

Insurance Quarterly

DTCC Insurance & Retirement Services



IQ

SUMMER 2010

Update on Business Strategy...3

A Prospective Offering from DTCC...4

Self-Service Web Services...5

Q&A with Vertex...7

DTCC Replacement Processing...8

To Our Customers and Friends:

In our industry, the only constant is change. In order to keep up with the pace of change, insurance firms need timely business information so that they know that their decisions are made with the best intelligence available to them. At DTCC, we recognize that in order for firms to develop helpful and innovative new products and services, they need to be able to properly



analyze market and product dynamics. Firms also need to quickly and efficiently conduct business on a day-to-day basis because ultimately, time and money is a top concern.

I attended and spoke at the Retirement Income Industry Association's Spring Conference recently, and one theme I picked

up was that there is a huge need right now for firms to make better decisions around product development, sales and marketing – however, firms are still struggling with gathering good intelligence about the insurance landscape: What are competitors doing? How are my products performing? The insurance industry clearly needs timely and relevant business information in order to understand the industry, their business and market and product dynamics. Tower Group suggests that insurance carriers need to adopt five leading technologies in order to succeed: electronic signature, business processing outsourcing, business process management, and most importantly, predictive analytics and knowledge management.

New Initiatives from DTCC

With these challenges in mind, DTCC is excited to be rolling out several new initiatives which we believe will enable our clients get access to much-needed data and analyses and speed up their business processes.

Because we remain at the heart of the industry, connecting insurance carriers with broker/dealers and other product distributors, we are in a uniquely central position to be able to make our data transparent to our clients. We process approximately 150 million annuity transactions each month, which means we have a tremendous amount of information that we're able to provide to our clients.

Data Analytics Service

The Data Analytics service we are rolling out is a reflection of these efforts. We believe Data Analytics will enable carriers to make better decisions in how they market themselves and how to enhance their products. Insurance firms will be able to save money by getting benchmarking analysis from one resource rather than attempting to conduct this research on their own. They'll also benefit from having a central tool to analyze common transactions. We believe that the Data Analytics service will position firms for growth, by enabling them to develop and provide better products for their clients.

We're also pleased to report that we've seen enthusiastic adoption of the products we made available to clients recently. At DTCC I&RS, we believe that we can revolutionize the way the insurance industry is analyzing their business and improve market transparency as a whole. We are working hard to ensure that our clients are in a position to reach new levels in product innovation and growth and we look forward to their continued success.

It's only through the contribution and participation of our partners, clients and peers that we remain the leading provider in the insurance industry. As always, we welcome your feedback.

A handwritten signature in black ink, appearing to read 'Adam Bryan', with a long horizontal flourish extending to the right.

Adam Bryan
Managing Director
DTCC Insurance & Retirement Services



Update on Business Strategy

BY LANA MACUMBER, *DIRECTOR, DTCC INSURANCE & RETIREMENT SERVICES*

At DTCC, we're always looking beyond the challenges of today to the issues of tomorrow. How is the insurance industry changing for both carriers and distributors and what can we be doing now to help tackle future hurdles? And more than just addressing potential challenges, what can we be doing with our clients to help position them strategically to seize new opportunities on the horizon?

As part of this effort, we have recently refreshed and detailed the long-term strategy for DTCC and its business units to identify opportunities where we can help new areas of the market benefit from the efficiency we can provide. The three main areas we are looking to develop are: 1) opportunities for annuities in the domestic marketplace, 2) opportunities for other insurance products, such as life insurance, and 3) expansion of our core business internationally. Amongst these three, our top priority is the domestic annuity industry.

We continue to see increasing volumes as the baby boomer generation enters retirement, and so much of what we are doing is to help position our clients for these changes. For example, we're looking into supporting transactions that occur after the point of issue for annuities and life insurance products. These transactions will focus on both financial and non-financial maintenance events, including management of systemic and one-time withdrawals from contracts owned by baby boomers who need access to their accumulated retirement income over the next five or more years.

