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THE COMPLIANCE & ETHICS FORUM

FOR LIFE INSURERS

2016 CEFLI

Compliance and Ethics Benchmarking Survey Report

Benchmarking Survey Report

Introduction

CEFLI is pleased to report the results of its 2016 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.

New in this year’s Survey were questions seeking to determine the life insurance industry’s state of readiness to meet the Department of Labor’s new Fiduciary Rule requirements in 2017.

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 72 life insurance companies across a range of company sizes (small, medium and large).

Survey respondents were asked to identify the size of their organization based upon the number of overall employees. As in past year's Surveys, 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 small life insurance companies, medium companies and large companies.

When asked to identify their role within their organization, the majority of Survey respondents (42%) characterized themselves as a "compliance professional." Other Survey respondents identified themselves as "Chief Compliance Officer" (“CCO”) (29%), General Counsel (4%), "legal professional" (10%), “Chief Ethics and Compliance Officer” (6%), “Chief Risk Officer” (2%), and others (7%) identified themselves in a variety of other different positions including, but not limited to, Advertising Reviewer, Product Developer and Regulatory Affairs Specialist.

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

Law and Compliance

When asked to indicate the organizational structure that best describes their company's law and compliance departments a slight majority (55%) of Survey respondents indicated their company maintained separate departments, while the remainder (45%) indicated that law and compliance were combined in one department.

Organizational structures combining Law and Compliance Departments were most prevalent among Survey respondents representing small size companies. It may be interesting to note that this percentage increased 15% over the last two years, which appears to indicate a continuing trend toward combining departments, especially among smaller companies.

Companies that chose to establish separate Law and Compliance Departments provided various rationales for their selected organizational structures. In these cases, the Survey respondents recognized that each of these departments serve a unique purpose within the organization, and there are diverging roles which may require separation in order to properly perform the differing responsibilities. They also viewed having separate departments that each report up to a different management line as providing a healthy set of checks and balances and reduces the potential for conflicts of interest.

When asked to describe the rationale that led to a decision to combine the law and compliance functions within a life insurance company, Survey respondents with combined Law and Compliance Departments suggested that it better serves the company from the standpoint of looking at business needs and legal and regulatory needs as a whole. Other Survey respondents from companies with combined law and compliance functions indicated that their organizations maintain a broader GRC or Advocacy and Oversight management structure, which houses both law and compliance alongside other functions such as risk management and government relations.

Survey respondents indicating that law and compliance is combined in one department increased 15% over the past two years, indicating a trend toward combining departments, especially among smaller companies.

Compliance and Ethics

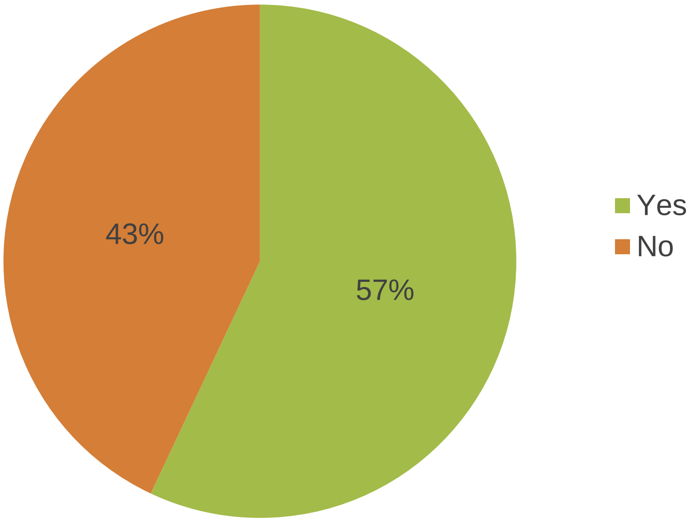
The Survey also sought to benchmark trends concerning the evolution of compliance and ethics as separate functions within the life insurance industry and whether these functions are combined or separated within a life insurance company's organizational structure.

The Survey results indicated that more and more companies (57%) are establishing separate ethics (or business conduct) programs which are distinct from the compliance function. While these programs may still be housed within the Compliance Department (43%), a significant number are managed by the Law Department (37%). At a smaller number of respondent companies, the ethics program is the responsibility of a standalone Ethics Department (10%), HR (7%) or other executive area of the company (3%).

When analyzed in comparison to Survey results over the past two years (40% in 2015, 36% in 2014), this year's Survey indicates that the trend to establish a separate ethics function which is distinct from compliance continues to grow, even among small companies.

When analyzed in comparison to last year’s Survey results, this year's Survey indicates that the trend to establish a separate ethics function which is distinct from compliance, continues to grow, even among small companies.

Does Your Organization Maintain A Separate Ethics (Or Business Conduct) Program?



To the extent that a Survey respondent company indicated that they maintain separate compliance and ethics functions, the Survey also sought to determine whether the company's organizational structure separated the compliance and ethics function into separate departments. Even though a growing trend exists for establishing separate compliance and ethics functions within life insurance companies, most Survey respondent companies (90%) do not maintain separate departments for these distinct functions.

Those companies that have established a separate ethics department offered a number of reasons as to why these functions are maintained separately including distinctions between rules based compliance and principles based ethics, the importance of dedicating resources to maintaining an ethical corporate culture and a desire to maintain the independence of the code of conduct/code of ethics.

