



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



CEFLI Records Management Benchmarking Survey Report



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Introduction

CEFLI is pleased to report the results of its Records Management 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 professionals from across the life insurance industry to participate in a variety of Surveys over the past several years to allow CEFLI to gauge the current state of practice with respect to specific compliance and ethics issues in the life insurance industry. The Survey was designed to capture data associated with the current state of records management policies and procedures within the life insurance industry. This report summarizes the key findings of the Survey.

Purpose

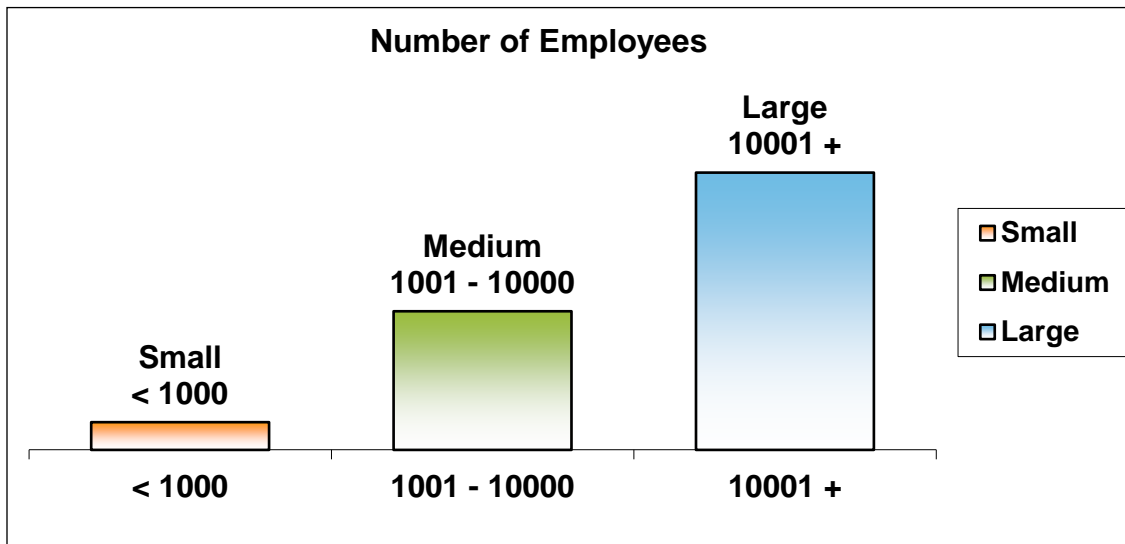
The purpose of this Survey was to determine the current state of practice with respect to records management within the life insurance industry. Records management is highly regulated, and depending on the size and type of business conducted by a life insurance company, can create a myriad of challenges for companies seeking to responsibly interpret and comply with the many laws and regulations that apply. An effective records management program can ensure complete and accurate information is accessible when needed, reduce costs and minimize the risk of regulatory penalties or other legal consequences.

To gauge current practice, the Survey asked objective questions designed to identify the nature and scope of records management programs at respondent life insurance companies. Aspects covered included: corporate commitment and structure, employee training, system design and use of outside vendors, Legal Hold Orders, storage, safeguards, and records destruction.



Methodology

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



Characteristics of Respondents

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 500 - 10,000 employees and large companies were characterized as organizations having more than 10,000 employees. Survey responses were received from a broad range of companies including large life insurance companies (6%), medium companies (51%) and small companies (43%).



Reporting Relationships

When asked to identify the department or division to which they report, the majority of Survey respondents (54%) indicated that they report up to the Compliance Department at their life insurance company. The next largest grouping of Survey respondents (34%) report to the Law Department. Others Survey respondents (6%) indicated that they report to Operations. A smaller percentage of Survey respondents (3%) responded that they report to Risk Management and the same percentage (3%) report up to their applicable Business Line.

Domestic and International Business

The Survey also sought to determine the number of jurisdictions, domestically and internationally, in which companies are licensed to conduct sales of insurance. A large majority of Survey respondents (91%) indicated that their company is licensed to sell in more than thirty states. The remaining Survey respondents (9%) are licensed in five to fifteen states. The majority of respondents (77%) reported that their records management program applies across all states even if not required in a particular state. Primarily medium insurers indicated that they vary their program based on state specific laws and regulations.

