



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



CEFLI
Compliance Metrics
Benchmarking Survey Report
Executive Summary



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Introduction

In today's demanding business and regulatory environment, all stakeholders demand accountability for the sound use of corporate resources. To be responsive to these concerns, compliance professionals have explored ways to demonstrate the effectiveness of their compliance programs to their business partners and other key stakeholders.

This interest in confirming the effectiveness of compliance programs has led to a growing interest in the field of compliance metrics. As interest in the field of compliance metrics has grown, compliance professionals in the life insurance industry have been interested in two primary objectives related to compliance metrics: (1) how compliance metrics can be used to monitor business operations; and (2) how compliance metrics can be used to demonstrate the effectiveness of compliance programs.

Through the support and encouragement of its member companies, CEFLI convened a Compliance Metrics Issue Forum to examine developments related to the use of compliance metrics within the life insurance industry. The work of the Compliance Metrics Issue Forum prompted development of this Compliance Metrics Benchmarking Survey (the "Survey") to gauge the current state of life insurance industry practice with respect to the use of compliance metrics. This Report summarizes the key findings of the Survey.



Purpose

The primary purpose of this Survey was to determine the current state of the use of compliance metrics within the life insurance industry.

The Survey results indicated that the implementation of compliance metrics programs throughout the life insurance industry continues to evolve. It is hoped that, by identifying and reporting on a range of current compliance metrics practices, this Survey can enhance existing compliance metrics programs and encourage the use of compliance metrics more broadly throughout the life insurance industry.

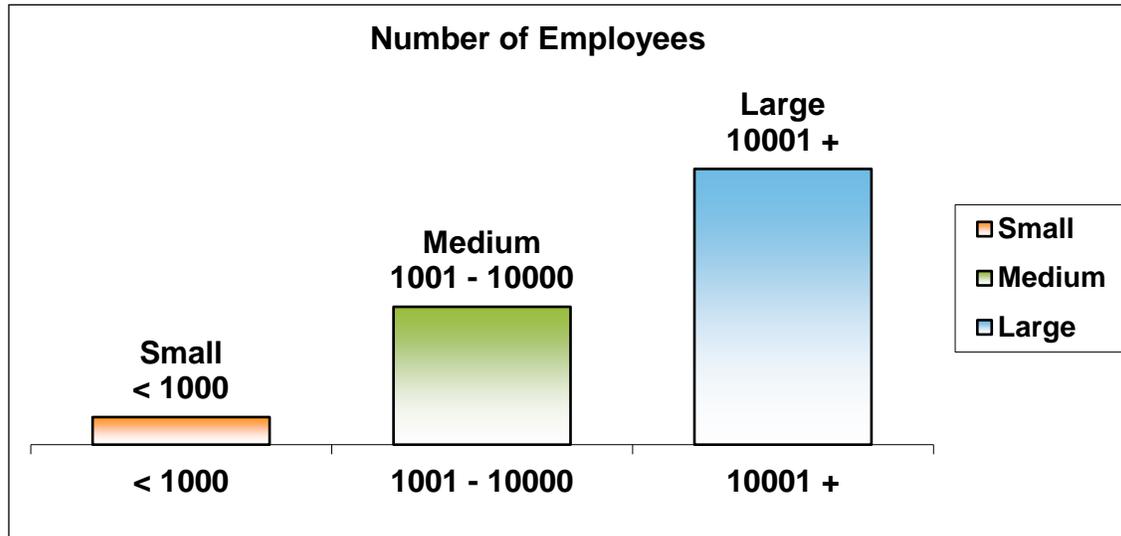
By conducting this analysis, CEFLI seeks to facilitate the continued exploration of the appropriate use of metrics for life insurance company compliance professionals. Although each company's approach to monitoring business operations and measuring the effectiveness of their compliance programs may differ, it is anticipated that this Survey will identify some key practices in the field of compliance metrics that could be considered by all life insurance companies as they seek to ways to evaluate their compliance programs objectively.



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 46 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 the number of employees.



