



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



PRICEWATERHOUSECOOPERS LLP



2013 CEFLI-PWC Compliance and Ethics Benchmarking Survey Executive Summary



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Introduction

Compliance and ethics within the life insurance industry continues to evolve. As part of CEFLI's mission to serve the needs of the life insurance industry's compliance and ethics professionals, CEFLI has joined with CEFLI Affiliate Member organization PricewaterhouseCoopers LLP to develop and conduct its 2013 Compliance and Ethics Benchmarking Survey (the "Survey") to gauge the current state of compliance and ethics in the life insurance industry. Each year the Survey is designed to capture data associated with the current state of compliance and ethics functions within the life insurance industry. This year's Survey allows CEFLI to compare data derived through its 2012 Survey with a view toward identifying possible trends that may be of interest to the life insurance industry's compliance and ethics professionals and senior management. This report summarizes the key findings of the Survey.



Purpose

The purpose of this Survey was to determine the current state of the compliance and ethics functions within the life insurance industry. To gauge current practice, the Survey asked objective questions designed to identify overall staffing, organizational structure, budgeting, compensation, roles and responsibilities to allow respondents to comment upon practices that exist within their respective organizations.

The Survey sought to confirm distinctions between the important roles of compliance and ethics within organizations by gauging the extent to which organizations have established separate departments to address each of these functional areas as well as naming distinct executive officers (i.e., naming a Chief Ethics Officer in addition to a Chief Compliance Officer (CCO)). To achieve this objective, the Survey explored various organizational structures applicable to the compliance and ethics function within life insurance companies.

The Survey also collected data associated with staffing, budget and resources as a way to gauge differing levels of resource commitments across organizations of different sizes and different scope.

The Survey also sought to evaluate how various compliance matters may be handled within respective organizations. The Survey reviewed subject matters such as consumer protection, fraud prevention, privacy and confidentiality and anti-money laundering to determine whether these areas were the sole responsibility of the compliance function or whether other organizational departments were involved in their analysis.

Through evaluating this data, CEFLI will be able to establish a benchmark that can be used in later years to begin to evaluate trends in the design, staffing and budgets dedicated to supporting the compliance and ethics function within the life insurance industry.



Methodology

To complete its review, CEFLI solicited input from both CEFLI-member life insurance companies as well as non-CEFLI member companies. CEFLI received Survey responses from 50 life insurance companies across a range of company sizes (large, medium and small).

Survey respondents were asked to indicate the size of their organization based upon annual direct written premium for the organization.

For purposes of the Survey, large life insurance companies were characterized as organizations generating annual direct written premium in excess of \$10 billion annually, medium companies were characterized as organizations generating annual direct written premium of between \$1 billion-\$10 billion annually and small companies were characterized as organizations generating annual direct written premium of \$1 billion or less annually. Survey responses were received from a broad range of companies including large life insurance companies (20%), medium companies (36%) and small (44%) sized companies.

The overwhelming majority (96%) of organizations responding to the Survey indicated that their primary lines of business were represented by life insurance and annuity products. Most organizations (92%) responding to the Survey indicated that they operated primarily within the United States while a smaller number of organizations (8%) indicated that they operated in several other countries worldwide. For the most part, respondents to the Survey represented the compliance function within their respective organizations whereas a few Survey responses were submitted by an organization's General Counsel or Internal Auditor.