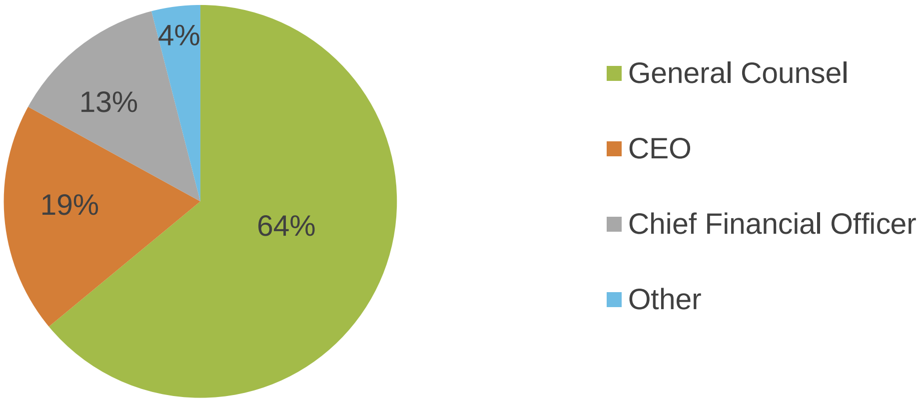
Reporting Relationships and Compliance Reports

Direct Reporting Relationships

The Survey also sought to determine current practices with respect to reporting relationships for life insurance company Chief Compliance Officers. Not surprisingly, the Survey results indicated that a significant number of Chief Compliance Officers (64%) report to the company's General Counsel. This remained consistent across the Survey data regardless of company size.

A smaller percentage (19%) of Survey Respondents indicated that their Chief Compliance Officer reports directly to the company's Chief Executive Officer (CEO), Chief Financial Officer (13%) or other Senior Management position (4%).

Chief Compliance Officer Reporting Relationships



Dotted Line Reporting Relationships

In many instances, a company's Chief Compliance Officer may have a primary direct reporting relationship as well as a dotted line reporting relationship. To the extent that a dotted line reporting relationship may exist, the Survey sought to identify the nature of the Chief Compliance Officer's dotted line reporting relationship.

While the majority of respondents indicated that their organization's Chief Compliance Officer does not maintain a dotted line reporting relationship whatsoever, others reported having a number of dotted line reporting relationships. Survey results show that at half of all respondent companies (50%) Chief Compliance Officers have a dotted line reporting relationship to the company's Board of Directors or other appropriate Board Committee (e.g., Audit) (26% and 24%, respectively). Others indicated that they have dotted line reporting relationships to the company's CEO (16%), General Counsel (19%) or other senior business managers (6%). It may be interesting to note that this year's Survey appears to confirm a growing emergence of dotted line relationships between CCOs and the Governance, Risk and Compliance Committee at companies of all sizes (10%).

It may be interesting to note that this year's Survey appears to confirm a growing emergence of dotted line relationships between CCOs and the Governance, Risk and Compliance Committee at companies of all sizes.

Compliance Reports

Chief Compliance Officers are increasingly called upon by Senior Management to provide a variety of different reports and provide status updates with respect to a company's overall compliance and ethics program. When asked to identify the various different recipients of these reports within their organization, Survey respondents indicated that senior management was most likely to be the recipient of compliance reports (at 77% of companies), followed by the Audit Committee or other committee of the company's Board of Directors (at 69% of companies), the company's CEO (at 53% of companies) and the company's Board of Directors (at 44% of companies).

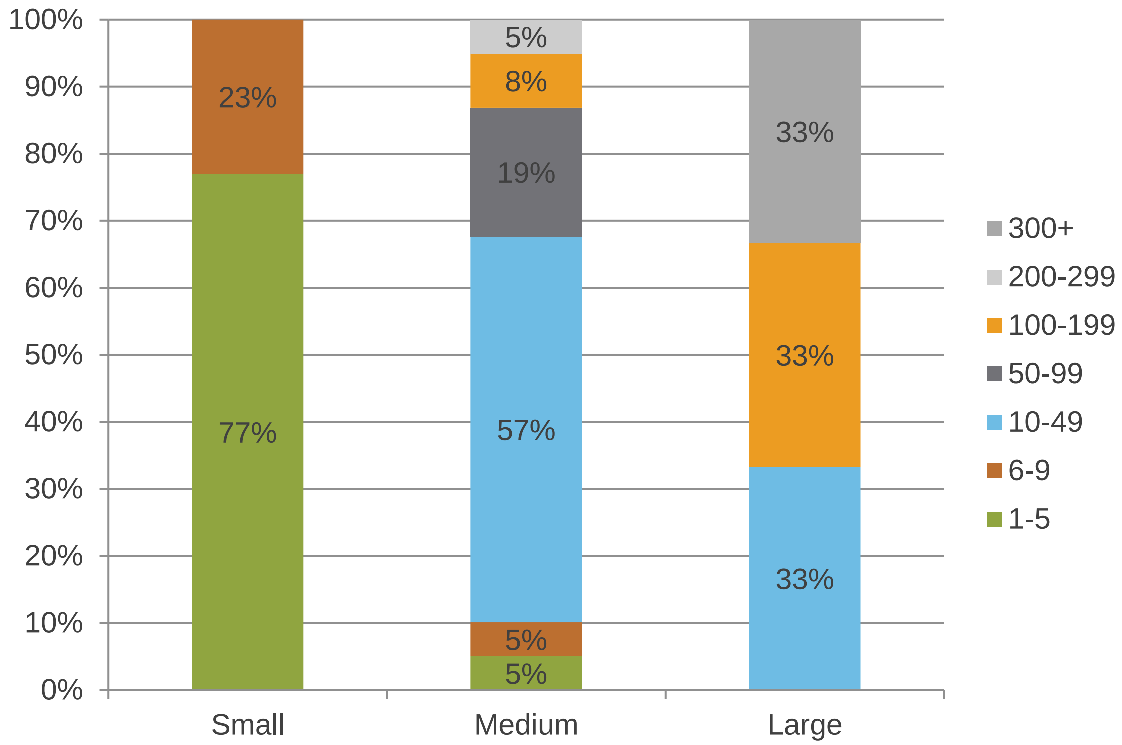
When compared to Survey responses from prior years, it is encouraging to note that CCOs at a growing number of companies are called upon to deliver reports directly to the Board of Directors or a Committee of the Board.