While most life insurers responding to the Survey (74%) are not conducting business internationally, a number of other respondents indicated licenses in a wide range of jurisdictions, from under three to over twenty.

Interestingly, of respondent companies doing business internationally, only half (50%) indicated that they vary their records management program depending on country specific laws and regulations.

The majority of respondents (77%) reported that their records management program applies across all states even if not required in a particular state..



Records Management Commitment and Accountability

Overview

A significant majority (91%) of Survey respondent companies indicated that their company has in place a formal records management program, and also have a written records management policy (88%). This was true for all large company Survey respondents.

In response to what level of commitment their company has shown for its records management program, encouragingly, most Survey respondents answered that it was a high priority or that their company was actively involved with/actively developing the program. Though other respondents (11%) indicated their companies' were taking minimal action or treated it as a low priority.





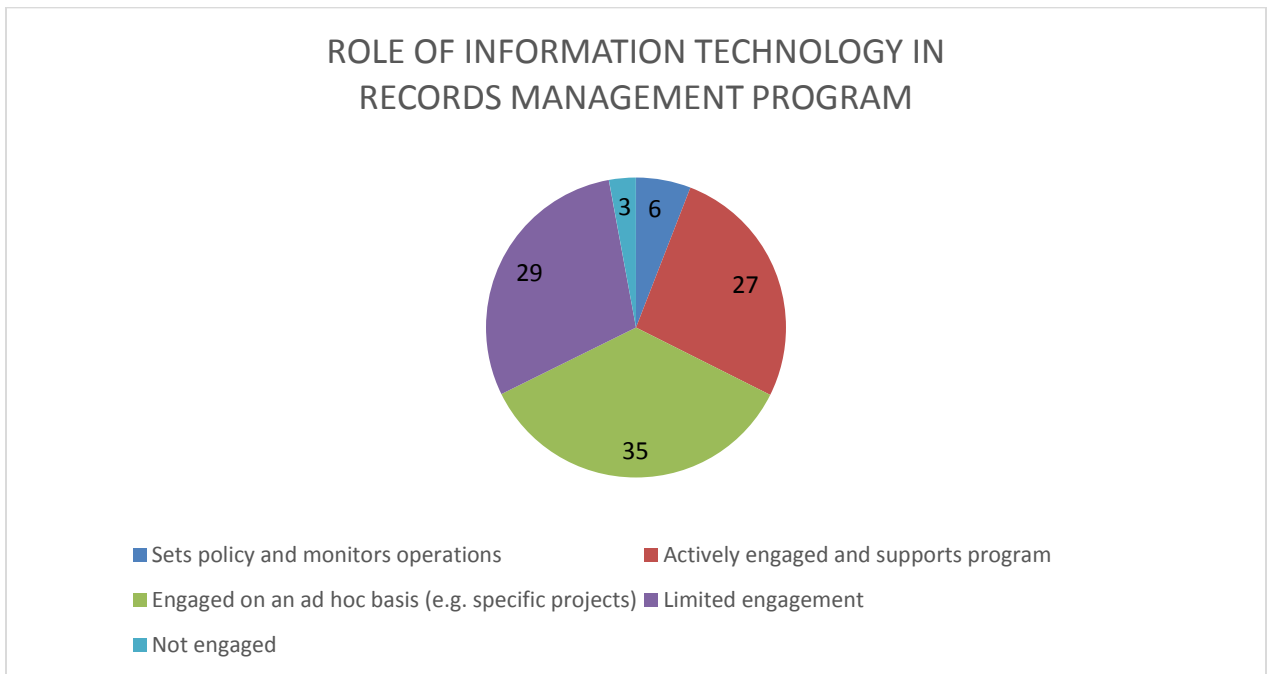
Organizational Structure

The Survey sought to determine the organizational structure associated with the development of specific records management procedures at life insurance companies. A large majority (71%) of Survey respondents reported that this responsibility resides within their companies' Compliance or Law Departments, and this is the case for all small company respondents. Other companies, including all large company respondents, indicated that the development of specific records management procedures was decentralized and handled by the appropriate Business Unit (21%), Administrative Department (6%), or a Records and Information Management Team (2%).

