Increase COI Compliance- The Effect of Best Practices People and Process

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Executive Summary

- Today's corporate environment requires total compliance in regard to assuring risk transfer… an objective that far outstrips most Certificate of Insurance (COI) management providers who are still simply tracking COIs.
- To garner the highest level of vendor compliance possible, the trend toward outsourcing COI management is dramatically growing across the business landscape.
- In fact, more than 70% of senior executives interviewed predicted that demand for COI outsourcing would become even more prevalent over the next three years.
- There are two issues, compliance and cost savings. Seven out of every ten COIs are out of compliance right now. The COI process is painstaking and requires staff insurance expertise and dedicated technology… both expensive propositions to have in-house, and something that outsourcing solves.
- An analysis of the metrics will show that an outsourced model makes fiscal sense in addition to providing a much greater compliance level.
- As an indication of just how important proper COI management is, brokers are now offering this outsourced service to their clients in order to further protect their clients' interests.

Introduction

Recently there has been mounting evidence that third party COI management service providers that are focused on best practices, people and process yield by far the best results in the way of continually improving COI compliance... as opposed to the rote skill of simply tracking certificates. What does this mean, and what are best practices? First of all, it is counterintuitive in that the most efficient and accurate process to review COIs actually relies on a human model with deep insurance knowledge supported by technology, rather than the other way around. These professionals are typically highly experienced and credentialed insurance experts who review documents to find the issues that transcend the "dot the i's and cross the t's" recognition of machine-based systems and move into the realm of nuance, trend and pattern. Only after the challenges are corrected does technology intervene to confirm corrections on a quality assurance basis, and to deliver reports.

Employing these experts would be (and is) a significant burden on costs and infrastructure for most any company… even those in the Fortune environment that have significant risk. However, based on economies of scale these insurance professionals who are so crucial to the process can be employed by third party (outsourced) COI management firms (partners), and shared by the companies that truly need them thus spreading the cost. With this in mind, and considering the bounty in compliance improvement, there seems to be a significant upside to consider partnering with outsourced systems that leverage insurance professionals on this level.

When it comes to COI management--especially within the Fortune 500 community in which there is a tremendous tonnage of COIs to track and manage--organizations face a choice. Does it add value to outsource or not? In the case of COIs, it's not only a cost savings issue--although a complete understanding of all the costs, and resources involved to properly manage the process internally can be an eye opening experience—but it is an efficacy issue, as well. Nationally seven out of every ten COIs have been shown to be non-compliant (in some cases this number is higher), opening up companies to all kinds of exposure to risk. If the typical Fortune 500 company receives between 5,000 and 10,000 COIs over the course of a year, between 3,500 and 7,000 (or more) of those COIs will need to be followed up with, tracked down and resubmitted for review again.

So if outsourcing not only provides a significant cost savings, but also an increase in COI compliance and accuracy, there would be a pretty strong business case for its implementation. Obviously corporate management is thinking the same way because the demand for COI management outsourcing is growing. In fact, more than 70% of the senior executives interviewed predicted that demand for outsourcing would become even more prevalent over the next three years, according to a 2011 study conducted by Accenture and the Economist Intelligence Unit.

The expertise required for COI compliance is extensive, and not something that is readily found in-house. Here are some questions you need to ask yourself in evaluating the quality of your personnel, and infrastructure with regard to COI management:

1. Do your people really understand insurance?
2. Do your resources know what they should be looking for on the certificate?
3. Do they know how to figure out if the certificate meets your requirements?
4. Do you know also require endorsements and other supporting documents from your insured's?
5. What reporting tools exist?
6. How do you audit in the case of a claim?

Not only does COI Management require administrative personnel to handle the daily clerical to-do's and follow up activities that COI management demands, but it also takes the Risk Manager's focus away from the strategic initiatives and other critical risk management functions that demand and deserve his or her full attention. Just like many American workers in upper or middle management, the Risk Manager's plate is more than full--it is overflowing. Outsourcing this function in a more automated process cleans up a task that should not hit the RM's desk in the first place.

