

IMPACT NOTE

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Digital Signatures for Annuities: An Authentication Workflow Review



Insured Retirement Institute

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INTRODUCTION

The new-business workflow for annuities has improved significantly over the past six years. The largest manufacturers and distributors of these products now use electronic order-entry services from companies such as Ebix and Insurance Technologies that can enable paperless new-business processing. There's one problem: Much of the industry, both annuity manufacturers and distributors, still relies on a digital signature workflow that unnecessarily obstructs the client experience and effective, efficient annuity product sales.

This Aite Group Impact Note reviews the wet and digital signature processes currently used for new-business annuity transactions and recommends broader adoption of an alternative workflow that is currently being used successfully by financial services firms, including many of the top 20 life insurance companies.

This Impact Note is relevant to marketing, product, legal, and information technology leaders and managers at broker-dealers, banks, and other distributors of annuities as well as the U.S. life insurance companies that manufacture annuity products.

METHODOLOGY

Aite Group developed and researched this Impact Note by collaborating with the digital signatures working group of the Insured Retirement Institute. We also used research included in the November 2013 research report *Annuity Carriers: Innovate Products, Processes, and Technology or Be Left Behind*.

WET SIGNATURES: THE CURRENT APPROACH

Eighty percent to 90% of financial advisors' U.S. annuity sales are made face to face with the client. Up until 2006, paper applications remained the dominant order-entry approach for annuities, even from the largest broker-dealers and banks. From 2006 to 2012, many of the 20 largest annuity carriers spent multiple millions of dollars on technology initiatives that enabled electronic order entry for annuities from the top 10 broker-dealers and banks. Expanding electronic order entry to smaller banks, broker-dealers, and financial advisors has now become a major focus for leading order-entry vendors such as Ebix, iPipeline, and Insurance Technologies.

The electronic order-entry initiatives to date have significantly driven down new-business turnaround times and improved the client experience. They have also greatly improved suitability compliance and generated significant cost savings for the largest insurers. Each avoided not-in-good-order (NIGO) annuity incident saves US\$250 to US\$300 in processing costs, on average, equating to millions of dollars in yearly savings for large annuity products writers.¹

Adopting a less intrusive digital signature process over the past two to three years, many of the largest annuity carriers and distributors have made significant progress with making new-business annuity transactions completely paperless. But outside of the Tier-1 insurance companies that manufacture annuity products, most of the industry has not implemented a digital signature approach that fits into the existing sales process while also providing adequate legal protection to the insurance company receiving the funds for the new annuity. Figure 1 shows the still common wet signature workflow for a new-business annuity transaction.

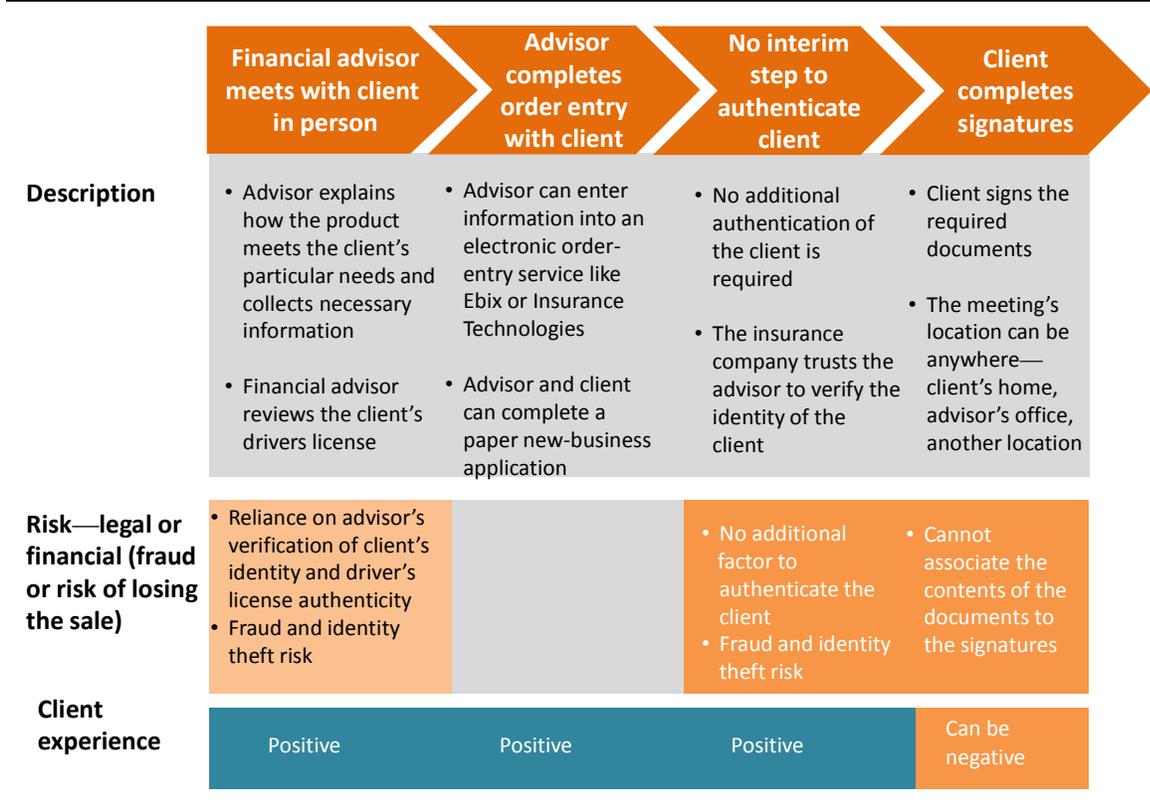
It is still common for the client to meet face to face with the financial advisor to complete wet signatures of all the relevant forms, even though the client could complete them via a digital signature. The wet signature process often inconveniences the client and disrupts the sales process. For instance, if a client needs or wants to review the details separately from the financial advisor, he or she must either return to the advisor's office to sign the paper, meet somewhere else, or fax/scan the documents.