Staffing and Budgets

Compliance and Ethics Staffing

The Survey sought to determine the number of compliance and ethics professionals who spend more than 50% of their time on compliance and ethics related issues at various size companies. The chart below indicates the Survey results:

Compliance and Ethics Staffing (Based on Company Size)



While Survey results indicated a wide range in the size of compliance and ethics staff between companies (anywhere from 1 to over 300 people) the most common response among small companies was a staff of between 1-5 people. Among medium companies the majority indicated a compliance and ethics staff of between 10-49 people, and

among large companies a wide variance in compliance and ethics staff size was reported, from 10-49 at some companies to over 300 at others.

When asked how many staff have a direct reporting relationship to the company's CCO, Survey responses indicated that the majority of small company CCO's have between 0 and 5 staff reporting to them, medium company CCO's have between 5 and 20 staff reporting to them, and large company CCO's may have over 50 staff reporting to them.

Ethics Staffing

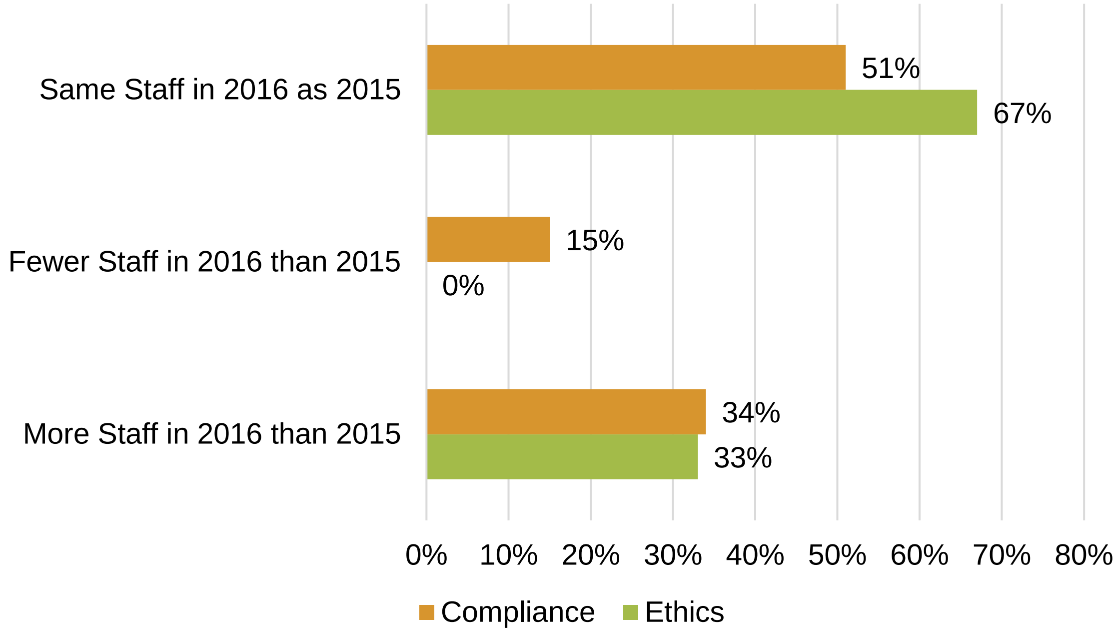
The Survey also sought to determine the number of professionals whose responsibilities were devoted exclusively to ethics within the life insurance company.

At the majority of small companies, it is still uncommon to find staff whose role is devoted exclusively to ethics, but, nevertheless, over a third (36%) of small company respondents indicated maintaining between 1 and 4 staff who are devoted exclusively to ethics. More than half of all medium and large company Survey respondents indicated that their company has staff whose job responsibilities are solely related to ethics, with most indicating a staff size of between 1 and 4, though some medium and large companies may have 25 or more staff devoted entirely to ethics.

We asked Survey respondent companies that have appointed a Chief Ethics Officer to indicate the size of the staff reporting directly to the Chief Ethics Officer. Given the smaller number of staff devoted to ethics overall, it was not surprising to learn that the number direct reports to Chief Ethics Officers is generally smaller than the number of direct reports to the CCO. Small companies reported their Chief Ethics Officer typically has no direct reports, medium companies indicated their Chief Ethics Officer would have a staff of fewer than 10, and large companies reporting as many as 30 staff reporting directly to their Chief Ethics Officer.

Year-To-Year Compliance and Ethics Staffing – 2016 v. 2015

The Survey sought to determine the extent to which Survey respondent life insurance companies made changes to their compliance and ethics staff size in 2016 versus 2015. The chart below indicates the Survey results:



The majority of life insurance companies (51%) responding to the Survey indicated that they experienced no change in the size of their compliance staff when comparing 2016 versus 2015 staffing. The Survey results indicated, however, that some companies (34%) actually added to staff in 2016. Companies of all size (small, medium and large) reported an increase in compliance staff in 2016 versus 2015. Alternatively, some small and medium companies (15%) reported decreasing their number of compliance staff in 2016

The majority of life insurance companies responding to the Survey indicated that they experienced no change in the size of their compliance and ethics staff when comparing 2016 versus 2015 staffing.

