



Insured Retirement Institute

# **IRI Straight-Through Processing Initiative Update**

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*A snapshot of firms' experiences with implementing a new STP platform  
based on IRI standards*

***February 2012***

**About the Insured Retirement Institute:** The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: our members are the major insurers, asset managers, broker dealers and more than 150,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit [www.IRionline.org](http://www.IRionline.org) today to experience the vast resources of the Insured Retirement Institute for yourself.

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## Overview

A recent survey conducted by the Insured Retirement Institute's (IRI) Operations and Technology Committee measured various aspects related to the implementation of the IRI Straight-Through Processing (STP) standards. Through its STP initiative, introduced in 2006, IRI has created standards for a fully electronic process for completing annuity sales transactions. The IRI STP initiative is designed to cover all types of annuities—deferred and immediate; qualified and non-qualified; and indexed, variable, and fixed annuities. The STP standards are technology- and vendor-neutral.

In this report, we share the highlights of the survey, providing a snapshot of the experiences of IRI member organizations that have implemented some or all of the components of the STP standards as developed by IRI.

## Key Findings

- Nearly two dozen (22) organizations have implemented some or all components of the IRI STP standards between 2006 and 2011.
  - The majority (15) are insurance companies, representing combined variable annuity assets of \$640 billion (45% of the industry) and 65% of variable annuity sales as of third quarter 2011.
  - The remainder are distribution firms (5) and clearing organizations (2). The distribution firms that have implemented IRI STP standards include two of the industry's four largest broker/dealers, and represent a combined 22% of assets under management and nearly 50,000 advisors.
  - As a result of the financial crisis, there were no IRI STP implementations in 2009 and 2010.
  - Another ten firms (5-7 distributors and 3-5 middle-tier insurers) are planning to adopt STP components based on IRI standards in the next 1-2 years.
- Firms that have adopted the IRI STP standards cite client-centric factors and streamlined processing as the key drivers for implementation.
  - More than half (54%) of IRI STP adopters cited the enrichment of the client relationship as the primary reasons for implementing an STP platform based on the IRI standards.
  - More than 90% of insurers view the implementation of STP as a value-add to their client relationships.
  - Approximately one-third (36%) of respondents noted that the implementation of the IRI STP standards was part of a larger strategy to streamline processing.
- The industry has spent approximately \$40 million in the implementation of IRI STP components since 2006. Key accomplishments include:
  - The immediate applicability of the IRI STP standards to 70%-80% of variable annuity premiums.

- A framework to help lower NIGO (not in good order) rates for over 30-40% of industry applications, saving \$200 – \$350 per incident.
- In general, STP has the potential to reduce unit costs for new business by up to one-third compared to that of paper-based submissions.
- IRI recommends educational initiatives on the standards and their underlying benefits for firms that have not yet committed to adoption. These include incremental adoption of the standards, a focus on the middle-tier market, and unit cost reductions as more firms implement STP.

## **STP Genesis**

IRI's Straight-Through Processing (STP) initiative dates back to 2005, when more than 100 members of the association met to define operational standards for the processing of retirement income products—primarily annuities. Participants represented insurance carriers, distributors, solution providers, and other interested parties.

The following year, the association kicked off an industry-wide effort focused on the automation of new business, including a plan to address other components of the processing cycle. This led to the development of the STP guiding principles (or standards), that address the following:

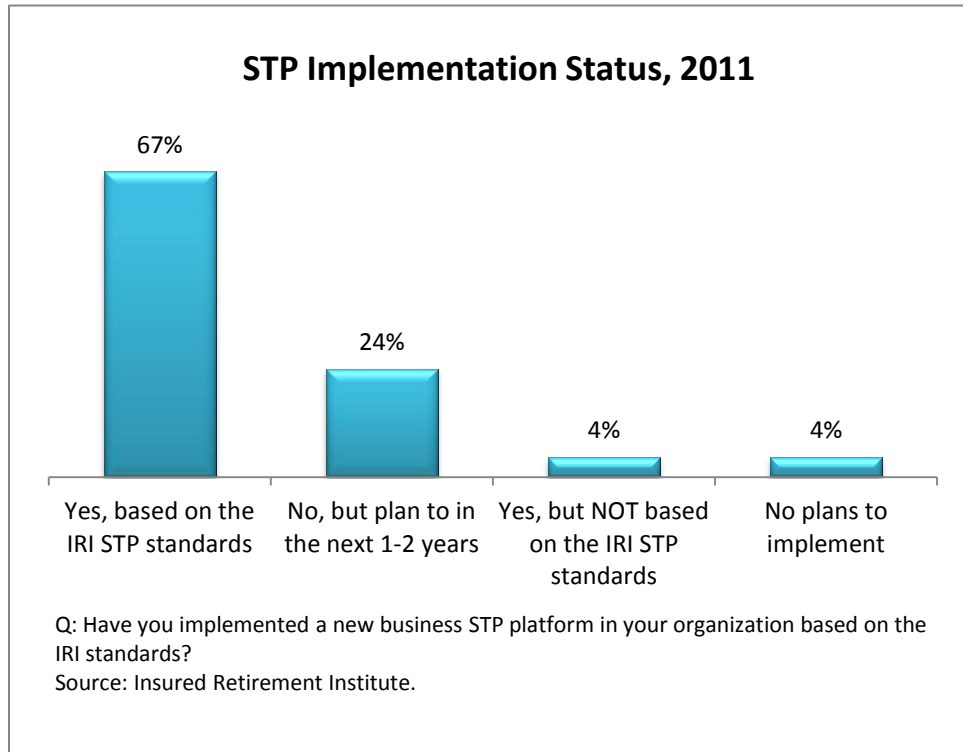
1. Suitability: Minimum standards for suitability procedures to be adopted by distributors and in carrier compliance reports.
2. Application form: Use of an electronic application with an electronic signature at point of sale.
3. Privacy: Standards for the safekeeping of non-public information, including encryption of electronic transmissions.
4. Records management: Standards for robust recordkeeping and the need for all records to be clearly audited to assure full compliance with all applicable requirements.

Since then, 22 organizations (15 insurers, five distributors, and two clearing organizations), have implemented some or all components of the IRI STP standards. The insurance companies that have implemented the IRI STP standards represent combined variable annuity assets of \$640 billion (45% of the industry) and \$26 billion (65%) in variable annuity sales through the first three quarters of 2011. The distribution firms that have implemented IRI STP standards include two of the industry's four largest broker/dealers, and represent a combined 22% of assets under management and nearly 50,000 advisors.

## **STP Implementation Status**

Overall, two-thirds of survey respondents have launched STP platforms consistent with the IRI STP standards, and one-quarter plan to do so within the next two years. Note that 100 members of the IRI Operations and Technology Committee were selected to complete the survey, with 49

individuals representing various firms responding.. Similar results were achieved in a 2010 survey of annuity industry executives by Cerulli Associates and IRI, in which 63% reported that at least some of their business is conducted electronically.



Digging deeper yields additional trends that will require further analysis. First, implementations are heavily weighted toward manufacturing companies, as cited earlier. Additionally, a small percentage of IRI members have deviated from the standards in their implementation of a STP platform, or have implemented only some of the standards (such as e-signatures). Finally, 60% of IRI STP implementations occurred at least three years ago, and there were no implementations in 2009-2010, largely attributable to the financial crisis. Yet, indications are that the IRI STP initiative is being given some consideration by members who have not yet adopted the standards. This includes 3-5 middle tier carriers.