Besides creating additional workflow for the client and the advisor, the wet signature approach exposes the related insurance companies to two avoidable risks:

- **Relying only on a driver's license for the financial advisor to authenticate the client:** To authenticate the identity of the client, insurance companies rely on the financial advisor to match the driver's license to the client. There is no additional authentication of the validity of the driver's license. This results in avoidable fraud and identity theft risk.
- **Inability to ensure the integrity of the application forms:** With wet signatures, it is not possible to ensure that the signed forms are associated with the signature itself and not subject to change without an exception being generated.

1. Insured Retirement Institute Straight-Through Processing Initiative Update, February 2012.

Figure 1: Commonly Used Wet Signature Workflow for Annuities New Business



Source: Aite Group, Insured Retirement Institute

DIGITAL SIGNATURES: ANOTHER COMMON APPROACH

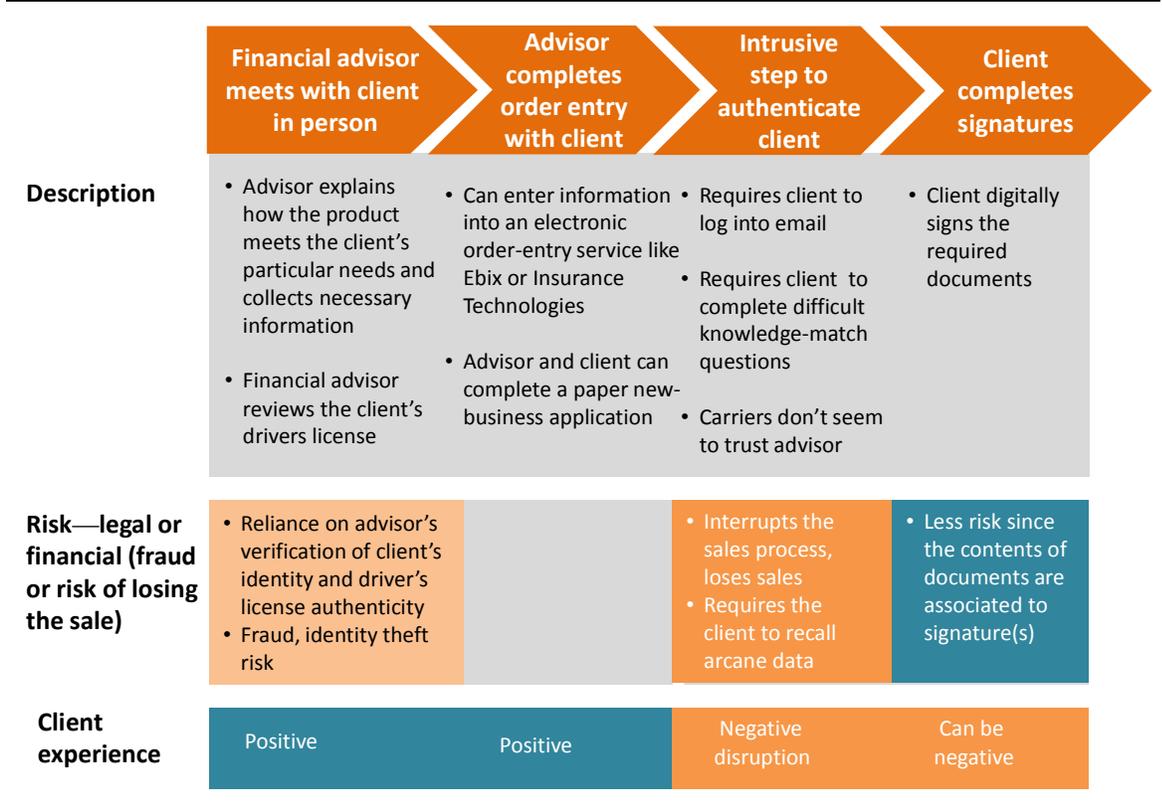
Digital signatures provide an important benefit that the traditional wet signature process cannot provide. Digital signature documents can provide a robust, verifiable signature and a detailed audit log of the entire workflow as well as signature location capture and time stamps. Insurance carriers and distributors can validate the authenticity of the signature using any PDF reader. Additionally, digital signature orders can prevent cross-outs or edits that could cause a NIGO. It is because of these features that digital signatures actually provide more evidence of the signing session and validity of the signer.