Additionally, I&RS is focused on increasing data

transparency – repositioning the data that comes through DTCC, storing that data, and making it available for customer- and industry-level statistical analysis. We are in a core position to be able to provide significant real-time data to our clients, which will enable them to improve their product and marketing strategies. Because of our role in the insurance industry, tremendous amounts of data pass through DTCC. We are focused on sanitizing, storing, and repositioning that data for the benefit of our clients.

We are working on several exciting new initiatives as we look to develop groundbreaking – and what we believe are important – services for the insurance industry over the next five years. Much of what we do will be focused on passing through benefits to our clients and continuing to help bring much-needed automation, efficiency and cost savings to both carriers and distributors. I&RS strives to ensure that the services we provide remain relevant, and we welcome the opportunity to continue collaborating with our clients and industry partners. □

A Prospective Offering from DTCC

DTCC continues to develop solutions that address the needs of the industry. Currently, DTCC is considering the development of services that leverage aggregated data derived from the processing of mutual fund and annuity transactions, including investments, redemptions and exchanges.

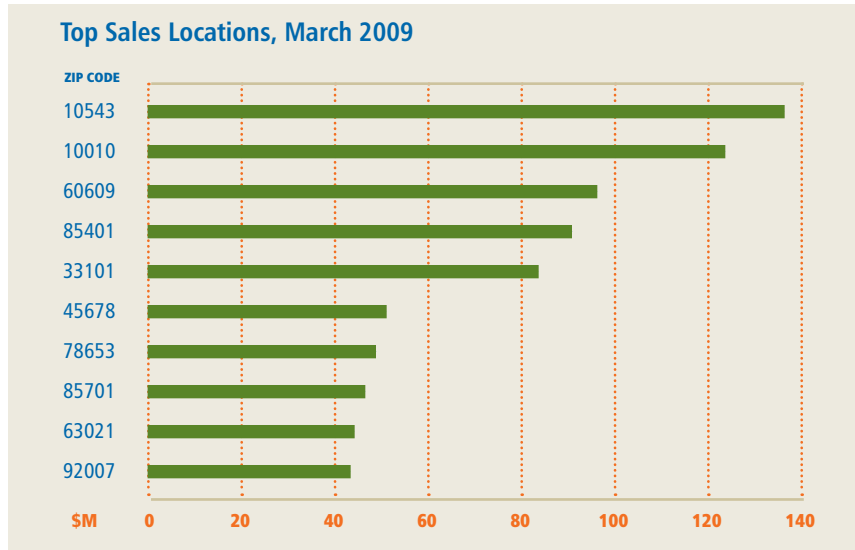
This prospective service offering could provide an unprecedented view of market activity in mutual funds and annuities, derived from daily transactions processed by DTCC for broker/dealers, investment managers and carriers.

The service would:

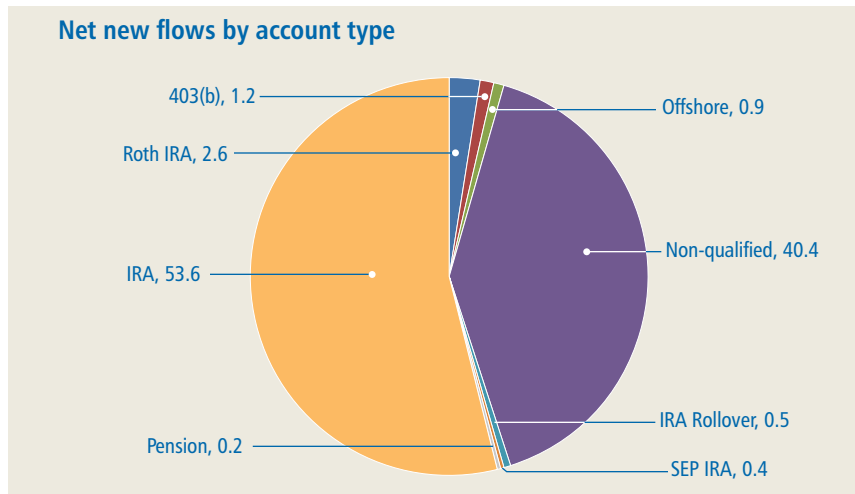
- Allow benchmarking to guide Wholesalers and Financial Analysts
- Target sales and marketing efforts
- Facilitate better structure of products
- Provide clear understanding of market positions
- Simplify planning process

The resulting information would provide broker/dealers, investment managers and carriers with detailed information on their own business performance and the ability to perform benchmarking against the larger industry and peer groups. It would provide detailed market activity and information that allows users to easily measure, track, benchmark and analyze sales, cash flows and business performance at many levels. For example, the information could be used to understand and support decision making about:

- Net flows and sales performance



Sample data and graphs provided for illustrative purposes only.