For purposes of the Survey, large life insurance companies were characterized as organizations with 10,001 to 50,000 or more employees, medium companies were characterized as organizations with 1001 to 10,000 employees and small companies were characterized as organizations with 1000 or fewer employees. Survey responses were received from a broad range of life insurance companies including large companies (17%), medium companies (39%) and small (44%) sized companies.

The majority (91%) of Survey respondents reported working within the compliance or legal department of their respective organizations. Increasingly, these individuals are



called upon to account for the effectiveness of their company's overall compliance programs and risk management processes which has led to a growing interest in the field of compliance metrics.



Compliance Metrics in the Life Insurance Industry

Overview

The Survey sought to determine the extent to which compliance metrics are being employed by life insurance companies. To do so, the Survey asked respondents to indicate the current status of their company's compliance metrics program.

Companies across the life insurance industry are at different points with respect to their development and use of compliance metrics programs. Most Survey respondents (27%) indicated that their companies are in the process of developing a compliance metrics program. Several Survey respondents (22%) indicated that their companies have developed fully operationalized compliance metrics programs which are used on an ongoing basis to monitor business operations and measure the effectiveness of overall compliance programs with business partners. And, still other Survey respondents (13%) indicated that their companies do not have a formal compliance metrics program.

Challenges

When asked to identify the most significant challenge with respect to promoting the use of compliance metrics within their respective companies, Survey respondents (46%) indicated that developing pertinent compliance indicators in conjunction with business partners posed the most significant challenge. This factor was especially prevalent in Survey responses offered by representatives of medium and small sized companies.

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The Compliance Metrics Process

Overview

Many company functions may participate in the compliance metrics process at life insurance companies. Yet, the Survey sought to determine where ultimate responsibility for the overall compliance metrics process may lie within life insurance companies.

The Survey results confirmed that ultimate responsibility for the overall compliance metrics program in life insurance companies most often lies within the compliance function (77%) (as opposed to other strategies where ultimate responsibility may lie within law (7%), rely upon a coordinated approach across several functions (7%) or may lie within applicable business areas (4%).

Survey results confirmed that ultimate responsibility for the overall compliance metrics program in life insurance companies most often lies within the compliance function (77%).

The Full Survey Report reviews the elements of the compliance process including how compliance metrics are developed and reported, which company functions analyze compliance metrics data and recommend action plans and where primary responsibility may lie for implementing action plans and "signing off" on implementing those plans within life insurance companies.



Monitoring Business Operations

Replacements

Replacement activity provides several points of indicia for purposes of developing compliance metrics. Survey respondents confirmed that companies monitor replacement activity in a number of different ways.

The majority of companies monitor overall life replacement activity (80%) and overall annuity replacement activity (77%) as key compliance metrics. This response was consistent for companies of all sizes including large, medium and small.

Suitability

The Survey sought to identify various compliance metrics used to monitor the suitability of variable life insurance, variable annuities and fixed annuity products. Due to the similarity of suitability requirements under the federal securities laws and state insurance regulations, companies identified several common points of indicia for monitoring the suitability of variable life insurance, variable annuities and fixed annuity products.

Survey respondents indicated that they monitor the following suitability requirements for variable life insurance, variable annuities and fixed annuity products:

- Customer's age;
- Other investments;
- Financial situation and needs;
- Tax status;
- Investment objectives;
- Investment experience;
- Time horizon;
- Liquidity needs; and
- Risk tolerance.



Though each of these elements of the suitability analysis may be monitored, the Survey results indicated that greater emphasis is placed on determining whether the product meets the financial situation and needs of the customer.

Claims

Companies also monitor metrics associated with claims activities as part of their overall compliance metrics programs. The Survey results indicated that companies monitor the percentage of claim acknowledgments not mailed within state legal or regulatory timelines (75%), the percentage of claim payments made after the time permitted under state laws or regulations (83%) and the volume of claims determined to be unclaimed property (93%).

Other Compliance Metrics

The Full Survey Report includes a list of other compliance metrics commonly used by life insurance companies to monitor business operations.



Measuring Compliance Effectiveness

The Survey results indicated that life insurance companies use a variety of different metrics to determine the effectiveness of their compliance programs. The Survey sought to identify the components of these metrics and the extent to which they were applied in company compliance metrics programs.

