Featured Article

LifeHealthPRO

Written BY JOHN SARICH // OCT 07, 2016

Plan for a total IT overhaul after DOL fiduciary rule

Among the many IT issues engendered by the DOL fiduciary rule, migrating software and systems to accommodate fee-based compensation will be particularly challenging, says VUE Software's VP

Among the various issues engendered by the Department of Labor's fiduciary rule, one is especially concerning to insurers, advisors and intermediaries in the distribution chain: What will the rule mean for the industry's massive information technology infrastructure?
Will software and systems need to be tweaked, retrofitted or replaced? What are the stumbling blocks to surmount in transitioning to a DOL-compliant IT architecture? Do market stakeholders have the financial wherewithal to meet the DOL's January 1, 2018 deadline?

For answers to these and other questions, LifeHealthPro turned to John Sarich, an insurance industry analyst and vice president of corporate strategy at VUE Software, a firm that advises the industry on innovating and automating business processes. Sarich is a senior solutions architect, strategic consultant and business advisor with more 25 years of insurance industry experience.
The following are excerpts.

LHP: ***How do you expect the DOL rule will impact the technology needs of the industry? Can existing IT platforms handle the new regulatory requirements?***

Sarich: The DOL rule will force a tremendous amount of change, not only as to customer-facing interactions between advisors and clients, but also in respect to the technology needed to support them. Most of the systems in place today won't, in my view, do the job.

LHP: ***What new IT capabilities are required?***

Sarich: New solutions will be needed to manage changes in advisor compensation, notably the anticipated shift from commissions-only to commissions plus fees or fee-only. The solutions will also have to manage changes to product design, policy administration, client-servicing and other functions.

The first of these — compensation — will be particularly challenging, as advisors and their distribution partners are grappling with how much to charge. There are a lot of questions to resolve.

What constitutes reasonable compensation? If you have a lot of clients who have bought annuities, what fee arrangement is appropriate for them? Should you charge, as a law firm does, a billable, hourly rate? Also, would an upfront fee provide for ongoing advice and service, or would you charge separately for these? All of these questions have to be addressed.

LHP: ***What other issues must be resolved from a technology vantage point?***

Sarich: In respect to insurance, software will need to manage, among other things, policy implementation and contract changes, licensing, documentation of client conversations, the needs analysis and product recommendations, as well as disclosure of compensation and potential conflicts of interest.

This is an arcane area of insurance and technology. If, as I expect, compensation moves to the billable/hourly model of law firms, then agents and brokers now working on a commission basis are facing a major transition, as they'll have to document their time at each step of the client engagement. And that will require replacing many of the software tools that they and other players in the distribution chain use today.

How all of this will look we can't say yet, again because of the many issues still to be resolved. Nor have we done any DOL-related application development. None of our clients has requested this to date. But we have discussed in broad terms the issues and questions we're collectively up against.

LHP: ***How many software developers are active players in your space? What other DOL-compliant app development is taking place in the market now?***

Sarich: It's a narrow universe of players. Apart from our firm, the big players include IBM, Callidus Software, Oracle and Computer Sciences Corp. (CSC). All of the software vendors are in a holding pattern now because, again, we don't yet have clarity on what functionality is needed.

Regardless, new software will have to be customized to meet clients' unique needs in terms of business processes, work flow and making apps interoperable with existing legacy systems. We don't make clients fit our software; we make our software to fit them.

LHP: ***How significant an investment will be required of the industry to become compliant with fiduciary rule?***

Sarich: It's hard to quantify. In a survey of 40 of its member firms — large and mid-size broker-dealers — the Securities Industry and Financial Markets Association (SIFMA) estimates the fiduciary rule will cost firms almost $5 billion to implement and an additional $1.1 billion in annual expenses. This exceeds the DOL's own initial estimate: between $2.4 and $5.7 billion over 10 years.

Anecdotally, I've read that some companies are spending between $10 and $20 million on making systems and business processes DOL-compliant. This may be on the high end, but a fee-based structure will be problematic for the industry as a whole, especially on the insurance side, because the new regulations represent such a big departure from current practice.

LHP: ***How well are the institutional clients you interface with — life insurers, independent marketing organizations, broker-dealers and registered investment advisory firms — clued into the changes they'll have to make?***

Sarich: My sense is they're all about as nervous as a mouse in a room full of cats. They're having conversations with other stakeholders, including IT solutions providers, to determine what the compliance burdens will be.

For our part, we hope to alleviate their concerns. The last thing we want to do is create another technology silo that will be more costly to implement and support than a solution that integrates with existing IT platforms.

LHP: ***Let's turn to another development inspired in part by the DOL rule: Nationwide's acquisition of Jefferson National, a provider of a flat fee-based variable annuity that distributes its product, Monument Advisor, through some 4,000 RIAs and other fee-based advisors. What's your assessment of the deal?***

Sarich: I think Nationwide picked off one of the better annuity manufacturers. The acquisition is very complementary to Nationwide's own solutions.

More broadly, the deal is evidence of a movement afoot: the emergence of the one-stop shop for insurance and financial services. Under the new paradigm, providers will serve customers in many different ways and with a broader range of products. So I see this as a positive development.

LHP: ***Might such combinations engender their own technology challenges, to the extent that merged companies and their distribution partners have widely varying IT systems and needs?***

Sarich: These mergers are mostly about integrating disparate corporate structures. Once you figure out the unified structure, then you can decide on the technology. And yes, there will ultimately have to be investments in technology to align IT platforms of the merged companies.

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John Sarich

As Vice President of Strategy at VUE Software, John Sarich serves a senior solutions architect, strategic consultant and business advisor with over 25 years of insurance industry experience. He uses his extensive knowledge of insurance operations, information technology (IT) systems, sales and marketing to develop and define operational strategies for the company's sales and marketing initiatives.

About VUE Software

VUE Software is an innovative provider of performance-driven solutions built exclusively for the insurance industry. With over twenty-three years of experience in Life & Annuities, Health and P&C Insurance, VUE Software is one of the most experienced and established Insurance Distribution Technology providers in the business today. VUE Software is leading the Distribution Modernization movement, bringing clients a solid path to revenue growth and competitive advantage.