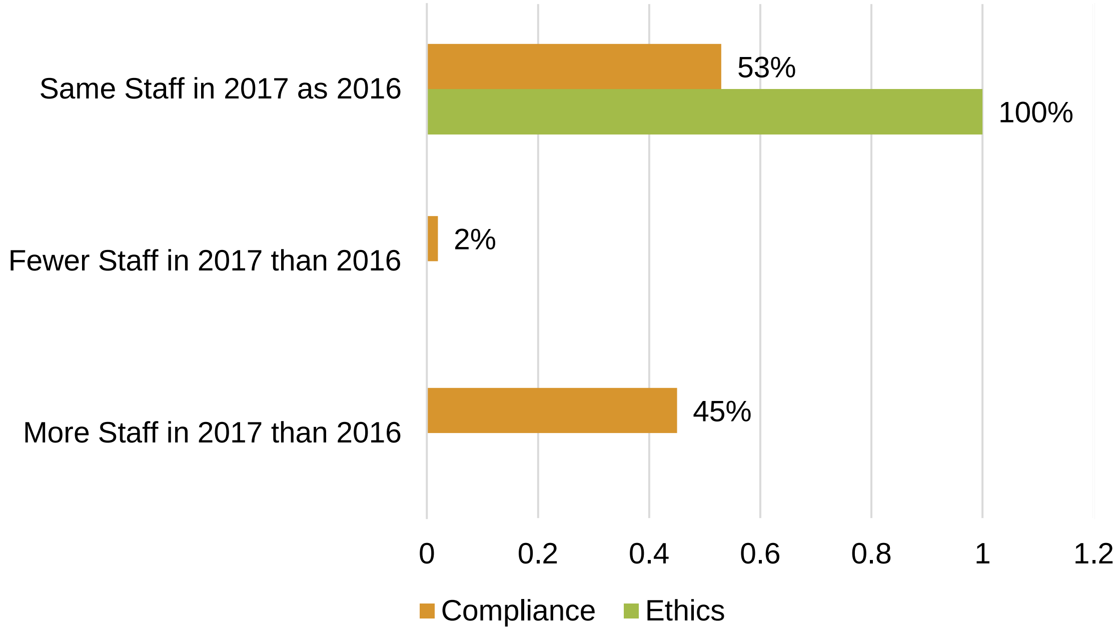
For life insurance company respondents with separate ethics departments, the majority (75%) indicated that they experienced no change in the size of their ethics staff when comparing 2016 versus 2015 staffing. The Survey results also indicated that some companies (25%) increased their ethics staff size in 2016 when compared to their staffing model in 2015. For the second year in a row no companies reported a decrease in ethics staff over the prior year.

The Survey results also indicated that some companies (25%) increased their ethics staff size in 2016 when compared to their staffing model in 2015.

Year-To-Year Compliance and Ethics Staffing – 2017 v. 2016

The Survey also sought to identify anticipated changes in compliance and ethics staffing in 2017 versus 2016.

Anticipated Year-to-Year Changes in Compliance and Ethics Staffing – 2017 v. 2016



A majority of Survey respondent companies (53%) indicated that they currently have no plans to add to their compliance staff in 2017. However, a significant number of life insurance companies of all sizes (45%) anticipate increasing their number of compliance staff in 2017. Encouragingly, very few Survey respondent companies (2%) indicated that they plan to reduce compliance staff in 2017.

Of companies indicating that they maintain a separate ethics department, most reported that they will likely maintain their ethics staff at current levels in 2017.

Compliance & Ethics Budgets

Data concerning the range of budgets devoted to compliance and ethics at small, medium and large size life insurance companies varied widely. Survey respondents indicated that combined compliance and ethics budgets at the majority of small companies range from $100,000-$999,999, the combined compliance and ethics budgets at the majority of medium companies ranged from $500,000-$4,999,999 and the combined compliance and ethics budgets at the majority of large companies ranged from $1 million to over 5 million.

Survey respondents also were asked to indicate if their company maintains separate budgets for compliance and ethics and, while the overwhelming majority (95%) of companies indicated that they do not maintain separate budgets for compliance and ethics, some medium and large companies reported having separate budgets for the two functions.

Year-To-Year Budgeting – 2016 v. 2015

In addition to determining year-to-year changes in staffing, the Survey also gathered data regarding year-to-year changes in budgeting in 2016 versus 2015.

When asked whether their compliance budget had changed in 2016, Survey respondents were split evenly with half indicating their budget had stayed the same and the other half indicating their budget had increased in 2016. No respondents to this year's Survey indicated their compliance budget was reduced from the year before.

Year-To-Year Budgeting – 2017 v. 2016

We also asked Survey respondents to project their anticipated compliance and ethics budgets for 2017 and compare them to the compliance budgets for 2016.

The Survey results mirrored those for budget experience in 2016 vs. 2015, with 50% of respondent companies indicating their budget was expected to stay the same and 50% anticipating an increase in their compliance and ethics budget in 2017.

As in previous years, no company anticipated a decrease in their compliance and ethics budget in the coming year.

Compliance Budgets Devoted to Outside Legal Services

While the majority of Survey respondents indicated that budgeting for outside legal services takes place through their legal department budget, nearly a quarter (23%) of Survey respondents indicated that their compliance budget allows them to hire outside legal services for the Compliance Department on an independent basis, which is on par with last year's Survey results.

Senior Position Titles and Compensation

The roles of senior compliance and ethics professionals within life insurance companies have become increasingly complex and differentiated over the past several years. Differing titles are used to describe individuals with enterprise-wide compliance and ethics responsibilities and in some cases the term "Chief Compliance Officer" may be used to describe individuals who have responsibility for an individual product line or business unit.