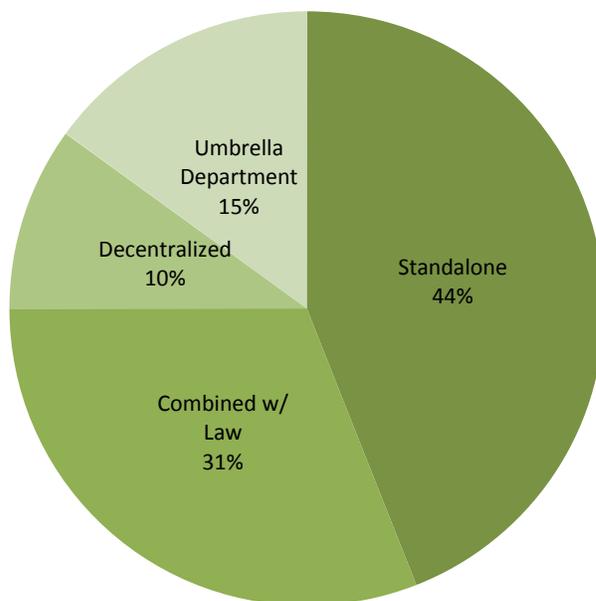
In sum, the Survey respondents constituted a representative cross-section of individuals with responsibility for the compliance and ethics function from organizations distributing life insurance and annuity products within the life insurance industry.



Summary

The overall Survey results indicate that there continues to be strong support for sound compliance and ethics practices in the life insurance industry. These findings are supported by Survey respondents who work in the compliance and ethics functions within their respective companies and, therefore, have unique insights into the compliance and ethics functions of their companies.

Organizational Structure



The Survey found that companies apply a variety of organizational structures with respect to their compliance departments. The largest percentage of Survey respondents indicated that their companies are organized in a way that allows the compliance department to serve as a standalone department. The results of the 2012 Survey indicated that this practice of separate departments was dominated primarily by large companies. In contrast, the results of this year's Survey indicate that more medium and small-sized

companies are moving to an organizational model that allows compliance to be distinct from the legal department. However, this year's Survey results still indicated that many companies maintain an organizational structure that places the compliance function within the legal department. A smaller number of companies have chosen to pursue a decentralized compliance organizational model that embeds compliance employees within specific business units while still others choose what could be described as a



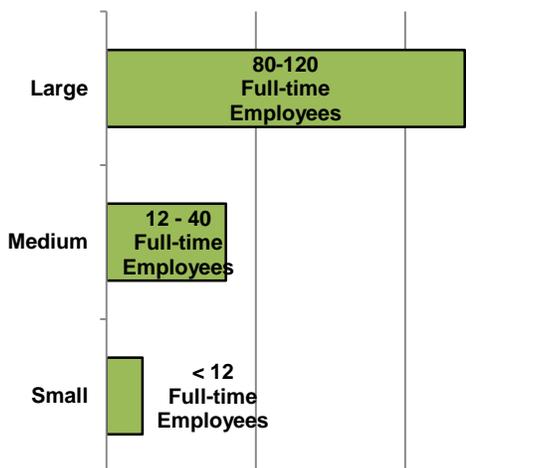
"hybrid" model where compliance serves as an "umbrella department" with compliance representatives embedded within specific business units.

While virtually all Survey respondents indicated that their organizations maintain a position for a Chief Compliance Officer, the nature of the reporting relationships for Chief Compliance Officers differed. The most common reporting relationship for the Chief Compliance Officer is to report to the company's General Counsel with many Chief Compliance Officers also having a "dotted line" reporting relationship to the company's Chief Executive Officer or other executive (e.g., Chief Risk Officer).

One of the key functions for a Chief Compliance Officer is to provide written reports of compliance outcomes for the company's Board of Directors (or Board Committee). For many Survey respondent companies, these reports are required to be provided on a quarterly basis. In some instances, the reports are delivered to the Board by the Chief Compliance Officer whereas in other cases the reports are developed by the Chief

Compliance Officer and are delivered by the company's General Counsel or CEO.

Full-time Employees



As anticipated, staffing levels and budgeting allocations within compliance and ethics departments were driven largely on the basis of company size (i.e., larger companies required more compliance and ethics staff). It is interesting to note that compliance and ethics professionals affiliated with small companies often have to cover a significant range of issues with relatively limited staff. We have heard anecdotal reports suggesting that compliance and ethics professionals affiliated with small companies place high



value on networking opportunities with other compliance and ethics professionals as a way to gather additional insights into compliance challenges and leverage their compliance resources. Alternatively, large companies appeared to exhibit a greater degree of flexibility with respect to their assignment of staff to specific subject matters and the overall budget resources available to achieve their compliance and ethics objectives.

