Regulatory & Risk Management Indicator

U.S. Insurance Industry
October 2017
An Overview

Wolters Kluwer’s Regulatory & Risk Management Indicator for the U.S. insurance industry tracks 10 factors across two 12-month periods to illustrate the overall level of regulatory and risk management pressures facing U.S. insurers.

The Indicator score, a measure of regulatory complexity and the compliance and risk management challenges facing insurers, is calculated based on their perceived ability to:

- Track regulatory change
- Maintain compliance with changing regulations
- Demonstrate compliance to regulators
- Invest in new technology
- Maintain compliance with key requirements
- Establish a robust risk management process
- Manage risk across all business lines

What follows in this report is a summary of the Indicator scores and highlights from the survey, including:

- Compliance & Risk Management: The Big Picture
- Top Risk Management Challenges: A Deeper Dive
- Industry Requirements Driving Compliance Concerns

The Indicator also uses three industry metrics, compiled by Wolters Kluwer, to account for the number of citations, enforcement actions taken, and the regulatory fines levied on insurers in the past 12 months. Together, these 10 factors are used to calculate the final Indicator scores.

Indicator Methodology

The Indicator scores are based on a 12-month comparison of the 10 factors from July 2016-June 2017 against July 2014-June 2015. The survey, commissioned by Wolters Kluwer, was deployed online and completed in September 2017 by 377 insurance industry professionals. Respondents included primarily property and casualty, health, and life insurers, along with a smaller number of brokers, third-party administrators, regulators, consulting firms, managing general agents and law firms. Most respondents were from those with a compliance role in their organizations, followed by CEOs and C-level officers, vice presidents, general counsel, directors and managers.
Indicator compliance anxiety levels off, but risk concerns jump

The 2017 Indicator Score of 99 represents a slight rise in U.S. insurers’ concern levels, as compared to a score of 97 in the 2015 Indicator survey. This index of regulatory and risk pain is established by using responses collected with the survey, plus three industry metrics measuring the change in number of citations, the change in enforcements, and the change in industry fines against the prior survey period. In this case, we compare responses and environmental factors from July 2016 to June 2017 against the July 2015 to June 2016 period.

This year’s scores remained relatively steady when compared with the scores from our previous survey. Contributing to the somewhat lower level of compliance-related concerns seen in the five compliance factors indices were a low number of enforcements and fines compared to the previous year. However, this drop is offset by a sizeable jump in risk management concerns as well as a notable increase in the number of citations.

*Regulatory activity fluctuates in odd years as biannual state legislatures resume, causing an uptick in the number of citations.
Compliance & Risk Concerns: The Big Picture

Overall compliance concern levels continued their slight downward trend when compared with the historical scores. With these drops, many of the concern levels are at the lowest level in four years.

However, concern levels rose by 14 percent for the ability to manage risk across all lines of business.

Concern related to privacy and data protection continues to grow slightly. However, concern levels for all other key requirements are trending down slightly or remaining steady.
Risk Challenges: A Deeper Dive

Cybersecurity tops the list of risk management issues respondents believe will receive escalated priority. However, a sizeable group also believes that regulatory risk will receive priority.

We asked the respondents to tell us, in their own words, what they believe will be their organizations’ top regulatory or risk management challenges over the next 12 months.

Topping the list of key challenges is “keeping up with ever-increasing (and) changing regulations.” Cybersecurity is also top of mind.

- Keeping up with the increased/changing regulations (N=50)
  - Cybersecurity concerns (N=43) 21%
  - Implementing new/updating technology systems (N=26) 18%
  - Staffing concerns, need additional staff, training (N=19) 12%
  - DOL fiduciary regulation changes (N=19) 12%
  - ACA and health insurance changes (N=19) 12%
  - Managing multi-state compliance, state issues (N=14) 8%
  - Implementation of regulatory changes (N=12) 7%
  - Profitability, competitiveness, new products, etc. (N=11) 6%
  - Miscellaneous compliance concerns (N=10) 4%
  - Risk management concerns (N=9) 4%
  - Not sure (N=9) 3%
  - Reporting/filing concerns (N=8) 3%
  - Data, maintaining internal data systems (N=8) 3%
  - Exams, increase in market conduct exams (N=7) 3%
  - Miscellaneous comments (N=6) 2%
  - Privacy concerns (N=5) 2%
  - Workers compensation changes (N=4) 1%
  - Regulators over-stepping (N=4) 1%
  - Budget and/or resource concerns (N=3) 1%
  - Auto insurance-related concerns (N=3) 1%
  - Managing compliance for third-party vendors (N=2) 1%
  - GRC (N=2) 1%
Progress on the Risk Management Front

We can see that the percentage of respondents who have a strategic enterprise risk management program jumped eight percent this year, compared against 2015 responses.

In addition, we saw small jumps in the percentage of those who have an integrated program used consistently across the organization, as well as those who have a formal risk management program but one which isn’t used consistently by departments throughout the enterprise.

- **We understand and manage our risks but don’t have a formal process or program in place**
  - 2017: 12%
  - 2015: 9%

- **We utilize a well-defined risk management process but not an overall program**
  - 2017: 8%
  - 2015: 9%

- **We have created a formal program but it isn’t used consistently by departments throughout our organization**
  - 2017: 15%
  - 2015: 11%

- **We have an integrated risk management program in place that is being used actively by all departments**
  - 2017: 14%
  - 2015: 13%

- **We have a strategic enterprise risk management program in place that management uses to control risks**
  - 2017: 30%
  - 2015: 22%

- **Not sure/not applicable**
  - 2017: 21%
  - 2015: 31%
The Gap Between CPM Focus—and Funding

The majority of respondents believe their organization should direct substantial focus towards the various components of a well-rounded compliance program management plan.

However, they are much less likely to believe their organization will actually make a substantial investment to do so. The largest gaps are for:

- Regulatory change management (37%)
- Regulatory insight (36%)
- Risk & control assessments (30%)

![Bar chart showing the percentage of respondents who believe their organization should place substantial focus over the next 12 months (7-10) and the percentage of respondents who anticipate their organization will make a substantial investment over the next 12 months (7-10)].

- Risk and control assessments: 73% vs. 43%
- Regulatory change management: 72% vs. 35%
- Regulatory insight: 70% vs. 34%
- Compliance ethics and governance: 69% vs. 41%
- Compliance testing: 67% vs. 40%
- Regulatory exam management: 63% vs. 39%
- Complaint management: 63% vs. 38%
Leveraging a Centralized Compliance Risk Register

A sizeable group of respondents—45 percent—indicated that their organizations utilize a centralized compliance risk register or library.

Comparing utilization by segment, we found one statistically significant difference: Life insurers are markedly more likely to have a centralized risk register/library than those in other insurance segments.

About Wolters Kluwer

Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, Wolters Kluwer works with customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer Governance, Risk & Compliance (GRC) is a division of Wolters Kluwer, which provides legal, finance, risk and compliance professionals and small business owners with a broad spectrum of solutions, services and expertise needed to help manage myriad governance, risk and compliance needs in dynamic markets and regulatory environments.

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