This year's Survey continued to gather data concerning these developments with a goal toward identifying industry-wide trends.

Chief Compliance Officer

As expected, a majority (77%) of companies surveyed indicated that their organization had named a Chief Compliance Officer. However, at many life insurance companies the most senior enterprise-wide compliance professional does not carry the “Chief Compliance Officer” designation and may instead be the General Counsel or another professional with a Director, Vice President or Senior Vice President title.

Chief Ethics Officer

When asked whether their organization has a Chief Ethics Officer separate from any other Chief Compliance Officer, only a small number (5%) of Survey respondents indicated their organization had named a Chief Ethics Officer. As with those companies that have not named a Chief Compliance Officer, the most senior enterprise-wide ethics professional may not carry the “Chief Ethics Officer” designation and this role may instead be combined under a Director, Vice President or other senior title associated with Legal, Compliance or HR.

Combined Compliance and Ethics Position

The number of life insurance companies that have elected to combine their Chief Compliance and Chief Ethics Officers into one position (29%) has been growing in recent years. The Survey asked why companies may have chosen to combine responsibility for ethics and compliance into a single role of a Chief Ethics and Compliance Officer. There were a variety of different rationales offered.

Some companies indicated that it was important to have an equal focus on compliance and ethics to reflect integrity as an organizational core value.

Others shared the view that combining responsibility for ethics and compliance reflected a natural alignment of closely related disciplines.

Smaller company size and leveraging limited staffing resources were also offered by some companies as the rationale for their combining the responsibility for compliance and ethics into one role.

Compensation – Chief Compliance Officer / Chief Ethics and Compliance Officer Positions

The Survey also gathered data concerning the compensation range for Chief Compliance Officers / Chief Ethics and Compliance Officers with various size organizations. As anticipated, the ranges varied greatly.

While the range of compensation for CCOs is quite broad across small and medium companies surveyed ($75,000-$299,999 and $150,000-$499,999 respectively), the most common (mode) response to this question from Survey respondents representing small companies identified a range of compensation of $100,000-$149,999; the most common response from medium company respondents identified a range of compensation of $200,000-$249,999 and, while compensation varies at large companies, it is not uncommon for a Chief Compliance Officer’s salary to exceed $500,000.

The results were similar when Survey participants were asked about the salary range for individuals holding the combined title of Chief Ethics and Compliance Officer.

Chief Compliance Officers – Business Units

In addition to identifying a Chief Compliance Officer with enterprise-wide responsibility, the Survey also sought to gather data to determine the extent to which life insurance companies are identifying individuals to serve as Chief Compliance Officers for specific business units.

A majority of Survey respondents (59%) indicated that they do not maintain separate Chief Compliance Officers devoted to business units. However, a significant number of companies do maintain separate Chief Compliance Officers devoted to specific business units. Survey results indicated that this practice of identifying an individual to serve as a Chief Compliance Officer for a specific business unit is more prevalent at medium and large companies yet also does exist at some small companies.

We also asked a question concerning whether these business unit Chief Compliance Officers are located within the business or reside within the Compliance department. For those companies that do maintain separate Chief Compliance Officers for business units, the Survey responses indicated that fewer than half (48%) of these business unit Chief Compliance Officers reside within the Compliance Department, while a smaller number of them (36%) reside within the business unit itself. (Several Survey respondents indicated that their business unit Chief Compliance Officers reside elsewhere, such as within their Legal department.)

The Survey also asked respondents to identify the types of business units that have a dedicated Chief Compliance Officer. The most common responses ranked as follows:

- Broker-dealer;
- Life insurance;
- Annuities;
- Investment advisers/Asset management (tie); and
- Bank/Thrift (tie).

We also asked respondents to indicate the salary range for business unit Chief Compliance Officers in their organization. The Survey results indicated that business unit Chief Compliance Officers at the majority of small and medium companies earn salaries in the $100,000-$149,999 range, while the majority of large company business unit Chief Compliance Officers earn salaries in excess of $150,000.

Chief Suitability Officers

In light of the ongoing regulatory focus on annuity suitability compliance, some life insurance companies have taken the step to name a Chief Suitability Officer for their organization. We wanted to gauge the extent to which this practice was prevalent across the life insurance industry.

While most life insurance companies have not yet designated a Chief Suitability Officer, approximately 10% of Survey respondent life insurance companies indicated that they maintain a Chief Suitability Officer for their organization, which is on par with the results of our 2015 Survey.

Approximately 10% of Survey respondent life insurance companies indicated that they maintain a Chief Suitability Officer for their organization.

Location of Compliance-Related Functional Areas

This year the Survey once again sought to determine where certain compliance-related functions reside within the organization. It was interesting to note that there was little variation in responses between companies of different sizes. While many of the responses were consistent with expectations, it was surprising that some functions, such as advertising review, have not warranted its own department at many companies. The chart below indicates the predominant Survey responses received:

	Compliance	Operations	Own Department	IT Department
Advertising Review	X			
Complaints	X			
Customer Service		X		
Replacements		X		
Prod. Licensing/ Appointment			X	
AML	X			
Suitability	X			
Cybersecurity				X
Privacy	X			
Claims			X	
Form Filing	X			
Unclaimed Property		X		

