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Adopting Best Practices to Manage Examinations by Multiple Regulators

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Who is ACLI?

- ACLI represents more than 300 member companies operating in the United States before federal and state policy-makers, insurance departments, and the courts
- ACLI members account for more than 90% of the assets and premiums of the life insurance and annuities industry in the US
- ACLI member companies are leading providers of financial and retirement security products covering individual and group markets. They provide life, long-term care, and disability insurance; annuities; pensions, such as 401(k), 403(b), and 457 plans, IRAs; and reinsurance

Sources of US Life Insurance Law--Overview

State Regulation

- Under federal law, states are the primary regulators of US life insurers
 - A life insurer operating nationally could have to obtain 50 or more state licenses and follow 50 or more sets of state rules
 - ACLI works with member companies, state regulators, and the National Association of Insurance Commissioners to improve the efficiency and effectiveness of state regulation (e.g., the Interstate Compact Commission)
 - State insurance commissioners, working through NAIC, have been studying state examination processes and working to revise examination materials to reduce costs and improve the coordination of examinations among the states.

Sources of US Life Insurance Law--Overview

Federal Regulation

- Depending on the products they offer, federal law may also impact life insurers:
 - SEC (variable products)
 - FINRA (broker-dealers),
 - Labor Department (pensions)
 - IRS (tax of insurance companies and their products)
 - FTC (consumer issues, such as privacy)

- AML regulation is a federal function with the Financial Crimes Enforcement Network (FinCEN) as life insurers' primary regulator; FinCEN currently delegates AML examination to the IRS
 - NAIC recently established a task force to facilitate discussions with FinCEN
 - FinCEN is part of new Interagency Financial Fraud Enforcement Task Force

Sources of US Life Insurance Law--Overview

International Issues

- ACLI also works with its members and other trade associations, as well as the NAIC, the International Association of Insurance Supervisors, and the US Departments of Treasury, State, Commerce, and Homeland Security on international issues that may affect US life insurance law
- ACLI co-chaired, with the European Insurance and Reinsurance Association (CEA), an advisory group of the Financial Action Task Force that developed risk-based AML guidance for life insurers, which was adopted by FATF at its October 2009 plenary meeting

Costs of Regulatory Reporting and Examination

- Regulation can be a major part of a life insurers' cost structure
 - Many of these costs are directly related to dealing with multiple regulatory jurisdictions

- Nearly every aspect of an insurers' operations can be affected by the costs of regulation
 - Regulation affects cost from design and introduction of products through payment of claims

Opportunities for Improvement: Reactive v. Proactive Approaches

Reactive Approach:

- Notice of Examination = Crisis
- Examination process can be longer and more costly
- Higher fines and fees
- Relationships with examiners and regulators can become difficult
- Potential reputational damage

Opportunities for Improvement: Reactive v. Proactive Approaches

Proactive Approach:

- Notice of examination = Leveraging existing compliance, document management, and technology capabilities
- Ability to control examination costs in an increasingly complex regulatory environment
- Potential to identify small problems before they become large problems
- Shorter, less costly exams
- Enhanced credibility with regulators, examiners, and consumers

Elements of a Proactive Approach to Multiple Examinations

- Strong compliance program
- Senior management support of compliance program
- Coordination with internal audit
- Mock examinations
- Corporate-wide risk assessments
- Effective document management
- Integration of automated processes with examination response
- Constructive communication with regulators and examiners
- Post-examination de-briefings