



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



2014 CEFLI Compliance and Ethics Benchmarking Survey Report Executive Summary



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Introduction

CEFLI is pleased to report the results of its 2014 Compliance & Ethics Benchmarking Survey. As part of CEFLI's mission to serve the needs of the life insurance industry's compliance and ethics professionals, CEFLI has invited compliance and ethics professionals from across the life insurance industry to participate in Surveys over the past several years to allow CEFLI 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 continue to compare data derived through its prior Surveys 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 of compliance and ethics professionals and significant compliance and ethics issues to allow respondents to comment upon practices that exist within their respective organizations.

Since its inception, the Survey has sought to identify distinctions between the important roles of law, compliance and ethics within organizations. To achieve this objective, the Survey gathered information regarding the organizational structure of law and compliance departments (and, as applicable, ethics departments) to determine the current rationale underlying decisions to combine these functions or to allow them to remain distinct. The Survey also gathered information concerning the reporting responsibilities of chief compliance officers and the interrelatedness of their responsibilities with other corporate functions.

As in past years, the Survey collected data associated with staffing and budgetary resources devoted to compliance and ethics to gauge differing levels of resource commitments across organizations of different sizes and different scope.

Through the comparison of the responses to this year's Survey versus past annual Survey responses, CEFLI will be able to use the findings of this year's Survey 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 123 life insurance companies across a range of company sizes (large, medium and small).

Survey respondents were asked to identify the size of their organization based upon the number of overall employees. For purposes of this year's Survey, small life insurance companies were characterized as organizations with less than 500 employees, medium companies were characterized as organizations having between 501-10,000 employees and large companies were characterized as organizations having 10,001 or more employees. Survey responses were received from a broad range of companies including large life insurance companies (14%), medium companies (54%) and small size companies (32%).

When asked to identify their role within their organization, the majority of Survey respondents (63%) characterized themselves as "compliance professional." Other Survey respondents identified themselves as "chief compliance officer" (16%), general counsel (6%), "ethics professional" (4%) and others (11%) identified themselves in a variety of other different positions including, but not limited to, chief aml officer, chief risk officer, chief privacy officer, senior counsel and vice president-internal audit.

In sum, the Survey respondents constituted a representative cross-section of individuals throughout the life insurance industry with responsibility for the compliance and ethics function within their respective organizations.



Summary

CEFLI's annual Compliance and Ethics Benchmarking Survey serves as a gauge to provide periodic feedback on the current state of compliance and ethics practices in the life insurance industry. By observing Survey responses over several years, it is clear that the compliance and ethics function at life insurance companies continues to evolve to reflect the changing nature and scope of compliance and ethics challenges faced by life insurance companies.

To confirm the growing role of compliance as a distinct corporate function within life insurance companies, a majority of life insurance companies have established separate law and compliance departments in their organizational structures. These developments confirm the distinct technical expertise and responsibilities associated with life insurance company compliance initiatives.

These organizational trends are further differentiated when analyzing the distinct roles of law, compliance and ethics within life insurance companies. This year's Survey results continue to confirm a growing trend (primarily among larger companies) toward identifying distinct law, compliance and ethics functions within life insurance companies. However, when asked whether these functional distinctions translate into separate organizational departments for compliance and ethics, most Survey respondent life insurance companies indicated that they have not established separate compliance and ethics departments.

The Survey results continue to confirm that the majority of chief compliance officers in the life insurance industry report to their company's general counsel. This year's Survey results also indicate a growing trend to have chief compliance officers report directly to their company's Board of Directors or other appropriate Board Committee. These practices are likely to become more prevalent within the life insurance industry in light of impending regulatory developments pertaining to corporate governance practices.



The Survey confirmed that the size of the compliance and ethics staff at life insurance company varies according to company size. Most small companies maintain a compliance and ethics staff of 1-5 people, medium size companies maintain a compliance and ethics staff of between 10-49 people and some large companies maintain a compliance and ethics staff in excess of 300 people.

The Survey also analyzed data based upon year-to-year staffing and budgeting on a retrospective and prospective basis in light of a changed economic environment over the past several years. Though the majority of life insurance companies indicated that they had no additions to their compliance and ethics staff in 2014 versus 2013, several life insurance companies have indicated that they plan to add additional staff in 2015. And while many life insurance companies indicated that their compliance and ethics budget remained the same in 2014 versus 2013, several medium and large size companies indicated that their anticipated 2015 compliance and ethics budget will be greater than their 2014 compliance and ethics budget.

