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### This Week

[News](#)  
[Market Report](#)  
[Buyers Report](#)  
[Technology Trends](#)  
[Opinion](#)  
[NAPSLO Daily News](#)

### Channels

[Agent/Broker](#)  
[E&S/Specialty Markets](#)  
[Insurance Companies](#)  
[Risk Management](#)  
[Technology](#)  
[Asbestos & Mold](#)  
[Auto & Homeowners](#)  
[Bermuda Market](#)  
[Claims And Fraud Services](#)  
[Environmental/Pollution Coverage](#)  
[More Channels...](#)

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[Letters To The Editor](#)  
[Story Ideas](#)

### Events

[ACE/SCLA](#)  
[Workers' Comp Conference](#)  
[Events Calendar](#)  
[Submit Event](#)  
[Edit Event](#)

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[Associations](#)  
[Industry Links](#)  
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[Agent/Broker Buyers' Guide- Search Listings](#)

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## Breaking News

# EU Outsource Rule To Impact U.S. Global Insurers

BY DANIEL HAYS

NU Online News Service, Sept. 14, 2:41 p.m.  
EDT

U.S. insurers operating in the European Union by November will face difficult new regulatory restrictions on their outsourcing operations, warns an international law firm.

The alert from the Brown Rudnick firm concerns the European Union Markets in Financial Instruments Directive known as MiFID--a regulation that is part of the EU's Financial Services Action Plan, designed to create a single European financial services market.

It is estimated it will cost European Economic Area financial services firms 1 billion euros (about \$1.27 billion at current exchange rates) to comply with MiFID regulations.

Dov Scherzer, technology and outsourcing group practice leader at Brown Rudnick in New York, explained that the regulations require firms to put a structure in place to make sure all the outsource firms they deal with are complying with existing rules and regulations they operate under, and that simply making it part of contract language is not enough.

MiFID requires companies to build an in-house unit to manage outsource operations compliance with regulations, and not delegate compliance.

The firm must also be able to continuously monitor the outsource operation's quality, as well as have disaster recovery and business continuity plans in place for the outsource provider.



"If you want to outsource the back office, you can't outsource regulatory obligations," said Simon White, in the London corporate group of Brown Rudnick. "You need a credible in-house management function to manage the outsource provider."

The new directive, according to Mr. Scherzer, will apply to existing outsourcing agreements that insurers have, creating a "backward and forward looking impact."

Mr. White noted that in some cases large U.S. insurers may be outsource providers to European firms, and as such fall under the coming regulations as well.

One of the effects of complying with the new directive, Mr. White said, is that "smaller insurers may say it's so expensive, the only way forward is merging."

The attorneys noted that compliance systems often rely on expensive IT platforms that smaller firms lack the capital to support.

In an alert to clients, they wrote that the directive will "affect profoundly the conduct of business" for firms that operate within EU.

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