Recently, technological innovations such as partially automated systems have taken hold in outsourced COI management. This value has been enhanced with the utilization of state-of-the-art cloud based systems that operate transparently, away from a client company's infrastructure. Not only does this provide tremendous savings in IT infrastructure and training, but it allows specialists in COI management to impact the process, as though they were right down the hall. In fact, there are some best-of-breed outsourced COI management companies that maintain regular full-time professionals in order to have high level working relationships with their clients. They operate as an extension of a client's risk management department exhibiting the rapport and commitment that one would expect from an in-house staff, delivering significant value… again, without the expense.

Things to consider

1. What is the Status of Your Current Positioning in Relation to Managing Vendor Risk?

- Type of insurance program you have
- How much of it is under your control?
- Knowledge of staff
- Internal policies and procedures
- Support from the top
- Ramifications/penalties for vendor non-compliance
- The contract language you use
- What is the contract for?
- Effective contractual risk transfer
- Separate departments in various locations
- Disconnect between the importance of vendor versus the need for a compliant certificate
- Decentralized vendor and contract tracking
- Standardized insurance requirements

2. Elements to Consider in your Vendor Contracts

- Clear, concise and standardized
- Insurance provisions support indemnity provisions
- Language on certificates- applicable law

- The contract is your binding document!
- Don't ask for things you don't need and if you need them, be ready to explain why!
- Use your broker or agencies with similar exposures as a resource when determining new requirements
- Limit any waivers or changes
- Authority to agree to any changes or waivers should be extremely limited
- Always consult with your legal team

3. Key Vendor Issues

- Do not always understanding the requirements in the contract before signing
- Do not pay premiums on time letting coverage lapse
- Change insurance agencies often making it difficult to maintain compliance
- Do not communicate effectively with broker before signing agreement or after certificate is submitted

4. Certificate Holder Operational Objectives

- Central certificate tracking methodology
- Standardized workflow
- Centralize organization via single access point
- Centralize deports
- Easy access to information
- Accountability
- Provide clear contractual requirements
- Provide single collection point for certificates
- Provide a sample certificate that can be easily accessed by vendor and broker
- Provide a centralized communication process for both vendor and broker
- Outline specific consequences for non-compliance

5. Smaller Vendors = Larger Liability

- Risk control programs are not as advanced
- More willing to cut corners (let insurance lapse)
- Often times do not fully understand insurance requirements and why they apply to them
- The most efficient way to deal with these vendors is through direct contact with their broker

6. Characteristics of Larger Vendors

- Often use standardized COIs which cannot easily be modified to reflect additional information if requested for clarity purposes
- Self-insurance plays a larger role
- Strong risk control programs

- More likely to push for limited risk transfer
- Often request contract language modifications
- They resist whenever possible – these changes are usually not to your benefit
- More emphasis is placed on policy language which would cause us to work with the broker and/or the insurance company to verify specific information not included on their COI

Summary

So when does outsourcing COI management make sense? For many, the decision to outsource is not purely a financial one; does it cost more money for your organization to hire the talent in-house or to outsource and just as important, can a trusted vendor do it better? From an efficacy standpoint, if your company has a compliance-centric culture there is a clear benefit to leveraging a flexible COI support team that understands insurance language and can quickly refine its talent mix to support your needs—something you probably do not have in house. An increasing number of executives are finding that outsourcing can create a strategic advantage, especially for a dynamic and distributed organization whose needs are often rapidly changing.

With regard to economics, an outsourcing provider has economies of scale, knowledge expertise and the dedicated infrastructure that make its solution more affordable and cost effective than doing the work in-house. Outsourcing the COI management processes can cost half as much as doing the work in-house and with the right system you can ultimately make yourself more attractive to insurance markets for your business.

With few exceptions, outsourcing is a viable option for you that can result in operating cost reductions and better strategic insight.

10 Tips to Achieve Increased COI Compliance

- A strong insurance program
- Clear contract language
- Effective internal policies and procedures
- Gain support from the top
- Good relationships with your broker and counterparts
- Willingness to reach out to the vendor's broker or insurer if questions arise
- Provide a centralized tracking methodology that can be shared among all departments, divisions and locations
- Create a standardized workflow for internal and external users
- Provide a centralized communication among vendor, broker and client personnel
- Training, Training, Training…