- Market shares within demographics including state, customer age and type
- Positioning by product type or features
- Products to emphasize to win new business
- Areas or types of investors that represent potential or need increased attention
- Product development
- Targeted marketing, sales and advertising initiatives
- Competitive advantages and disadvantages

- Opportunities and threats that may not be otherwise apparent
- Strategies for wholesaler and sales force training and deployment

Users stand to benefit from significant savings, enhanced management capabilities, improved competitiveness and improved business performance as a result of a DTCC initiative.

If you would like to learn more about this initiative and provide your feedback, please contact your DTCC Relationship Manager. □



Self-Service Web Services

As part of our efforts to speed up processes for our clients, DTCC I&RS is rolling out several Self-Service applications, with the aim of reducing resource requirements and improving efficiency. The two major applications being launched are the CUSIP Profile Application and the Messaging Dashboard.

CUSIP Profile Service

The CUSIP Profile assists carriers in managing their CUSIP information. The CUSIP Profile Application is a web service which provides carriers with real-time maintenance capabilities for their product CUSIPs. Carriers will essentially be able to add, modify, delete, upload and browse CUSIPs. On the other side, distributors will be able to browse and produce reports on carrier CUSIP information.

“In the past, the CUSIP process was very manual. We’re essentially eliminating the manual elements of the DTCC process and making it real-time which yields many positive benefits for both carriers and distributors,” says Richard Cenci, Product Management at DTCC I&RS. “We’re excited about this new application because we believe our clients will immediately recognize the opportunities presented to them by having a web-based front-end through which carriers can monitor or delete CUSIPs and distributors can browse and produce reports on carriers’ CUSIPs.”

While the overall workflow involved in the CUSIP Profile service remains the same, DTCC has removed the manual component, which in turn speeds up the process and provides more control for the carrier.

Messaging Dashboard

The DTCC Messaging Dashboard is another Self-Service application which enables participants to send themselves simulated XML messages for testing purposes. The simulated messages will initially be produced for three web services products: Fund Transfers, Attachments and Replacements, which will be launched later this year.

The Messaging Dashboard helps firms reduce effort, increase efficiency, reduce potential errors by automating the messaging process and have control over their testing schedules. Previously, participants lacked the ability to independently test connectivity. The Messaging Dashboard provides a web-based front-end through which firms can test messages in real-time.

Another feature will allow participants the ability to view the status of all their web services messages in both test and production regions.

“Firms will now be able to check to see whether a web services message was accepted or rejected without having to call DTCC Customer Service,” comments Cenci. “We’ve received extremely positive feedback on the Dashboard to date and we’re looking forward to seeing how this improves the communications and processes for our clients.” □

The I&RS Relationship Management team is constantly reaching out to our core constituencies to remain abreast of what's happening in the industry and to get feedback from the frontlines. As part of this, we work with our Senior Advisory Board (SAB) which comprises our top 25 participants, both carriers and distributors.

We work with the SAB to help direct our strategy over the next three to seven years because we want to ensure that our services reflect the evolution in the insurance industry. As part of these conversations, we've learned that large distributors are still in a state of recovery from the economic downturn and are primarily focused on shoring up their businesses.

In addition, some firms are focused on ongoing consolidation and integration efforts that will absorb resources over the next few years. During this period, we are working closely with our distributors to help support them through this transition, from a strategic and tactical standpoint.