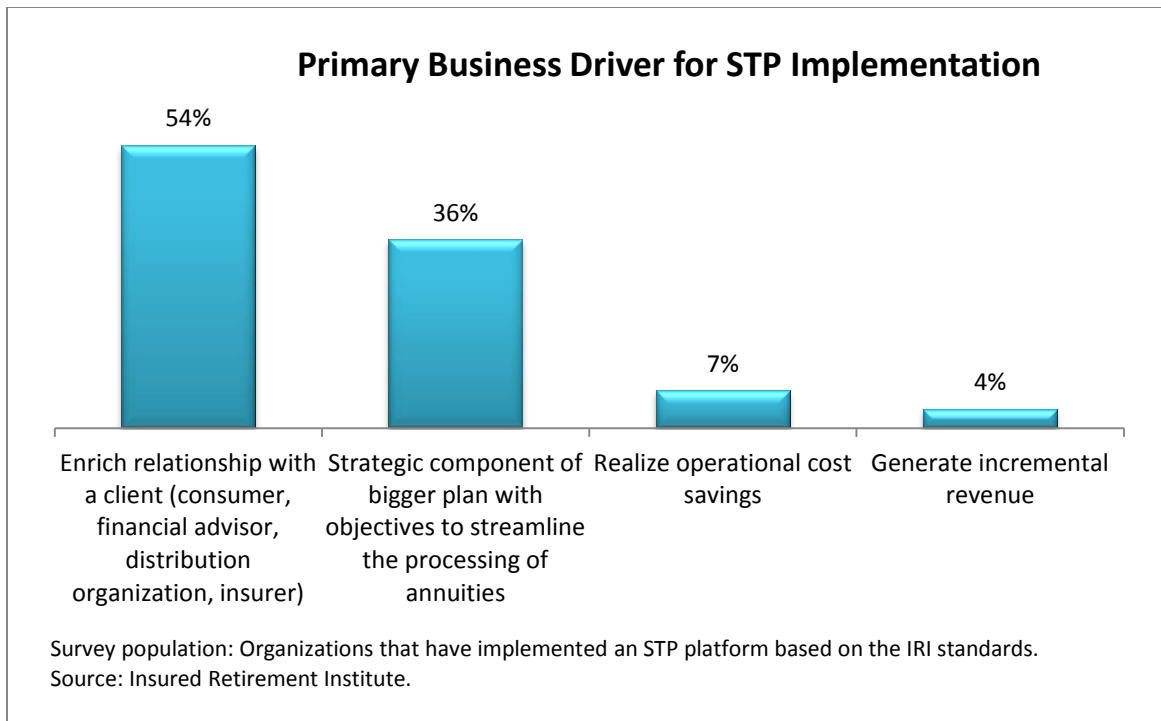
IRI recommends educational initiatives on the standards and their underlying benefits for firms that have not yet committed to adoption. Among these are the time and cost savings associated with electronic signatures, including a reduction of documents that are received not in good order (NIGO), helping the industry capture \$200-\$350 per incident of the approximately 50% of business affected. In some cases, STP has reduced the unit costs for new business by 30%-35% compared to that of paper-based submissions, per a 2010 report from Novarica. As such, IRI has analyzed the experiences of firms that have implemented the standards, as detailed below.

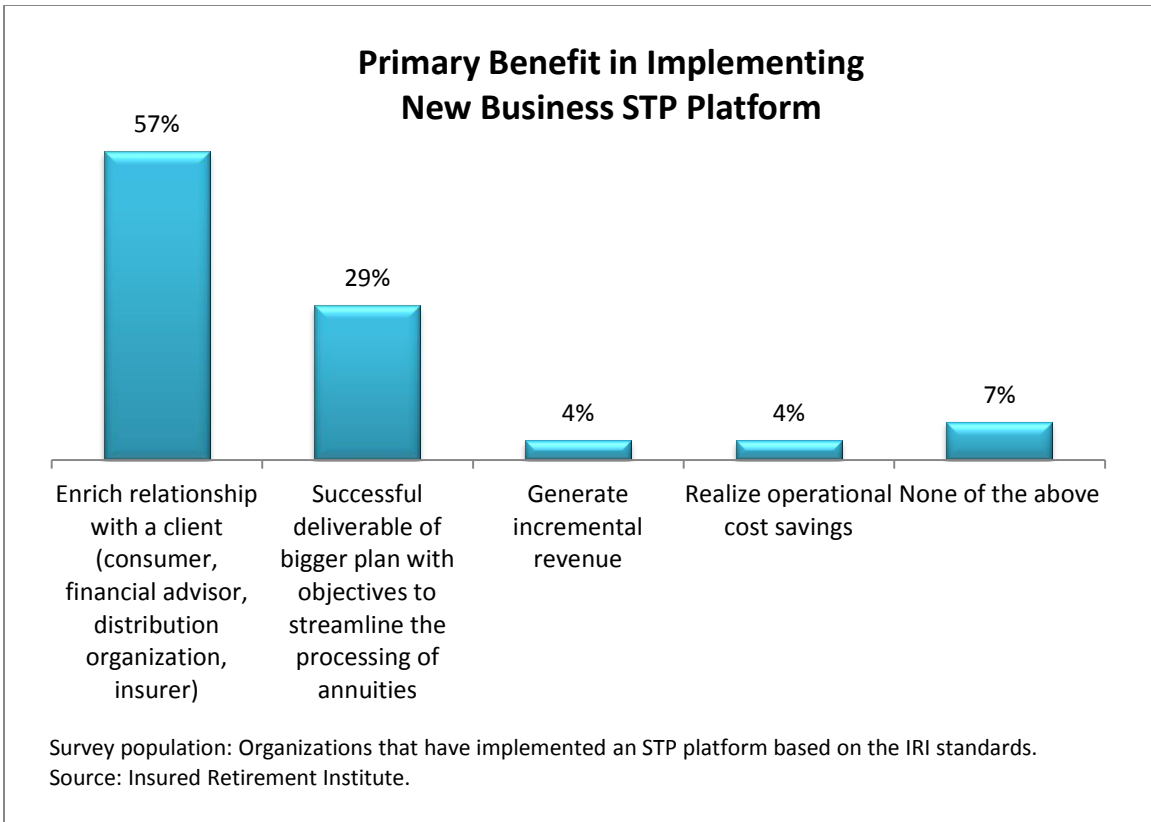
## Experiences of STP Adopters

### *Key Business Drivers*

More than half (54%) of respondents indicated that client-centric efforts, specifically relationship enhancements, were the primary reasons for implementing an STP platform based on the IRI standards. This decision turned out to be consistent with the post-implementation benefits experienced by respondents. More than 90% of insurers view the implementation of STP as a value-add to their client relationships.