With respect to the area within the life insurer that sets policy and monitors operations of the records management program, once again, the majority of Survey respondents reported that their Compliance or Law Department is accountable. Responses indicate that medium and large companies are more likely to involve appropriate Business Units in policy development and monitoring functions.



Survey respondents were also asked to what extent their companies' Information Technology Department was involved with the records management program. Perhaps surprisingly, at the majority of companies surveyed the IT Department is not involved with the program, plays a limited role or is engaged only on an ad-hoc basis. At other companies surveyed, the IT Department is actively engaged in the companies' records management program, and may even be charged with setting policy and monitoring operations.





Budgets and Staffing

Dedicated Budget for Records Management Program

When asked whether their company specifically budgeted for a records management program, over half of Survey respondents (55%) answered no. The majority (34%) of respondents who answered yes, were medium or large companies.

Records Management Staffing

For companies with centralized records management programs, the majority of Survey respondents indicated that one (41%) or two (36%) full time equivalents are responsible for administering the program. Other companies surveyed, including some small companies, reported that as many as five to ten full time equivalents, assumed this role.

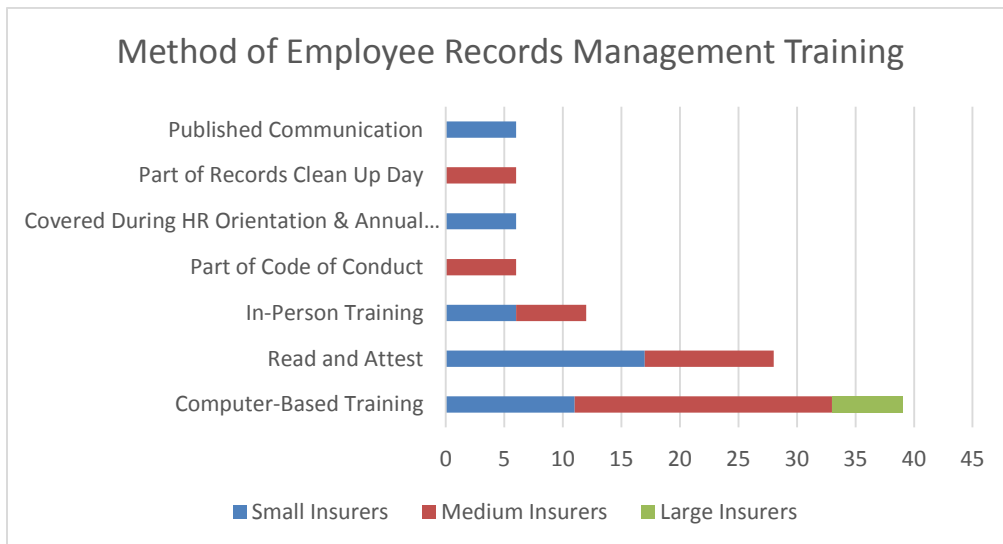


Employee Training

Over half (56%) of Survey respondents indicated that their company conducted employee training on their records management program. Of those, the majority (53%) of companies made training mandatory for all employees, while others required training only for employees with specific job roles (33%), or provided training on a non-mandatory basis (14%).

The Survey also asked respondents whose companies offered records management training, how that training was delivered. The majority, including all large company Survey respondents, indicated that computer-based training modules were utilized (39%), while other companies delivered training via read and attest methods, in-person training or written communication.

Survey answers indicate that the frequency of training is most often annually, though some companies provide bi-annual training and others deliver training every three years.