With the changes occurring in the insurance industry, DTCC is working closely with small to mid-sized firms who still have sophisticated needs but may lack the resources to address these needs on their own. In addition, financial regulation will have an impact on the

insurance industry and many of the smaller firms need to develop compliant infrastructures without cannibalizing internal resources. Despite market turmoil, the insurance industry continues to see stability in volume and demand. However, insurance firms still rely on very manual, paper-based processes which can hinder firms' ability to grow and scale. We are working with firms to provide them with access to solutions which address many of their current resourcing and processing needs, and free up their time and budgets to focus on the business at hand.

As part of these efforts, DTCC has launched the Access platform which allows our clients to get up and running quickly on services such as Inforce Transactions, License and Appointments and Attachments with very minimal effort.

We've had incredibly positive response from our distributors, both large and small, and our new services have all been designed to help firms grow, become more efficient, and reduce the manual processes which are costly and resource-intensive. We appreciate the input we receive from our carriers and distributors because it is only through participation and contribution that we can provide services that are relevant and cutting-edge.

Jamie Taylor, Relationship Manager

ATTACHMENT ACCESS

Attachments, the latest product on the DTCC Access Platform, allows insurance carriers and distributors to electronically exchange unstructured information, such as digital or imaged documents. With this easy-to-use, no-cost online tool, distributors and carriers can enter attachment transactions and receive corresponding confirmations online.

"Customers now have a very user-friendly front-end which they can log onto and attach a document, rather than trying to integrate a whole process into their systems," notes Craig Gurien, Director of Product Management, DTCC I&RS. "For firms currently receiving attachments using our core attachments service, the process remains the same. We made it easier for new firms that wish to send attachments by minimizing the resource and time investment while still maximizing the benefit of the Attachments service."

Insurance regulation requires that insurance compa-

nies receive image copies of documents such as application forms and electronic signatures even when applications are sent electronically. Before Attachments, firms would manually send documents via fax, mail, email or via proprietary imaging systems. Through Attachments, firms are able to send documents electronically through DTCC's secure network.

Via the Access platform, even smaller distributors who may lack the resources to develop the imaging platform required to build direct Attachments capabilities can now use the service. Additionally, vendors, clearing firms, and other potential third-party users now have a no-development route to use the service.

"Making Attachments directly available online brings the value of this new service to more potential users in more distribution channels," said Adam Bryan, Managing Director, DTCC I&RS. □

Q & A with VERTEX

IQ sat down with Suzanne Brazeal, Vice President, Business Automation Solutions, VERTEX Incorporated, to discuss their work with .NET testing for DTCC I&RS.

VERTEX, a DTCC partner, works with member companies to address connectivity issues as part of the migration on to the Replacements platform.

IQ: Tell us about VERTEX.

SB: VERTEX has been providing professional services and technical solutions to the financial services industry since 1991. We automate insurance business processes by utilizing new business straight-through-processing strategies and partnering with technology solution providers. Since 2000, we've been involved in implementing and maintaining I&RS products for numerous DTCC member companies. I feel that we have developed a deep understanding of the carriers and broker/dealer infrastructure, DTCC's record formats, and the business use of the data being transmitted among partner companies.

IQ: Can you describe the .NET testing currently underway?

SB: We're working with DTCC's Replacement pilot program which allows XML-based transactions to be sent between carriers and distributors in real-time through web-based services. The Replacement service is interesting since it removes much of the manual workflow by automating the replacements process.

Within web services, where VERTEX plays a key role, some of DTCC's member companies run on Java while others run on .NET. DTCC runs on Java and VERTEX

runs on .NET. We each set up test environments and are actively testing the web service calls so that we can help identify and resolve many of the differences between the two code bases prior to launching with the pilot testing group. On a technical level, we are creating a simulated testing environment that mirrors the participant's .NET testing environment to help identify any potential code or server setup roadblocks and develop instructions on how to remove these roadblocks. DTCC is partnering with VERTEX to ensure that by the time they release Replacements to the testing group, they are able to get firms up and running seamlessly. Because we are experts in both the .NET and Java environment, we can help DTCC implement coding changes to facilitate the process for those members on either .NET or Java.

IQ: How exactly are you working with the DTCC member companies?

SB: Our primary goal is to make sure they are seamlessly connecting to the service. The testing process we're going through now is to generally help member firms get up and running faster and specifically to facilitate the test group getting into testing mode much faster.