Succession Planning and CCO Qualifications

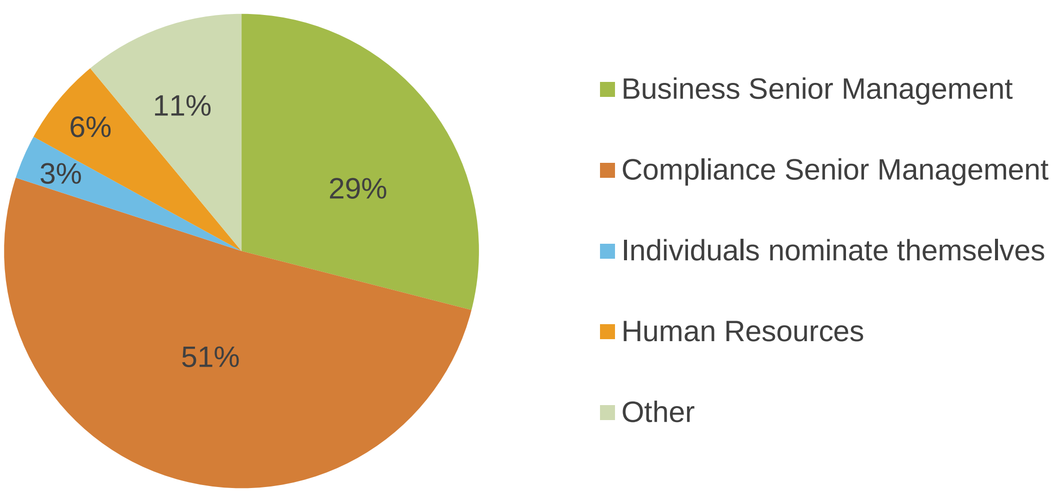
Succession Planning

Succession planning is a critical component of maintaining strong leadership capabilities within an organization. This is also true for the compliance function as well.

With this in mind, this year's Survey once again sought to determine the extent to which companies have developed a formal succession plan in the event that their current Chief Compliance Officer may retire or leave the organization. This year it was encouraging to learn that more than half (55%) of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer.

Identification of Candidates

We also sought data concerning how companies identify potential candidates to replace a departed Chief Compliance Officer. The Survey results to this question are set forth below:



Most companies identify their future Chief Compliance Officer candidates through consultation with senior compliance executives at the company. The Survey results also indicated that business leaders are often consulted for their input into the identification of possible Chief Compliance Officer candidates.

To develop their potential to serve as a Chief Compliance Officer, many companies responding to the Survey indicated that their Chief Compliance Officer candidates participate in internal leadership development programs and a significant number of companies also utilize external resources such as life insurance leadership development conferences. Other popular strategies for leadership development include:

- Participating in leadership conferences designed specifically for aspiring Chief Compliance Officers;
- Participating in rotational assignments to better understand the company's business; and
- Participating in rotational assignments to better understand the company's compliance function.

Most companies identify their future Chief Compliance Officer candidates through consultation with senior compliance executives at the company. The Survey results also indicated that business leaders are often consulted for their input into the identification of possible Chief Compliance Officer candidates.

Educational and Experience Qualifications – Chief Compliance Officer

As demand for Chief Compliance Officers continues to grow, CEFLI has fielded questions from several life insurance companies concerning whether companies generally have preferred educational and experience qualifications for individuals seeking to become a Chief Compliance Officer. Specifically, some companies are trying to determine whether having a legal education is considered to be an educational prerequisite to become a Chief Compliance Officer with a life insurance company.

While the majority of companies responding to the Survey indicated that their company considers a legal education very important or important, only a third (33%) of companies require an individual to hold a legal degree in order to serve as their Chief Compliance Officer. 2016 Survey data affirms the trend we have seen in prior years away from a legal education being an educational prerequisite to become a Chief Compliance Officer with a life insurance company.

In fact, when we asked Survey respondents to identify the most important factors as qualifications to become a Chief Compliance Officer, factors other than a legal education topped the list including: business experience, management experience and senior leadership experience.

While the majority of companies responding to the Survey indicated that their company considers a legal education very important or important, only a third (33%) of companies require an individual to hold a legal degree in order to serve as their Chief Compliance Officer.

Corporate Ethics and Values Statements

The Survey also gathered feedback regarding the extent to which Survey respondents agreed with various corporate ethics and value statements. A majority of Survey respondents most strongly agreed with the following statements:

- If I became aware of a violation of our company's compliance and ethics policies, I would report it.
- If I became aware of a violation of the compliance and ethics policies, I would report it.
- I know where to go to report a violation of our company's compliance and ethics policies.

This is important because it indicates that life insurers have done a good job of instilling strong ethics and values throughout the enterprise with ethics and value messages that give clear direction on how to report suspected violations.

Ethics Programs

As in past years, this year's Survey also gathered information about ethics programs within the life insurance industry. Virtually all companies surveyed (98%) indicated that their organization maintains a written ethics or business conduct program. Most companies Surveyed indicated that their Compliance Department is responsible for the ethics program (42%), though a large number of companies house this responsibility in the Legal Department (40%) and a smaller number have a dedicated Ethics Department responsible for their ethics program (11%). Some companies indicated that their Human Resources Department is responsible for their ethics program (7%).

The vast majority of all companies surveyed indicated that their organization maintains a written ethics or business conduct program.

Elements of Ethics Programs

For those companies who indicated they maintain an ethics program, over 70% of Survey respondents indicated that their company's ethics program maintains the following elements:

- Code of Ethics/Conduct.
- Training program.
- Annual attestation.
- Anonymous reporting.
- Internal communications.

Hotlines

Many life insurance companies (68%) have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and just over half of these companies have established a relationship with a third-party vendor to provide their hotline services.