Using digital signatures does not and should not change the sales workflows that financial advisors and clients want to use to complete transactions for new annuity products. The financial advisor will still meet in person with the client and usually enter the information into an electronic order-entry service (Figure 2).

But while it remains common for distributors and insurance companies to only require the financial advisor to authenticate the client's identity using a driver's license for wet signatures, many digital signatures often require an additional, counterintuitive authentication step. This often results in the client defaulting to the wet signature approach or questioning the sale itself. Many distributors and insurance companies require the client to do two things:

- **Sign documents remotely, even though 90% of annuities are sold face to face:** Clients must log in to a computer or tablet to gain access to their email using their own password to initiate the signing. This process occurs even if they have completed the order-entry process at the advisor's office. The client must interrupt and undermine the sales process by going home and logging into a signing portal to complete the transaction.
- **Complete an often difficult full-knowledge match process:** Instead of trusting the financial advisor to authenticate the client via a driver's license review, the client can only gain access to the signing portal after providing arcane information like the address he or she lived in at 15 years ago or the current balance of his or her car loan. Particularly for clients who are more than 60 years old, which is common for annuity buyers, these questions can be frustrating and disruptive to the sales process.

Figure 2: Commonly Used Digital Signature Workflow for Annuities New Business



Source: Aite Group, Insured Retirement Institute

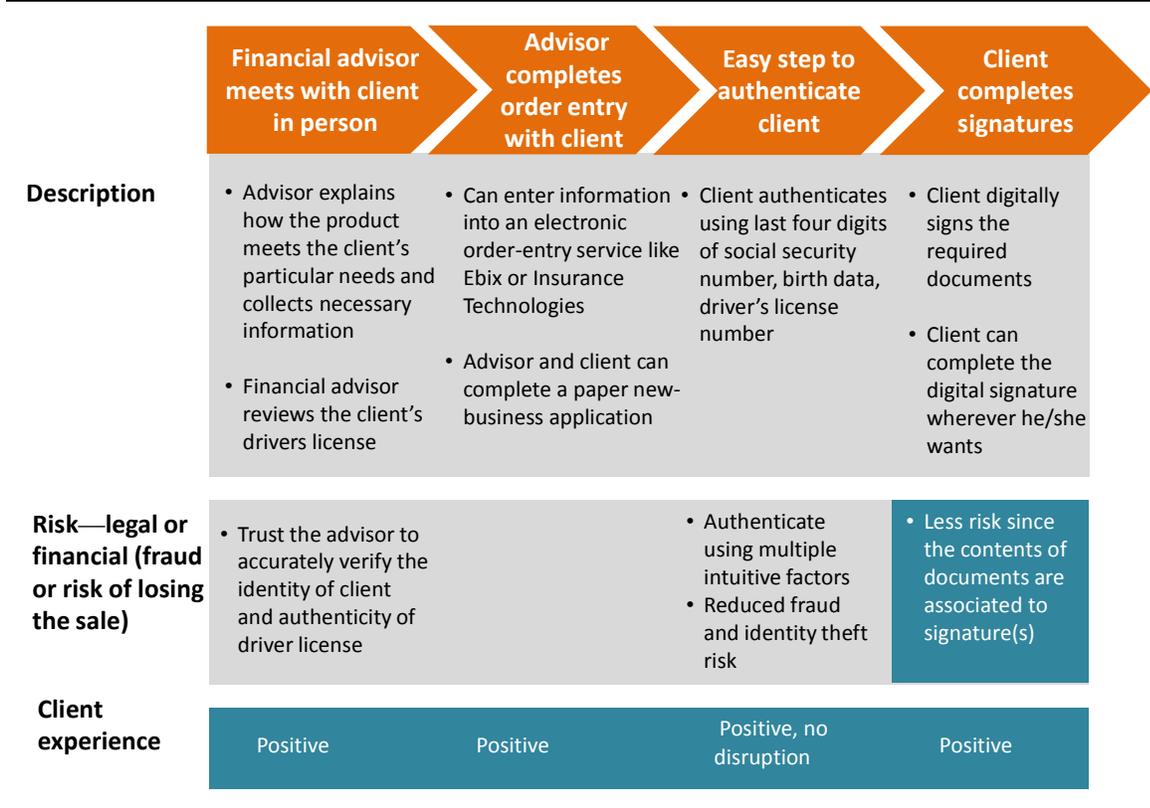
DIGITAL SIGNATURES: A GROWING BEST PRACTICE

A digital signature approach successfully used by several financial firms, including many of the largest life insurance carriers, achieves multifactor authentication of the client without disrupting the sales process. Distributors and life insurers not using this process should evaluate, test, and potentially adopt this more streamlined approach to collecting signatures and client authentication for new-business annuities.

The Communication Intelligence Corp. (CIC) patent pending process that exhibits a best practice for e-signing contracts begins after completing the electronic order entry, wherever this might be done (e.g., the financial advisor's office, the client's home, or at a Starbucks). The financial advisor initiates the seamless client signing process. Via integration with the order-entry platform, the financial advisor opens a secure signing portal that facilitates the collection of the client's signature. Each signer is assigned a "sign now" button to initiate his or her signing session. To begin signing, each signer clicks on a link and must provide a simple, intuitive validation that shows that the intended recipient (signer) is the same person who the financial advisor validated with the driver's license. The information used for validation can be any known data that was entered during order entry: for example, the last four digits of the client's social security number, or his or her birth date or driver's license number. This data is then matched to the information provided during the order-entry process.

