



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



CEFLI Compliance Metrics Benchmarking Survey Report



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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.

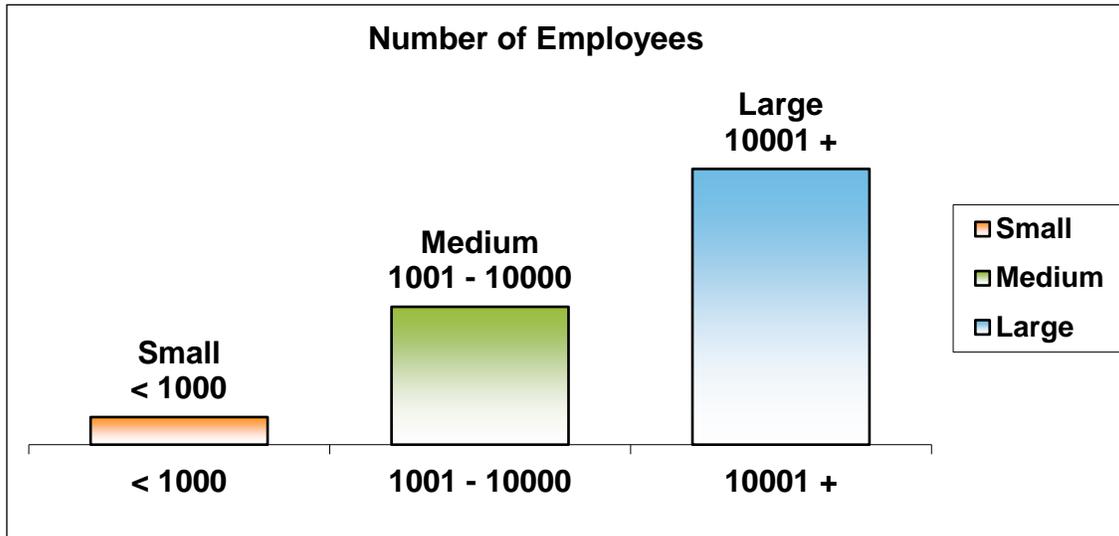
By conducting this analysis, CEFLI seeks to facilitate the continued exploration of the appropriate use of metrics for life insurance company compliance professionals. Although each company's approach to monitoring business operations and measuring the effectiveness of their compliance programs may differ, 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



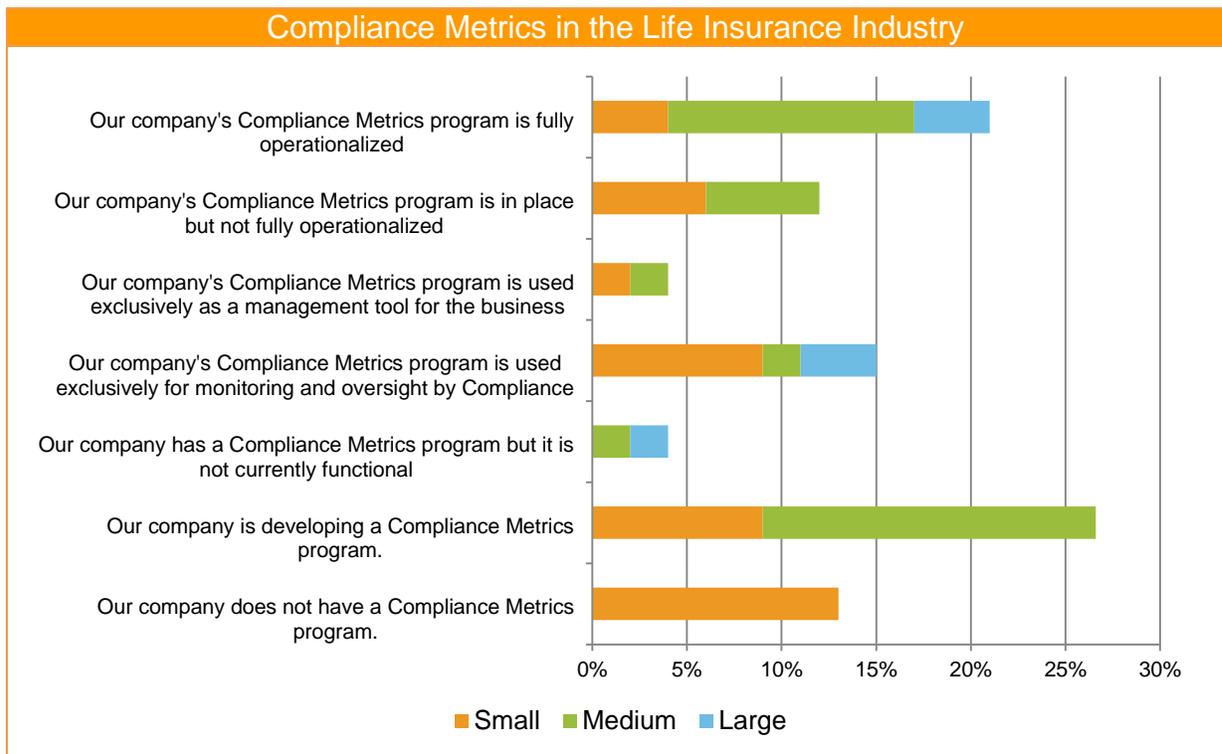
called upon to account for the effectiveness of their company's overall compliance programs and risk management processes which has led to a growing interest in the field of compliance metrics.