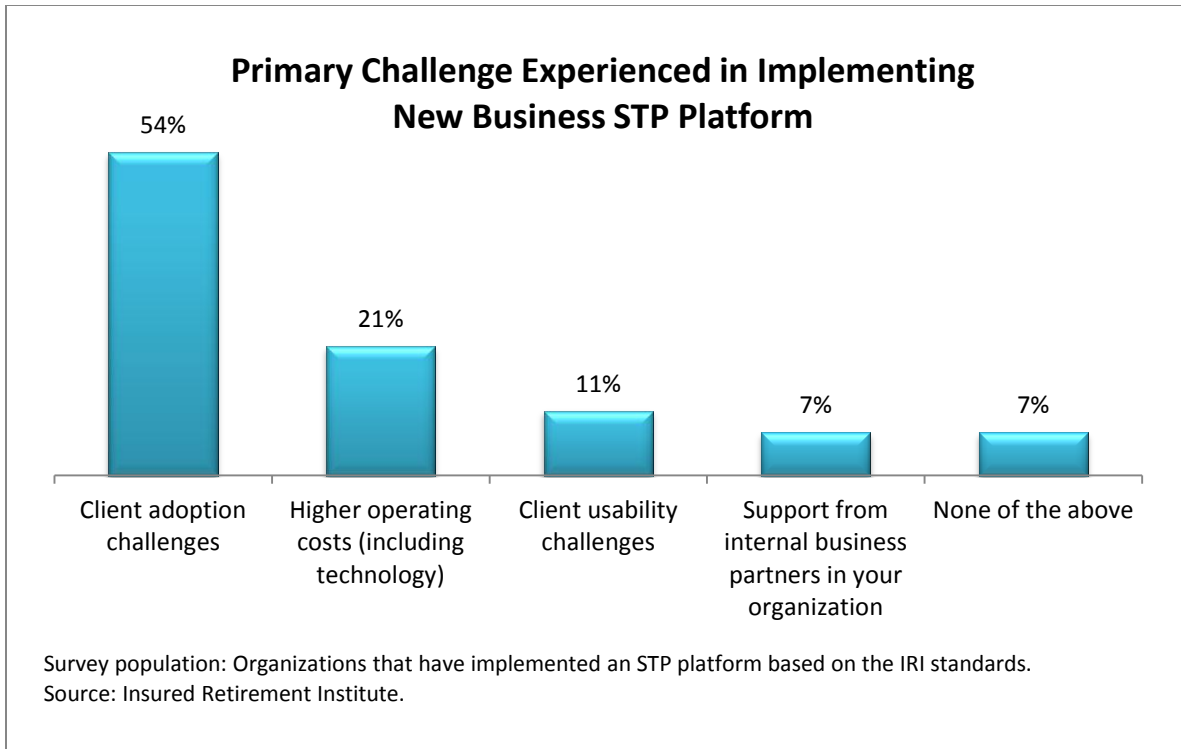
Approximately one-third (36%) of respondents noted that the implementation of the IRI STP standards was part of a larger strategy to streamline processing. This aspect was also recognized as the greatest benefit of STP, post-implementation by respondents from distribution organizations.