The financial advisor still matches the driver's license to the client, but the matching of the other information now provides multifactor authentication that reduces fraud and identity theft risk in an intuitive, nonintrusive way for the client. New-business annuity transactions expose the transaction participants to relatively low risk, since there is no ceding insurance company that loses assets, only a receiving insurance company that receives new assets. For this reason, these Tier-1 life insurance companies have determined that the workflow approach illustrated in Figure 3 achieves the necessary level of multifactor authentication without disrupting the sales process and needlessly endangering new sales. At least one of the Tier-1 firms has extended this Communication Intelligence Corp. (CIC) signing portal further by including an email button that allows the financial advisor to send the signing link to the client via email for remote signing. The financial advisor and client can then sign whenever and wherever is most convenient for them.

Figure 3: Best Practice Digital Signature Workflow for Annuities New Business



Source: Aite Group, Insured Retirement Institute

CONCLUSION

The largest annuity distributors and manufacturers have made significant progress over the past six years with standardizing and adopting electronic order-entry processes for annuities. Many of the 20 largest life insurance companies have also adopted an improved, less intrusive approach to digital signatures, allowing the annuities new-business process to be completely paperless except for required state-based paper forms. But most life insurance companies and distributors have failed to standardize and adopt a digital signature process that can allow for completely paperless transactions. They should do the following:

- Match the risk of annuity new-business transactions to the appropriate level of authentication.
- Quit subjecting digital signatures to unnecessary requirements that significantly disrupt the sales process and mitigate adoption.
- Replace the current full knowledge match and forced remote signing process for digital signatures.
- Adopt a more streamlined, intuitive authentication approach that will not disrupt the sales process and allows for wide adoption of digital signatures.
- Combine the more intuitive approach to multifactor authentication with flexible in-person and remote signing alternatives that maximize convenience for the client and further maximize adoption.

RELATED AITE GROUP RESEARCH

Jefferson National: A Winning Variable Annuity Formula for Gen X and Y Investors, March 2014.

Top 10 Trends in Insurance, 2014: Becoming More Customer-Centric, January 2014.

Five Keys to Unlocking the Lifetime Income Annuity Safe, March 2014.

Annuity Carriers: Innovate Products, Processes, and Technology or Be Left Behind, November 2013.

ABOUT AITE GROUP

Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities & investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

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