Regulatory Exams and Inquiries

The Survey sought to gather information regarding the role that regulatory exams and inquiries may play in allowing life insurance companies to determine the effectiveness of their compliance programs.

Not unsurprisingly, the majority of Survey respondents indicated that their companies use regulatory exams (93%) and the volume of regulatory inquiries to their companies (71%) as tools to measure compliance effectiveness.

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Ethics

The Survey also sought to measure the extent to which companies use ethics-related metrics to evaluate the effectiveness of their compliance programs. For example, an overwhelming majority of Survey respondents (89%) representing companies of all sizes indicated that they measure the percentage of employees who complete mandatory ethics training as an ethics-related element of their compliance metrics program.

Complaints

Complaints are used by regulators as well as companies to evaluate the effectiveness of company compliance programs. According to the Survey results, complaints serve as a popular compliance metrics tool that are used by a majority of life insurance companies (84%) to evaluate compliance effectiveness.

Additional analysis of the use of complaints as compliance metrics may be found within the Full Survey Report.



Training

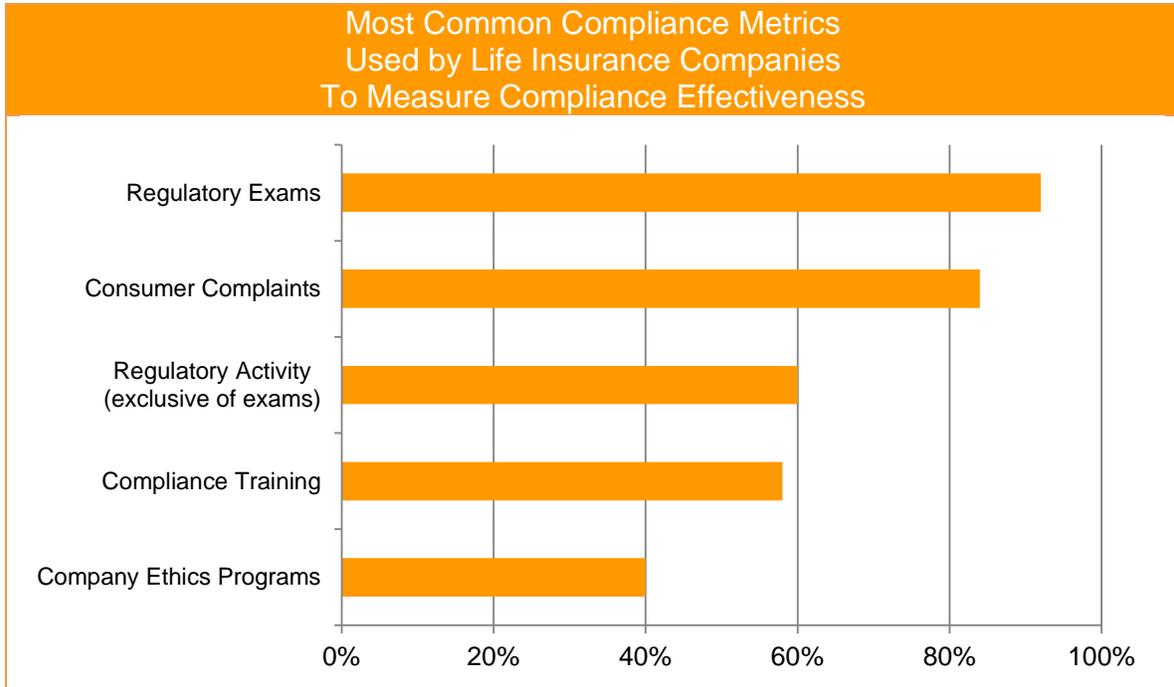
Training activities can also be another useful way to gauge the effectiveness of compliance programs. A majority of Survey respondents (58%) indicated that their companies use compliance-related training of producers as a source for determining compliance effectiveness. All Survey respondent companies indicated that they use completion of mandatory training requirements (e.g., anti-money laundering, suitability, etc.) as a measure of the effectiveness of their compliance programs.