Raising Awareness of Ethics

Companies also utilize a variety of different practices with respect to raising awareness of the importance of ethics within their organizations. When asked to identify those practices that were most effective in terms of raising awareness of the importance of ethics, Survey respondents indicated that they utilize several strategies to raise awareness of ethics within their organizations including the following (ranked in order):

- Annual training.
- Materials on the company’s intranet.
- Executive speeches and messages.
- Ethics newsletters.
- Internal meetings devoted to ethics awareness.

Ethics in the Performance Evaluation Process

43% of Survey respondents reported that ethics and adherence to their company's values are a formal and documented part of an employee's performance evaluation criteria.

When asked whether ethics and adherence to their company's values are a formal and documented part of an employee's performance evaluation criteria, 43% of Survey respondent companies indicated that ethics and adherence to their company’s values are a formal and documented part of an employee’s performance evaluation criteria.

Education and Training

Once again, this year's Survey included questions designed to gauge the education and training practices of the life insurance industry. This feedback will assist CEFLI in providing appropriate education and training opportunities for life insurance industry compliance and ethics professionals.

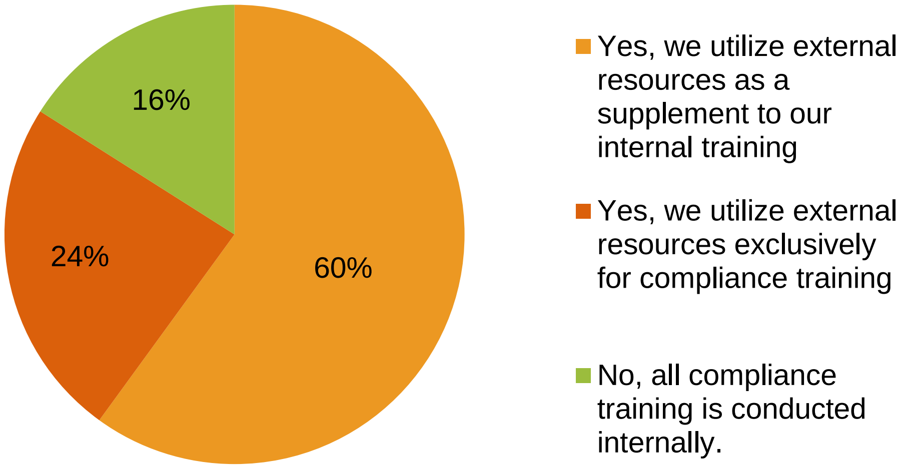
We were encouraged to learn that the Survey results indicated that the majority (67%) of Survey respondent companies maintain their own compliance-specific training programs.

Internal/External Education and Training Resources

The Survey attempted to gauge the extent to which compliance education and training efforts rely upon external resources exclusively or rely upon external resources as a supplement to internal training. The Survey results indicated that the majority of Survey respondent companies (60%) utilize external resources as a supplement to their own internal training programs. Other Survey respondent companies (24%) conduct all compliance training internally, while still others (16%) utilize external resources exclusively for compliance training purposes.

The large majority of Survey respondent companies utilize external resources as a supplement to their own internal training programs.

Use of External Resources for Compliance Training Purposes



It was interesting to note that use of external resources as a supplement to provide training went up 1%, and the exclusive use of external resources to provide training was up 7% over last year's Survey results. While large companies are strong users of external resources as a supplement to their own internal training programs, no large company reported that they rely exclusively on external resources for their training

Survey results indicate that use of external resources to provide compliance training or as a supplement to internal compliance training programs is growing.

External Compliance Training Resources

To better gauge the types of external compliance training resources that may be of value to the life insurance industry, the Survey asked respondents to evaluate various types of compliance education and training opportunities.

The following types of educational and training activities were found to be most important as external resources for their company's compliance training program (ranked in order):

- Conferences of compliance professionals to discuss leading practices.
- Forums to discuss important life insurance industry compliance topics with regulators, industry experts and company representatives.
- Periodic webinars on life insurance industry emerging compliance issues.
- Online compliance resources (e.g., websites).

Compliance Education and Training for Business Partners

Increasingly, compliance professionals are seeing the benefits of engaging their business partners in compliance education and training efforts. The Survey results supported these trends by finding that an overwhelming majority of Survey respondents (90%) agreed that it was necessary to provide compliance training to business partners and a significant percentage (78%) also agreed that training business partners on compliance issues allows compliance professionals to perform their duties more easily.

In light of this data, it is not surprising that participation by business partners in CEFLI webinars and events has been increasing in recent years.

An overwhelming majority of Survey respondents (90%) agreed that it was necessary to provide compliance training to business partners.

Compliance and Enterprise Risk Management (ERM)