On the business level, member firms should realize a reduced total cost of ownership because our work with them is helping reduce the time and resources involved in connecting to the service. In addition, they'll experience benefits by automating what is currently a very manual process.

IQ: You're not just working on .NET, you're also working with XML messaging?

SB: Yes – in addition to the .NET testing, we're helping define the XML messages that are sent back and forth between companies using web services. We were involved in the pilot program to help get the business requirements fleshed out and defined in ACORD, which is being utilized in the process. As a result, we have understand the data which needs to be communicated between parties, carriers' operating environments, and the supporting technologies.

IQ: What about companies that don't have the resources to develop technology in-house?

SB: We're a 100% professional services solution so we're not a software company. However, we do partner with SEEC to offer a combined technology/services solution to participating companies who would prefer to buy a solution versus developing technologies in-house. In this sort of situation, VERTEX provides the ACORD schema, ACORD/DTCC transaction expertise, system data/extraction/translation expertise, the replacement process know-how, and business functional testing support of the

continued on page 8

Replacement Processing

DTCC Replacement Processing is an automated, centralized system to electronically link and network insurance carriers and distributors as they exchange information to support a customer's replacement request for "like-for-like" fixed or variable annuities contracts. DTCC Replacement Processing is now available for pilot participants and first movers to begin testing in our dedicated testing environment.

Replacement Processing will enable carriers to communicate the customer's request for a replacement transfer in a standardized, automated manner to promote greater efficiency and lower operational risks. This web services application will primarily be used by insurance carriers to exchange information related to the replacement of a contract but also has the ability to enable distributors to receive pending case status information on their outstanding replacement contracts from their carrier trading partners.

Cory Stark, Director, DTCC I&RS said, "The 1035 replacement space was identified as a manually-intensive process that justified a need for automation. Our Senior Advisory Board, made up of our active participants, agreed to proceed with the development. Introducing a standardized, automation of replacement processing supported the insurance industry and Insured Retirement Institute (formally NAVA) plan for added straight through-processing."

Using a mainframe or Internet connection, insurance carriers can transmit replacement request/notification with document attachments and status information back and forth through the DTCC SMART Network. The new business replacement carrier can inform their distributor partners of their latest pending case status information. The standardized message automation will help facilitate efficiencies for "In-Good-Order" replacements. The service will also feature a money settlement interface for surrendered contracts.

By using Replacement Processing, firms will benefit from the ability to reduce processing cost by minimizing the manual process of transmitting the information between carriers via fax, mail and phone. Overall, carriers can reduce "Not-In-Good-Order" rates, ensure prompt notification and confirmation between carriers and ultimately, satisfy the customer's intention to replace a contract securely and efficiently.

Stark adds, "Our objective is to bring much-needed efficiency to the process which will yield benefits to our participants and their customers." □

Q&A with Vertex

continued from page 7

solution. SEEC delivers a set of ACORD-compliant components that are pre-built and tested for DTCC specifications to address Replacements.

IQ: Why is there so much commitment to these testing efforts?

SB: I think across the industry, many firms don't understand or appreciate the complexity of connectivity and web services-based communications. The issues

that can arise between two services who communicate using different technologies such as .NET vs Java can cause a whole array of issues which can be draining for firms on both the time and resources side. In addition, it's rare to find a firm that understands both disciplines as more often than not, they'll have knowledge and experience using one or the other. By committing to this upfront effort, we're saving time, reducing costs, increasing efficiency and helping to make this a more seamless process. □



The Depository Trust & Clearing Corporation

Insurance & Retirement Services is a service offering of National Securities Clearing Corporation, a subsidiary of The Depository Trust & Clearing Corporation.

Edwin Ramos

DESIGN

Printed by

DTCC PRINT DEPARTMENT

Copyright © 2010, National Securities Clearing Corporation. All rights reserved.

Opt-Out Option: We may provide you with this information, as well as information about our other products and services, unless you have indicated that you do not wish to receive such information. This information may be communicated by various means. If at any time you wish to be removed from our distribution list, please send an e-mail to PrivacyOffice@dtcc.com.

Web site:

<http://www.dtcc.com>