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. It is important to note, however, that 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.



50% of the large size companies responding to the Survey indicated that they have a fully operationalized compliance metrics program and 40% of the medium size companies responding to the Survey indicated that their program is currently under development.

Some Survey respondents (15%) indicated that their company's compliance metrics program is in place but is used exclusively for monitoring and oversight by compliance. In these instances, data from the company's compliance metrics program is analyzed for the primary use of the compliance function and is shared selectively with business partners that may be the subject of monitoring activities.

Other Survey respondents (13%) indicated that their company's compliance metrics program is in place but is not yet fully operationalized throughout the enterprise and still other Survey respondents (13%) indicated that their companies do not have a formal compliance metrics program. Nevertheless, many of these companies that do not have a formal compliance metrics program reported collecting information to monitor business operations that could comprise key elements of a 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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Other challenges identified most often included:

- Designing procedures to promote consistent handling of issues (16%);
- Determining what types of issues may require escalation and to whom (14%);



- Gaining agreement on mitigation strategies identified through compliance metrics (9%); and
- Assigning responsibility for addressing identified issues (5%).

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%).

Elements of the Compliance Metrics Process

There are several steps associated with implementing a compliance metrics process. The Survey identified that, for most companies, the compliance metrics process involves six different elements:

- (1) Developing Compliance Metrics;
- (2) Reporting Compliance Metrics;
- (3) Analyzing Compliance Metrics data;
- (4) Recommending action plans;
- (5) Implementing action plans; and
- (6) "Signing off" on implementation of action plans.



Developing Compliance Metrics

The Survey sought to determine where primary responsibility for developing corporate compliance metrics may lie within life insurance companies. The Survey results confirmed that primary responsibility for developing compliance metrics (73%) lies within the compliance function (as opposed to other related company functions).

Developing Compliance Metrics							
	Compliance	Law	Risk Management	Internal Audit	Business Area	Coordinated Approach	Other
Developing Compliance Metrics	73%	2%	-	-	16%	-	9%

Reporting Compliance Metrics

The Survey also sought to determine where primary responsibility for reporting compliance metrics program results may lie within life insurance companies. The Survey results indicated that primary responsibility for reporting the results of compliance metrics programs (77%) lies within the compliance function (as opposed to other related company functions).

Reporting Compliance Metrics							
	Compliance	Law	Risk Management	Internal Audit	Business Area	Coordinated Approach	Other
Reporting Compliance Metrics	77%	7%	-	-	4%	7%	5%

The Survey results indicated that compliance metrics reports are often used solely within the compliance function to determine whether appropriate action plans should be recommended to applicable business units to address identified areas of concern.

However, in other instances, compliance metrics reports also may be used with other company functional areas outside of the compliance function within life insurance companies. When asked to confirm the extent to which compliance metrics reports may



be provided to other company functions outside of the compliance area, Survey respondents indicated that compliance metrics reports are most often provided to the appropriate business area (30%), law (28%), senior compliance management (26%), senior business management (14%) or risk and internal audit (2%).

Analyzing Compliance Metrics Data

The compliance function often plays an integral role in the analysis of compliance metrics data. Compliance metrics are designed to generate quantitative data that can be analyzed to identify possible weaknesses in a company's control system and to determine appropriate action plans to remedy any identified defects. However, in some companies, the analysis of compliance metrics data may lie outside of the compliance function. Therefore, the Survey sought to determine the role of the compliance function (or other company functions) in the analysis of compliance metrics data.

The Survey results indicated that, for most companies, the compliance function (42%) owns the primary responsibility for analyzing data collected through the compliance metrics program. However, at many organizations, senior management (25%) or law (20%) may have primary responsibility for the analysis of compliance metrics data. These strategies were most often reported by companies of small size.

