource and time constraint [issue].”

Mass adoption would translate into a giant leap forward for carriers such as Pacific Life.

“We are still looking to bring some of the large wirehouses live, and that is really where the volume is for us,” says Norton, citing heavy hitters like Salomon Smith Barney, UBS PaineWebber and Morgan Stanley. “We are getting about 1,000 transactions per month now, and we expect that number to double or triple when we get all the wirehouses up. So that’s where we expect to see some real bang for the buck.”

## THE LONGER HAUL IN STP

With ACATS/IPS, the broker/dealer submits a transaction to DTCC, which verifies it and automatically creates a transaction that is electronically sent to insurers. When insurers such as Pacific Life do not reject the transaction, they, too, process it electronically, often using imaging technology to capture the transaction for auditing purposes. ACATS/IPS represents only the beginning of annuities automation.

Indeed, DTCC's approach of imaging documents is a good step, but true automation demands XML and e-signatures, according to Todd Eyler, senior analyst with the Stamford, Conn.-based research and consulting firm Gartner Inc.

"The image documents are nice, but to really drive the efficiency, you just want to take the paper completely out of the process because now, even with the imaged documents, you are going to have to print out the forms, read them and sign them and so forth," Eyler says. "And then to the extent that a signature is required, it needs to be manually signed and then scanned in and attached to the image document, which is still very inefficient."

To that end, the National Association of Variable Annuities (NAVA), a Reston, Va., non-profit trade association, has been undertaking a straight-through-processing (STP) initiative around point of sale (POS), with e-signatures a linchpin to the effort. "As annuity contracts or items need to be signed, one of the key



Deborah Tucker

—National Association of Variable Annuities

enabling capabilities for the industry and from member companies would be the use of an e-signature," says Deborah Tucker, vice president of NAVA.

NAVA is working with ACORD to create XML standards data messages for annuities. NAVA has also moved forward on e-signatures, approving technology such as biometric hand-writing and public key infrastructure (PKI), and on creating industry standard forms.

Recognizing the shift from flat-file, mainframe-style transactions to ACORD XML transactions—which allow for more real-time processing—DTCC opted to launch new products in XML, says Gordon. For example, it will launch a replacement processing product in mid-2007 that will offer insurance carrier-to-carrier transmission of replacement requests and status notifications that make it possible to send notification back to the distributor who initiated the replacement request.

Still, Eyler admits that his company has yet to make this product a reality. He estimates it will take another two years before a "robust, usable and also relatively inexpensive e-signature alternative" is devised, and some five years before the annuities process is fully paperless.

The NAVA STP standards initiative seems driven by the annuities industry's need to manage data and conduct business more easily. "It is very paper-intensive," says Tucker. "There are new regulations

that are coming up, and there are a lot of one-offs with the states. And that is not an efficient way of doing business, particularly when retirement assets start rolling out of the savings phase and rolling into financial vehicles that will enable people to live off them. An annuity is going to be an important component of retirement planning, so the assumption is that there will be a lot of movement of money out there. And we need automation to leverage that." **INN**

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