The Survey also sought to determine changes in compliance staffing over the past 18 months. While the recent economic downturn may have served as a rationale for overall corporate staffing reductions that may have impacted compliance departments as well, Survey respondents indicated that reductions in compliance staff were part of company-wide decisions to reduce staff which were applicable to all employees rather than a lack of dedication of resources to the compliance function. In fact, in many cases, companies added to compliance staff notwithstanding this recent challenging economic environment.

Survey respondents indicated that any reductions in compliance staff were part of company-wide decisions to reduce staff which were applicable to all employees rather than a lack of dedication of resources to the compliance function.

This year's Survey also sought to determine the extent to which companies maintain a separate ethics (or business conduct) program (as distinct from compliance). Consistent with the results of last year's Survey, this year's Survey continues to confirm that a small percentage of companies (primarily large companies) maintain a separate ethics (or business conduct) program. For most companies, the ethics program is embedded in the overall compliance and ethics program. In a few cases, some companies require business units to develop distinct ethics programs related to specific business functions.



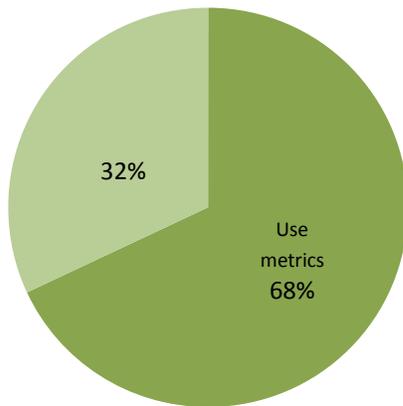
This year's Survey results also confirmed last year's Survey results to note that a small percentage of companies maintain a separate position for a Chief Ethics Officer. Again, this practice is primarily associated with large companies who have had such positions in place for over 4 years. The Survey results indicated that most Chief Ethics Officers report to the General Counsel or to the CEO (and not to the Chief Compliance Officer). These results suggest that several companies have taken the step to formally recognize ethics as a functional business area distinct from compliance. For many Survey respondents, they indicated that responsibility for ethics within their respective organization lies within the role of the Chief Compliance Officer. This year's Survey also noted that several companies have moved to develop a single role of Chief Ethics and Compliance Officer as a way to acknowledge the independence though interrelatedness of these two important functions.

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The Survey also gathered data regarding the scope of subject matters falling within the compliance function. Specifically, Survey respondents were asked to identify those subject matters for which compliance is directly responsible. The Survey results indicated that, for most companies, consumer protection, anti-money laundering, regulatory relationships, fraud prevention, privacy and confidentiality in life insurance industry-specific regulations were areas for which the compliance department assumes primary responsibility. It also was recognized, however, that compliance is engaged in a variety of subject matters through coordination with other company functions to arrive at a successful resolution. Issues such as conflicts of interest, fair competition and antitrust matters, anti-corruption and bribery, intellectual property of insider trading were examples of issues that Survey respondents identified as often requiring coordination with other company functional departments.



The majority of Survey respondents (68%) indicated that they use some type of metrics in their evaluation of the effectiveness of their compliance programs.



Measuring the effectiveness of compliance programs is a growing and challenging issue. The Survey results indicated that more companies are moving to various compliance metrics as a way to measure the effectiveness of their compliance programs. For most companies, the effectiveness of the compliance function is evaluated periodically by their internal audit department. We were encouraged to observe that the Survey results indicated that many companies supplement this internal audit analysis of the compliance department's effectiveness through their

own self-assessment processes. Of those companies that reported that they conduct self assessments of their compliance function, over half indicated that they conduct these self assessments on a continuous basis. For companies that use compliance metrics to evaluate their compliance function, the most common metrics cited were complaints, replacements, trend monitoring and regulatory fines and penalties.