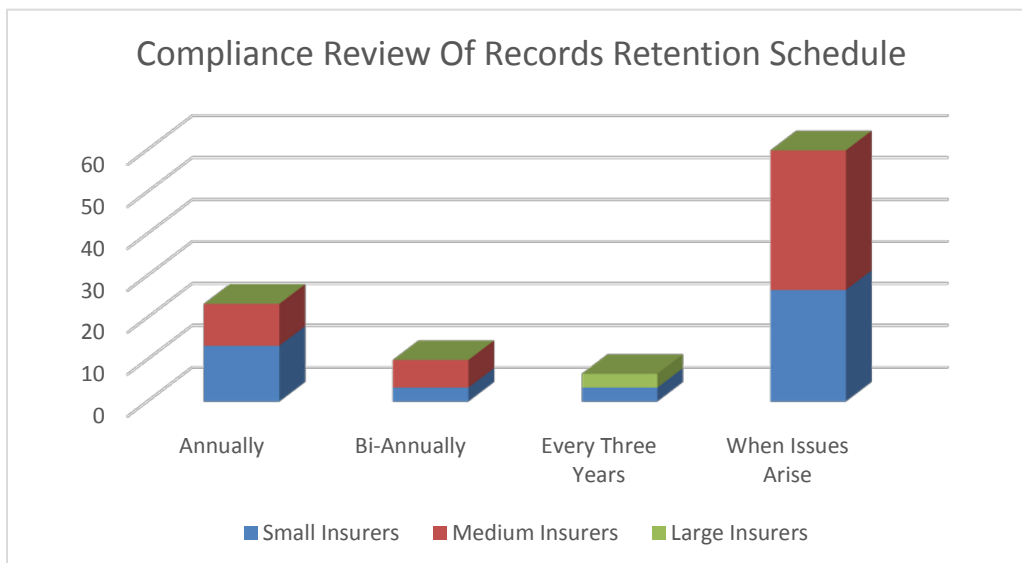
Records Retention

Records Retention Schedule

Survey results show that the majority of small and medium companies developed their own records retention schedule (59%), while others, including all large companies surveyed, used a third party vendor or outside counsel in developing their schedule. Over three quarters (77%) of Survey respondents publish their records retention schedule, primarily by posting it electronically in a centralized location, though some disseminate it via e-mail.

Compliance Review

The majority (60%) of companies surveyed indicated that their companies' established records retention schedule is reviewed only when potential legal or regulatory issues are identified. Others conduct reviews annually (23%), bi-annually (10%), or once every three years (7%).





In response to whether these reviews are conducted intra-company, or by an outside party, the large majority (84%) of respondents, including all small companies surveyed, indicated this function was carried out internally. Third party vendors (10%), and outside counsel (6%) were also used to review record retention schedules to ensure legal and regulatory requirements are being met.

Systems

In terms of the types of record retention systems used, over half (54%) of Survey respondents reported that their system was developed internally. Most others use a hybrid of internal and third party systems, with a small percentage using a third party vendor system. All large company respondents rely on a hybrid system for record retention.

Survey results also indicate that few systems, whether internal, third-party or hybrid, automatically notify the company when a record has reached its retention expiration period.



Legal Hold Orders

Use of Legal Hold Orders

Almost all companies responding to the Survey (94%) utilize Legal Hold Orders, with the majority being managed in the Law Department. Management of Legal Hold Orders outside of the Law Department is split evenly between the Compliance Department, Centralized Records Management and applicable Business Line Units at other companies surveyed.

With respect to how Legal Hold Orders are applied and removed, a majority (59%) of respondent companies do so manually, and only a small percentage (3%) have an automated process. The remainder (38%) use a combination of automated and manual processes for the application and removal of Legal Hold Orders.



Storage, Retrieval and Destruction of Documents

Document Storage

All Survey respondents use electronic media for records storage, which is also the primary form of media used to store documents. Almost all companies also have some documents stored in hard copy (paper) form, which is the primary form of media for document storage at a few small and medium companies. Over two thirds (68%) of the companies who responded to the Survey have at least some documents stored on microfilm.

When asked if their company makes an effort to move records to different media to improve manageability, the majority of surveyed companies responded yes, from paper to electronic document storage. 77% of companies are reducing storage costs by moving paper documents over to electronic media.

