

Compliance as a Competitive Advantage in the Insurance Industry

Transforming compliance activities from a reactive task to a proactive process

The insurance sector faces a myriad of compliance challenges and has been for a number of years. In South Africa, the pace of regulatory obligations and compliance complexity has been onerous from both solvency and market conduct aspects. From Solvency Assessment and Management (SAM) regulation, through to government's Twin Peaks approach to regulating the financial and insurance sectors, Binder Regulations, Treating Customers Fairly (TCF) and even the Protection of Personal Information (POPI) Act which affects all businesses that process customer data, the costs of compliance are very significant at a time when operating and market conditions are exceptionally tough for the insurance industry.

"Compliance with regulation is a must for any business operating in the South African insurance market. It incurs significant financial, infrastructure, technology and human capital costs to ensure that professional and legal standards are adhered to. Given their compliance investments, it makes sense that business leaders think strategically as to how their investments in achieving compliance can be leveraged as a competitive advantage," says Dirk van den Berg, Chief Operating Officer of O'Keeffe & Swartz, a leading outsourced call centre specialising in the outbound sale of simple insurance products and whose clients include the major banks and insurance companies in South Africa.

"South Africa is home to the largest insurance market in Africa, and follows Brazil with the fourth-largest absolute growth in insurance premiums according to the *Waves of Change* report published by Ernst & Young. Given just how important insurance products are to millions of lives, it's essential that we have an industry that is competitive and sustainable – and achieving the highest levels of compliance excellence could be the answer to delivering a business model and industry that is supremely positioned to seize future opportunities," explains Dirk.

During 2014, O'Keeffe & Swartz generated over R407 million in annualised premium income for its clients which amounts to more than R51 billion in insurance cover sold to almost 2 million South Africans.

"We're not just dealing with the regulations governing insurance institutions such as FAIS and various insurance acts, but a whole raft of consumer protection regulation too. Right now we're seeing huge efforts going into POPI compliance, but without seeing the actual regulations which are yet to be published, most organisations are grappling in the dark as to what exactly it is that they need to comply with. Until such time that the regulations for POPI are published, our view is to act within the ambit of best practice when it comes to protection of data, and avoid possibly making huge financial investments in complying with assumed standards that may not meet the final POPI regulations.

"Our approach right now in terms of direct marketing activity and POPI, is to develop our systems so that they are appropriately scaled and resourced, so that when the POPI regulations are published, our people will be able to perform the related tasks to become fully

compliant quickly and without making onerous demands over-and-above their routine work. We can anticipate what the potential regulations will dictate given the spirit of the Act, but without incurring hefty financial investments that may not be in line with final regulations,” says Dirk.

Despite the lack of clarity on actual regulations, what the POPI Act has done in the meantime is spur institutions to clean up outdated legacy data platforms to get a single consolidated view of their customers and that can only be good for business and marketing efforts going forward – in this regard the banking sector has led the way. Right now, it’s about getting the fundamentals of fit and proper data management sorted and in place, so that when the POPI regulations are published, it will be a relatively fast process to achieve the required levels of compliance.

The same applies to suppliers to the industry that handle any client facing processes on behalf of insurers and banks on an outsourced basis. Being able to provide clients with the peace of mind that outsourced processes will meet the highest levels of regulatory compliance and audit requirements will ultimately define which suppliers will be around in the months and years to come.

“Obviously the knock on effect right through the supply chain of compliance is onerous. From the outset we took the view that becoming fully compliant with the latest regulations affecting our business and that of our clients was not only about preserving our ability to perform as a business, it also had to provide returns in the form of competitive advantage. For us, we see it as an opportunity to level the playing field and set ourselves apart from the rest of the industry through rigorous protection of our integrity,” explains Dirk.

“Together with our clients, we looked at reinventing the compliance process that would meet all our shared requirements, creating a playbook of process and procedures that meet the requirements of the regulation, and is embedded in our staff training, our culture and our entire approach. The investments in achieving this have certainly not been small from a financial and human resource perspective, but at the same time, the returns have been well worth it. We believe that we have created a formula for regulatory compliance that positions us to meet the future mandates of our clients quickly and efficiently.”

Onerous regulation has often been cited as a serious risk to the industry and its competitiveness, however these risks also provide opportunities for growth in that the best-prepared companies will be the ones that manage their vulnerabilities and can gain the advantage over their opposition in terms of overall efficiencies and even time to market with new products. “We can best achieve this by transforming compliance activities from a reactive task to a proactive process,” he concludes.

As the business of financial institutions grows increasingly complex, so too do the regulations that govern them. Compliance is accepted as another key cost of doing business however, it should be managed in a way that engages analysis of the implications of regulation ahead of the competition, and positions the business to capitalise on new opportunities. Good

compliance is about identifying regulatory trends that can lead to future issues, then taking action to mitigate those risks.