When asked to describe their ethics program, the Survey results indicated that companies that maintain ethics programs utilize many elements to achieve their program objectives. These elements include: code of ethics/conduct, training, communication, anonymous reporting, and ethics hotline, whistleblower hotline and investigations. Companies also use a variety of techniques to

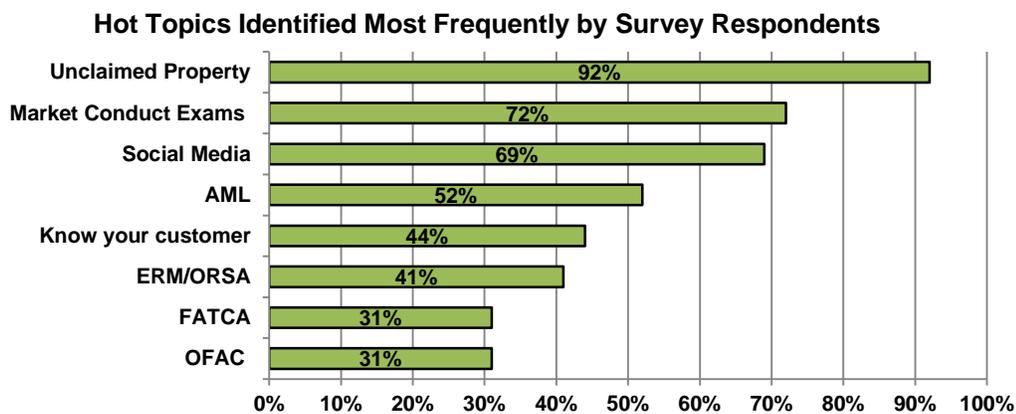
For most companies, the effectiveness of the compliance function is evaluated periodically by their internal audit department. We were encouraged to observe that the Survey results indicated that many companies supplement this internal audit analysis of the compliance department's effectiveness through their own self-assessment processes. Of those companies that reported that they conduct self-assessments of their compliance function, over half indicated that they conduct these self-assessments on a continuous basis.



reinforce the importance of ethics with their staff. These practices include use of company intranets and public statements by senior management to reinforce the importance of ethics in the company's culture of compliance. We also were encouraged to see that many companies have taken the step to include ethics and adherence to the company's values as part of an employee's performance evaluation criteria.

Slightly over half of the Survey respondents indicated that they convene a Compliance Committee periodically which is comprised of representatives from other company functional areas to review and resolve various compliance issues. The functional areas that most Survey respondents identified as serving on their Compliance Committee include: legal, operations, sales and marketing, internal audit in human resources.

Most Survey respondents indicated that their organization utilizes technology specifically tailored to address their compliance needs. The issues that were cited most commonly as requiring specific technology needs included: data security and privacy, anti-money laundering practices, record retention technologies and legislative and regulatory monitoring.



We concluded this year's Survey by asking the respondents to identify what they considered to be the "hot topics" facing the life insurance industry compliance and ethics professionals over the months ahead. The topics they identified (listed in descending



order) were: unclaimed property, market conduct exams, social media, anti-money laundering, know your customer, ERM/ORSA, FATCA and OFAC.

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CEFLI and PricewaterhouseCoopers LLP would like to thank all compliance and ethics professionals from CEFLI Member Companies as well as non-CEFLI Member Companies who responded to the 2013 CEFLI Compliance and Ethics Benchmarking Survey for offering their insights and perspectives. We hope that all Survey respondents find this information to be useful. CEFLI also would like to thank its Member Companies and Affiliate Members for their financial support of the 2013 CEFLI Compliance and Ethics Benchmarking Survey.

THE FORUM THAT CONNECTS.



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