Retrieval of Records

Document retrieval systems at respondent companies' are largely (65%) a combination of automated and manual processes, though some companies (26%) rely on a manual system for retrieving documents, and only a small number of companies (9%) have fully automated this function.

77% of companies are reducing storage costs by moving paper documents over to electronic media.



Document Destruction

When scanning paper documents to make them electronic, a significant majority of companies surveyed (94%) indicated that they will destroy the paper document afterward, though companies differ on whether and how they conduct a quality review of the record before destruction.

With respect to stored documents that have exceeded records retention guidelines, over half (53%) of companies surveyed indicated that they consistently destroy paper documents. Fewer companies will destroy electronic documents on a consistent basis.

Companies taking part in the Survey were split evenly on whether they had a system in place to automatically purge/dispose of email communications. Those companies with a system in place primarily base destruction on retention date, though a few companies will also take the content of the email communication into consideration.

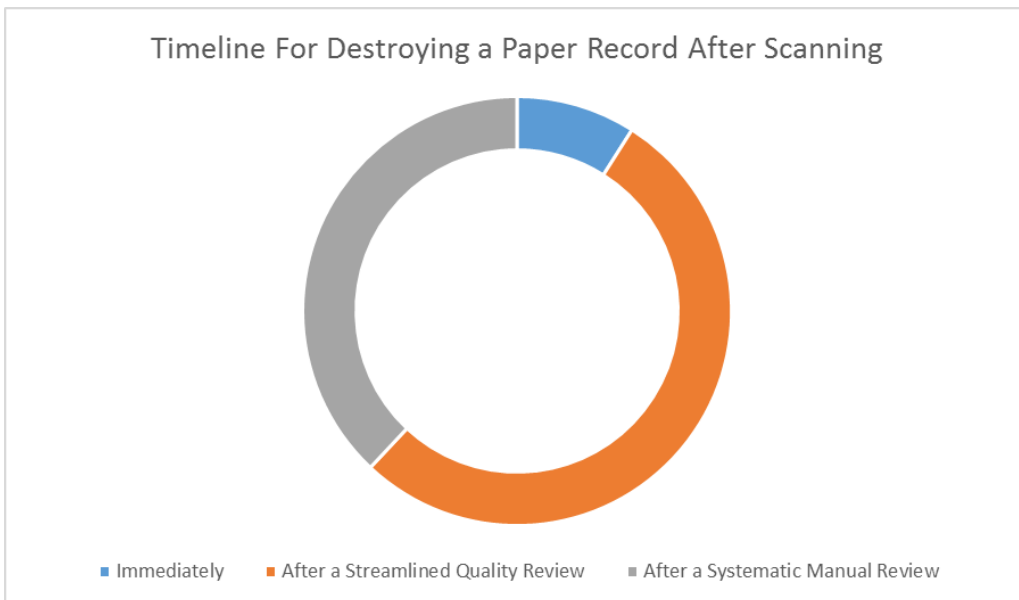
The majority of Survey respondents indicated that their company will seldom purge or dispose of policy/application information from either their administrative systems or their imaging systems, though some will do so on a routine basis or in certain specific situations.



Certification of Destruction

Respondents were roughly split on whether their company has a process in place to certify that records have been destroyed based on the records retention schedule, with those that do most often certifying by means of a certificate of destruction, a records management report, or via an email notice.

When scanning paper documents to make them electronic, a significant majority of companies surveyed (94%) indicated that they will destroy the paper document afterward, with half doing so after a streamlined quality review of the scanned document, others (35%) after a systematic review process and a minority destroying the document immediately after scanning.





Summary

CEFLI's Records Management Benchmarking Survey serves as a way to gauge the current state of practice with respect to records management within the life insurance industry. By establishing this benchmark, this information can be used to track the evolution of records management practice and analyze possible trends that may occur in records management compliance in the life insurance industry over the years ahead.

The Survey confirmed that the vast majority of life insurers, regardless of size, have a formal records management program in place, which in most companies includes a written records management policy. Furthermore, Survey results show that, while not currently required by all states, most insurers apply their records management processes in every state in which they conduct business. In keeping with this approach, though laws and regulations pertaining to records management differ by country, half of Survey respondents operating internationally utilize a consistent records management program across all jurisdictions. Not surprisingly, only large insurers indicate varying their records management program according to country specific laws and regulations.