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New Laws and Regulations

One of the key requirements for life insurance company compliance professionals is to monitor the introduction of new laws and regulations applicable to their company's business and to implement appropriate operational changes necessary to comply with these requirements. The Survey gathered information to determine company strategies to confirm compliance with new laws and regulations and to discern whether these processes can be evaluated to determine their effectiveness through the use of compliance metrics.

Companies identified two specific metrics with respect to compliance with laws and regulations. A majority of Survey respondents indicated that they measure: (1) the timeliness of communicating the requirements of new laws and regulations (69%) and (2) the timeliness for implementing appropriate action plans to address these new laws and regulations (68%) as part of their overall compliance ethics program.





Summary

Compliance professionals in the life insurance industry maintain a strong interest in the evolving field of compliance metrics. This interest will continue to grow as many life insurance companies seek ways to improve their existing compliance metrics programs and more and more life insurance companies will develop and implement compliance metrics programs.

Compliance metrics programs often seek to achieve two primary objectives: monitoring business operations and measuring the effectiveness of compliance programs.

One of the key challenges in implementing a compliance metrics program is working with business partners to identify appropriate points of indicia for use in compliance metrics programs. As compliance metrics programs become more widespread within the life insurance industry, it is likely that business partners will grow accustomed to recognizing the need to identify areas that may be appropriate for compliance metrics analysis.

Findings generated through analysis of compliance metrics data can enhance overall life insurance company risk management and compliance strategies. Though the compliance function maintains ultimate responsibility for the overall compliance program and often maintains primary responsibility for reporting the results of compliance metrics programs, these findings are shared with other key leaders within life insurance companies to promote effective risk management and compliance strategies.

Compliance metrics programs require coordinated efforts across companies to provide consistent results. To begin the process, specific compliance metrics are identified in conjunction with business partners and analyzed by compliance professionals who will recommend appropriate action plans. Once data has been analyzed through the compliance metrics program and appropriate action plans have been recommended, business partners (at most companies) are asked to implement those action plans. Compliance professionals then continue to coordinate with business partners in order to attain "sign off" on the effective implementation of recommended action plans.



Compliance metrics programs also analyze quantitative data derived from monitoring of business operations to determine potential areas of risk. Within life insurance companies, monitoring of replacement activity provides several points of indicia to identify trends that may require enhanced compliance oversight of business operations. Companies can also employ elements of the suitability analysis applicable to variable life insurance, variable annuities and fixed annuity products as part of their compliance metrics programs to confirm compliance with these requirements.

Compliance metrics can also be used to monitor claims-related operations activities. Careful evaluation of claims-related compliance metrics can allow compliance to monitor claims operations to determine possible enhancements to claims processing procedures.

Life insurance companies use a variety of different compliance metrics to measure the effectiveness of compliance programs. Regulatory exams and associated fines and penalties are commonly used by many life insurance companies to gauge the effectiveness of their compliance programs. Companies also use ethics-related compliance metrics such as completion of training programs by employees and/or producers as a means to evaluate the effectiveness of their compliance programs.

Complaints also serve as an effective compliance metrics tool. Companies monitor the volume of complaints and the derivation of complaints (e.g., from a specific producer or distribution partner) in order to identify potential areas for compliance program improvements.

Many companies use completion of training programs as a way to measure compliance with mandatory legal and regulatory requirements. Companies also analyze their ability to communicate and comply with new laws and regulations as a way to evaluate the effectiveness of their compliance programs.

CEFLI will continue to monitor developments related to the use of compliance metrics within the life insurance industry and will provide appropriate guidance, as warranted.



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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 CEFLI's Compliance Metrics Benchmarking Survey for offering their insights and perspectives. We hope that all Survey respondents find this information to be useful. We would like to offer special thanks to the members of CEFLI's Compliance Metrics Issue Forum for their valuable contributions to this Survey. CEFLI also would like to thank its Member Companies and Affiliate Members for their financial support of the CEFLI Compliance Metrics Benchmarking Survey.

THE FORUM THAT CONNECTS.



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