It came as no surprise that the majority of life insurance companies describe their most senior enterprisewide compliance professional as "chief compliance officer." Compensation associated with these positions varies with a range of \$100,000 to over \$500,000 at various size life insurance companies. The Survey also confirmed a growing trend toward identifying individuals to serve as chief compliance officers for specific business units within a life insurance company. Business units that most often have a dedicated chief compliance officer within life insurance companies include a life insurance company's broker-dealer, life insurance product line, annuities product line or the company's investment adviser,

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as applicable. It is not unusual for these business unit chief compliance officers to have 5-20 direct reports and, in selected instances, some business unit chief compliance officers of large companies may have in excess of 30 direct reports.

In its past Surveys, CEFLI has continued to monitor the extent to which life insurance companies have established a chief ethics officer position within their organizations. Year-to-year trend analysis suggests that a growing number of large companies have chosen to identify an individual to serve as the company's chief ethics officer. In addition, this year's Survey also gauges the extent to which life insurance companies have begun to name an individual to serve as chief suitability officer. Though relatively few life insurance companies have not yet taken the step of naming a chief suitability officer, this nascent trend within the life insurance industry will continue to be monitored in the years ahead.

This year's Survey also explored the question of succession planning within the compliance and ethics function at life insurance company. The majority of life insurance companies reported that their organization has a formal succession plan in place to replace a departed chief compliance officer. The Survey also explored how companies find potential chief compliance officer candidates and whether companies maintain preferences with respect to the educational and experience qualifications for prospective compliance officers. Most companies work with their senior compliance and business staff to identify potential candidates to become a company's chief compliance officer. A majority of companies expressed a preference to identify individuals with a legal education to serve as a life insurance company's chief compliance officer. Yet, even companies that expressed a preference to identify candidates with a legal education reported they would not disqualify a non-lawyer candidate from becoming a chief compliance officer with their company. Factors such as business experience, sales experience, senior leadership experience and prior service as a chief compliance officer

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were rated as more important factors than having a legal education when evaluating candidates to become a chief compliance officer.

The Survey once again confirmed that the life insurance industry has done a commendable job of instilling strong corporate ethics and values throughout their corporate cultures. A majority of Survey respondents confirmed their strong support for positive value statements when evaluating the ethics and integrity of their company and its senior management.

Survey respondents identified many common elements when describing the components of their company's ethics program. These elements include: a code of ethics/conduct, training, communication, anonymous reporting, ethics hotlines and investigations. Companies reported a variety of techniques used to raise awareness of ethics within their organizations including use of internal company intranets, executive speeches and messages, internal meetings and newsletters. The Survey also confirmed that ethics and adherence to company values have become a formal and documented part of employee performance evaluations at many life insurance companies.

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Recognizing CEFLI's growing leadership role in compliance and ethics education and training in the life insurance industry, this year's Survey gathered data to evaluate the compliance educational and training needs of the life insurance industry. As part of this analysis, the Survey gathered data to determine the extent to which life insurance companies utilize external resources as a component of their overall education and training programs. The Survey results found that many life insurance companies utilize external resources as a supplement to their own internal training programs. When asked to evaluate various types of education and training opportunities available throughout the life insurance industry, over 80% of Survey respondents identified CEFLI education and training activities as being important or very important external resources



for their company's compliance training program. This data will help CEFLI to further refine the types of compliance educational and training opportunities it will develop to support the needs of the life insurance industry's compliance and ethics professionals.

Finally, the Survey asked respondents to evaluate the issues that consumed the most compliance resources in 2014 and to anticipate the most significant compliance challenges facing the life insurance industry in 2015. Not unsurprisingly, unclaimed property and enterprise risk management issues led both lists of key issues in 2014 and 2015.

We hope that readers of the 2014 CEFLI Compliance and Ethics Benchmarking Survey Report will find this information useful in comparing their current compliance and ethics strategies versus compliance and ethics strategies employed elsewhere throughout the life insurance industry. CEFLI will continue to monitor these compliance and ethics developments in years ahead and extends its sincere thanks to all life insurance industry compliance and ethics professionals who took time to respond to the Survey to contribute to the collection of data for the 2014 CEFLI Compliance and Ethics Benchmarking Survey.

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CEFLI would like to thank all compliance and ethics professionals from CEFLI Member Companies as well as non-CEFLI Member Companies who responded to the 2014 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 2014 CEFLI Compliance and Ethics Benchmarking Survey.

THE FORUM THAT CONNECTS.



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