Organizational structures associated with the development of records management processes vary based upon company size. At small life insurers, setting the records management policy, as well as monitoring the programs' operation, is the responsibility of the Compliance or Law Department. At medium and large insurers, decentralized Business Units are more likely to also play a role in developing policy and monitoring operations. The extent to which an insurer's Information Technology Department is involved with the overall records management program varies widely, though most Survey respondents indicated that the IT Department is actively engaged in specific ad hoc initiatives supporting the program. It is possible the role of IT will expand as records management continues to move away from paper and legacy systems and becomes increasingly automated.



The majority of life insurers operate a centralized records retention program, staffed by one or two full time employees/equivalents, though some companies have much larger staffs. While over half of the companies surveyed do not budget specifically for records management, results indicate that large and medium insurers are more likely to have a dedicated budget for their programs.

Most small and medium life insurers developed their own records retention schedule, though many, and all large insurers surveyed, used an external vendor or outside counsel specializing in records management in developing their schedule. Third parties were also consulted by just under half of all respondents to help develop their records retention system, however, only a handful of companies rely solely on an external system.

Though a significant majority of companies publish their records retention schedule, usually by posting it electronically in a central location, just over half of those surveyed conduct some kind of training on their records management program. Among those companies that do offer training, the majority make it mandatory for at least some of their employees, and there is a wide range of delivery methods, from read and attest, to computer-based modules and in-person training sessions. Frequency of training is most often annual.

Most companies conduct a compliance review of their records retention schedule only when triggered by a potential legal or regulatory issue, while others conduct regular reviews at intervals ranging from twice yearly to once every three years. Compliance reviews are primarily conducted internally, though some large and medium companies use external vendors or outside legal counsel to ensure legal and regulatory requirements are being met.

Almost all companies surveyed use Legal Hold Orders to ensure documents are not discarded, even if they exceed record retention schedules, and for the majority this is a manual process handled by the Law Department.



Most companies have stored records in various formats, including paper, microfilm and electronic media, with the latter being the primary format for document storage. Retrieving stored documents is at least a partially manual process at most companies, which is likely to remain the case as long as paper documents continue to be stored. It is not surprising then, that results show that companies are increasingly moving stored paper documents to electronic media, to improve records management. When doing so, almost all companies destroy the paper document, usually after a quality review process has taken place.

While the Survey found that most life insurers do not have a system that automatically notifies the company when a record has reached its retention expiration period, it may be a best practice to consider this functionality when developing or updating their systems. Though some companies do purge emails, and policy/application information from their administrative or imaging systems once the retention expiration period or other specific criteria has been met, approximately half of all companies, including all large insurers who responded to the Survey, do not routinely purge this information from their systems. Most companies, however, report that they have a process in place to certify that records have been destroyed based on a record retention schedule. Certification occurs most commonly via a certificate of destruction, a records management report or e-mail notification. Approximately half of respondent companies retain a record to evidence that a document has been destroyed.

Not surprisingly, the record format tends to dictate whether it will be destroyed or not, with the majority of companies reporting that they consistently destroy paper documents that exceed record retention deadlines, while only a third destroy electronic documents. This result was anticipated, as the physical storage cost for warehousing paper documents is one that many companies are actively working to reduce.

Overall, the Records Management Benchmarking Survey confirmed that a large majority of life insurers have made records management a high priority, and are taking an active role in managing and developing their records management programs. While there is



still work to be done in terms of automating records management systems, and reducing the inefficiencies and cost associated with paper document storage, it appears that many companies are taking a proactive approach to improving records management processes. Given the significant amount of regulation in this area, a commitment to responsible records management, will ensure that information is accurate, complete, and available, as well as reduce costs and minimize the risk of regulatory penalties or other legal consequences.

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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 Records Management 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 Records Management Working Group 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 Records Management Benchmarking Survey.

THE FORUM THAT CONNECTS.



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