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Analyzing Compliance Metrics Data								
	Compliance	Law	Risk Management	Internal Audit	Business Area	Senior Management ¹	Risk Management Committee	Other
Analyzing Compliance Metrics Reports	42%	20%	-	-	7%	25%	2%	4%

¹ Including senior compliance management, senior business management and executive management.



Recommending Action Plans

The analysis of compliance metrics data often leads to recommendations of action plans that may be necessary to address any identified weaknesses in a company's control systems. Accordingly, the Survey sought to determine which company functions play a primary role in offering recommendations for action plans based on the analysis of compliance metrics data.

The Survey results indicated that the compliance function (53%) plays the primary role at most Survey respondent companies in recommending action plans to address identified control weaknesses.

Recommending Action Plans								
	Compliance	Law	Risk Management	Internal Audit	Business Area	Senior Management ¹	Risk Management Committee	Other ²
Recommending Action Plans	53%	2%	2%	2%	13%	18%	2%	8%

¹ Including senior compliance management, senior business management and executive management.
² A combined approach involving compliance, law and the business area.



Implementing Action Plans

Once action plans have been recommended, the action plans have to be implemented to address the identified control weakness. Since practices differ from company to company, the Survey sought to determine which company functional area may have primary responsibility for implementing recommended action plans within life insurance company compliance metrics programs.

The majority of Survey respondents (51%) indicated that the applicable business area the company has primary responsibility for implementing recommended action plans. In a fewer number of instances, Survey respondents (36%) indicated that their company looks to compliance (rather than business partners) to be responsible for implementing recommended action plans.

Implementing Action Plans								
	Compliance	Law	Risk Management	Internal Audit	Business Area	Senior Management ¹	Risk Management Committee	Other
Implementing Action Plans	36%	2%	-	-	51%	9%	2%	-
1 Including senior compliance management, senior business management and executive management.								



"Signing Off" on Implementing Action Plans

The final step in the compliance metrics process is to confirm that recommended action plans have been implemented properly. The responsibility for "signing off" on recommended action plans differs from company to company. Therefore, the Survey sought to determine which company function within Survey respondent companies has primary responsibility for "signing off" to confirm that recommended action plans have been implemented properly.

The Survey results indicated that, in most companies, compliance (48%) has responsibility for "signing off" to confirm the recommended action plans have been implemented properly. In other companies (especially within small sized companies), the appropriate business area (25%) may have responsibility for "signing off" to confirm the recommended action plans and implemented properly.

"Signing" on Implementing Action Plans								
	Compliance	Law	Risk Management	Internal Audit	Business Area	Senior Management ¹	Risk Management Committee	Other
"Signing" on Implementing Action Plans	48%	5%	2%	2%	25%	16%	-	2%

¹ Including senior compliance management, senior business management and executive management.



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.

The most significant compliance metric related to life (44%) and annuities (39%) replacement activity is to analyze replacement activity by producer. Monitoring the replacement activity by producer was a widely used compliance metric prevalent among Survey respondents from large companies. Additional companies also monitor replacement activity by specific distributors, field agency, specific product and/or specific age.



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 asked respondents to indicate the key claims-related metrics associated with their 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

Business activities of life insurance companies also provide a broad range of areas for which compliance metrics may be appropriate. The Survey evaluated the extent to which companies monitored certain types of business activities as part of their overall compliance metrics program.

The following compliance metrics were identified by a majority of Survey respondents as elements of their compliance monitoring programs:

Other Compliance Metrics	Yes
Volume of claims determined to be unclaimed property	93.7%
Application discrepancies	92.5%
Collecting permitted forms of money (i.e., not accepting cash)	92.5%
Specific fraudulent activity	92.3%
Sales from unlicensed producers	89.7%
Use of unapproved marketing/advertising materials	87.5%
Applying new monies in a timely manner	87.2%
Percentage of free look/not taken applications	85.0%
Rejected application	82.1%
Processing new business applications in a timely manner	82.1%
Allegations of false claims by producers	80.5%
Unapproved producer websites	80.0%
Large deposits in life insurance policies	78.0%

It is interesting to note that the "volume of claims determined to be unclaimed property" generated the highest response among Survey Respondents among the list of other compliance metrics; especially, in light of the heightened focus on recent industry developments pertaining to unclaimed property matters.



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.

To further refine these metrics, many companies (especially large companies) indicated that they also measure the volume of closed examinations without fines and penalties (68%) and the amount of fines and penalties paid per exam (73%) as other ways to quantify the effectiveness of compliance programs with respect to regulatory reviews. Moreover, many companies also refine these indicators further by measuring the number of exams where fines and penalties exceed a certain designated threshold and also measuring the number of examinations in which repeat findings may be indicated.