### *STP Challenges*

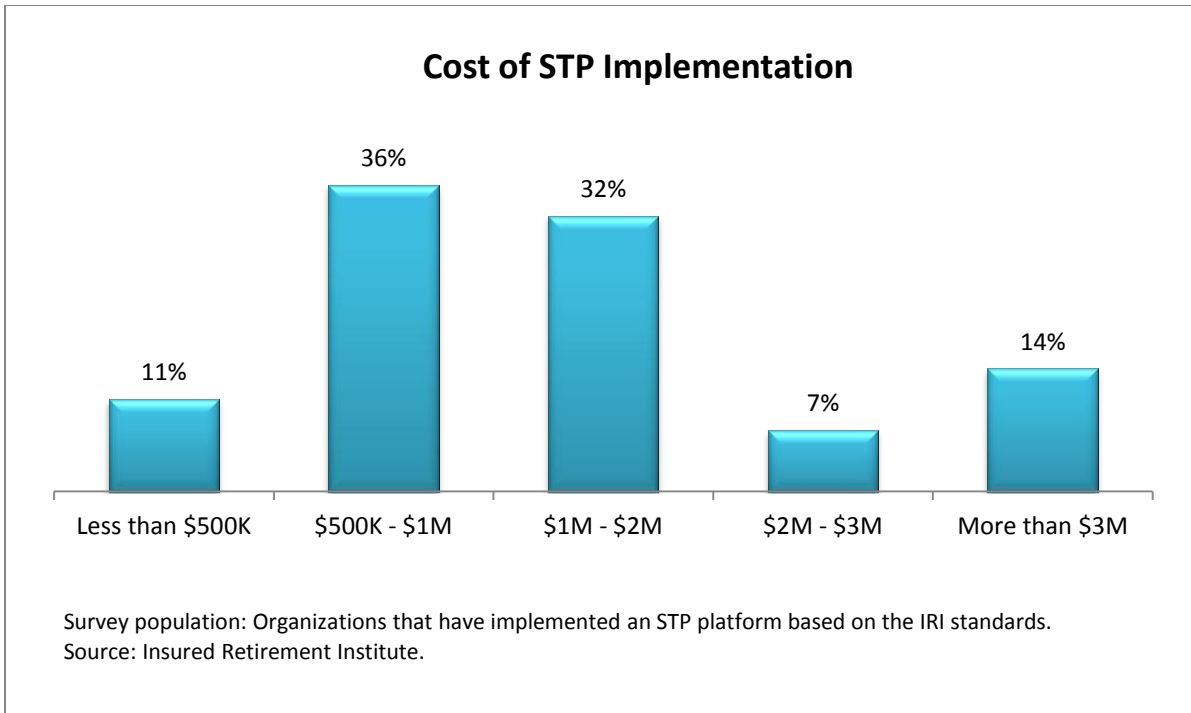
Yet, challenges persist, most notably as a consequence of a lower-than-expected rate of adoption by industry partners, a consequence of the recession of 2008. This lack of adoption has cut into some of the operational savings projected—21% of respondents cited higher operating costs resulting from lower-than-expected adoption. Yet, the outlook is positive for the next 1-2 years as one-quarter of respondents are planning to invest in an STP platform based on IRI standards, which will lead to additional unit cost reductions. Once again, the opportunity points to education, as well as enhancing the incremental revenue and operational savings component of the STP proposition. Bringing individual company success stories to the forefront may also prove beneficial.



#### *The Cost of STP Implementation*

A key obstacle to the implementation of an STP platform is that it is expensive. More than half of respondents spent more than \$1 million, while about one-third spent between \$500,000 and \$1 million to bring STP to fruition. Collectively, the industry has spent approximately \$40 million in the implementation of STP components. Of this amount, approximately 80% was attributable to insurers and 20% to distribution firms. The next step, therefore, is to look for opportunities to reduce implementation costs going forward. One way is a gradual introduction of the IRI STP components. Research conducted by IRI and LIMRA in 2009 showed that the path to STP is incremental—starting with automated order entry, then moving to electronic messaging, and then to electronic documents and signatures.





## Conclusion

The implementation of the IRI STP standards has progressed well since its inception, particularly among insurance companies and larger distribution firms. In the aftermath of the recession, there are nearly a dozen firms that have indicated plans to implement IRI STP, including several mid-tier distributors. Yet, they need to be prepared for the challenge of the high cost of implementation and ongoing operations. In addition, the low rate of adoption to date, as well as the challenges of providing client-centric benefits during difficult economic environments, makes it difficult to measure an immediate return on investment. Still, some firms are finding success—particularly with the reduction of applications not in good order (NIGO) and the introduction of e-signatures. These success stories, as well as more education on the guiding principles and their underlying benefits, are expected to promote further adoptions of the IRI STP standards going forward.

## **Methodology**

The Insured Retirement Institute (IRI), through its Operations and Technology Committee, conducted a survey to measure the experiences of member firms that implemented some or all of the components of straight-through processing (STP) platforms. One hundred members of the IRI Operations and Technology Committee were selected to complete the survey; 49 individuals representing various firms responded. The breakout of respondents by organization type represented was as follows:

- Insurance company: 75%
- Distribution organization (i.e., broker/dealer, bank, or independent): 21%
- Clearing organization: 4%

The data was collected in October 2011 and analyzed by the Committee in December 2011.