A majority of Survey respondents (60%) also indicated that they measure the timeliness of how their companies respond to regulatory inquiries (exclusive of examinations) as another measure of the effectiveness of their compliance programs.

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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. While the Survey results indicated that most companies do not attempt to identify broad measures of company ethics (perhaps, because they may be difficult to quantify) as a means to determine the effectiveness of their compliance programs, most companies do gauge certain key indicia of ethics-related initiatives as part of their use of compliance metrics.

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. Many companies also reported measuring the volume of calls or other anonymous claims reported internally that allege violations of their company's Code of Conduct as well as the volume of substantiated claims made through their company's ethics hotline as other types of ethics-related indicia of the effectiveness of their compliance programs.

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.

There are many quantitative elements to analyze relative to complaints. Apart from simply tracking the volume of complaints, many Survey respondent companies (65%) refine their complaint statistics by measuring the volume of substantiated (i.e., proven to be accurate) versus unsubstantiated customer service complaints. In many instances, these substantiated complaints are analyzed further by many Survey respondent companies (73%) who reportedly track the volume of substantiated complaints related specifically to sales practice activities.

Another way that complaints are used to develop compliance metrics is to evaluate the timeliness of complaint responses versus applicable regulatory standards. Most Survey



respondent companies (84%) track the timeliness of their company's response to complaints against regulatory standards as a compliance metrics measurement tool.

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. Though most companies responding to the Survey indicated that they track the extent to which certain voluntary training activities related to specific subject matters (e.g., privacy, etc.) are completed by producers, 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. And, in some instances, some companies reported going beyond simply tracking completion of training requirements to use other metrics such as testing results to evaluate the effectiveness of their compliance training programs.

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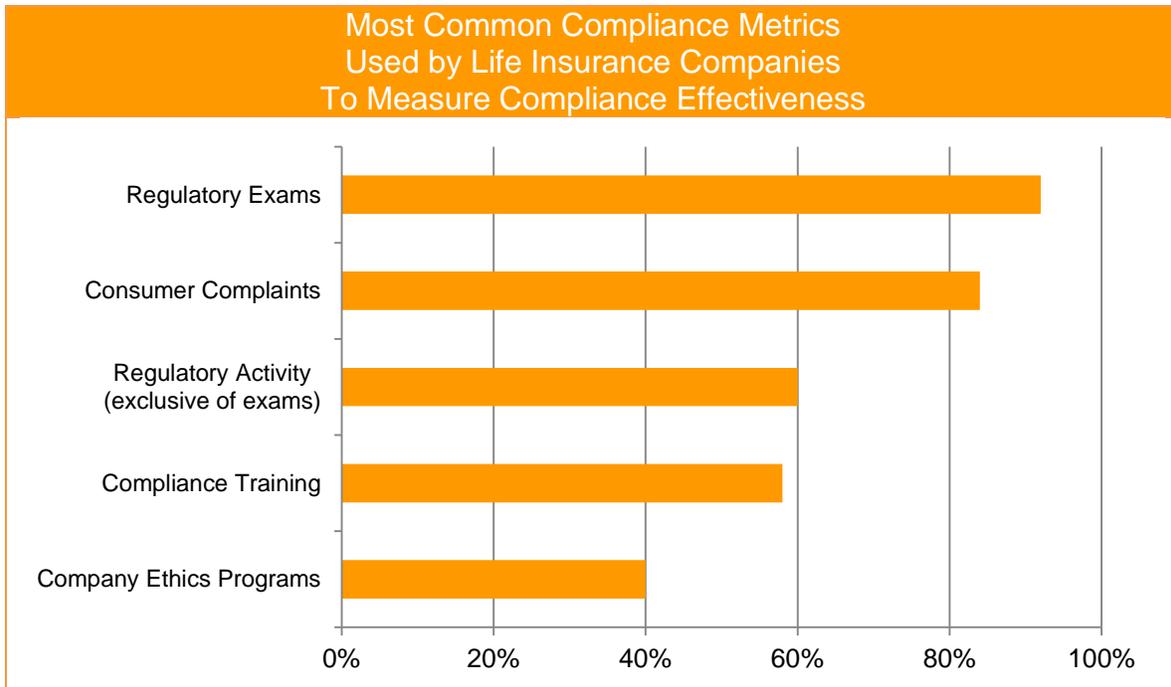
New Laws and Regulations

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. In addition, some companies indicated that they also measure the effectiveness of action plans to implement the requirements of these laws and regulations as an additional compliance metric.





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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