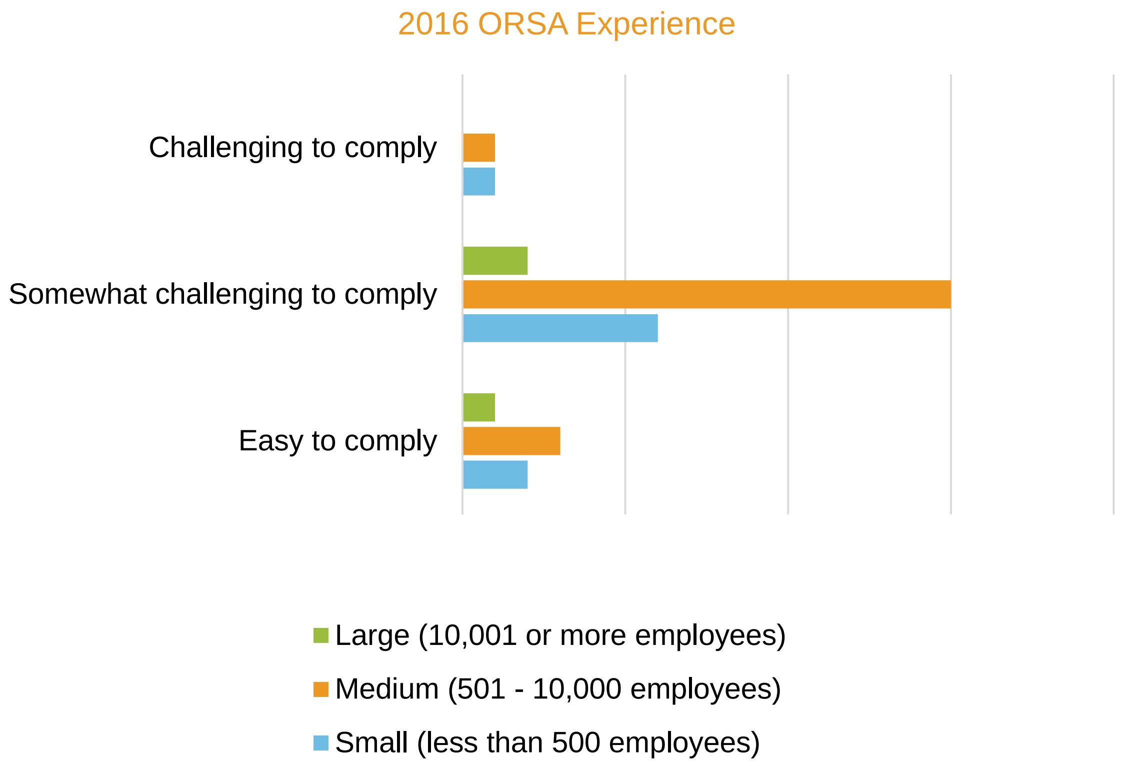
Enterprise risk management ("ERM") remains a subject of heightened regulatory focus within the life insurance industry, and this year's Survey once again asked respondents to indicate the extent to which compliance is part of their company's enterprise risk management programs. For the second year in a row, an increasing majority of Survey respondents (72%, up from 61% in 2015) indicated that Compliance plays an active and ongoing role in their company's ERM process. A smaller percentage of Survey respondents (19%) indicated that compliance only provides input into the ERM process when requested. While other Survey respondents indicated that compliance is rarely involved in ERM, this year no company reported that compliance is not part of their company's ERM program.

When these Survey responses were analyzed according to company size, there was little differentiation with respect to the majority response. The majority of Survey respondents at small, medium and large size companies indicated that compliance plays an active and ongoing role of their company's ERM process.

An increasing majority of Survey respondents indicated that Compliance plays an active and ongoing role in their company's ERM process.

Own Risk and Solvency Assessment (ORSA)

The Survey also sought to determine respondent's experience with the ORSA reporting requirements, which took effect January 1, 2015 in many states. Several respondent companies (6%) subject to ORSA indicated they found the reporting requirements challenging to comply with, while the majority of subject companies (74%) rated compliance with the reporting requirements as only somewhat challenging. Unlike Survey results from 2015, this year no company reported finding it very challenging to comply with the 2016 ORSA reporting requirements, which may suggest that companies' understanding of ORSA requirements has matured over time.



Corporate Governance Annual Disclosure Readiness

When asked to describe their company's state of readiness to meet the new requirements for Corporate Governance Annual Disclosure (CGAD), which began this year, nearly a third (30%) of all Survey respondents indicated that it was somewhat challenging to meet the new 2016 CGAD requirements, and another 2% indicated it was challenging to their company. By contrast, a number of companies (13%) found the requirements were easy to comply with.

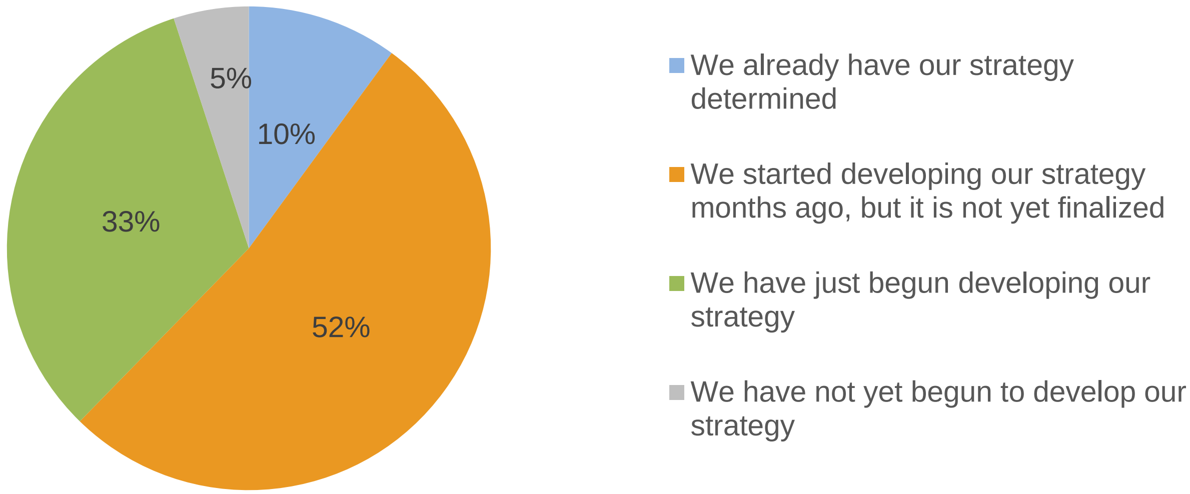
As with last year's Survey many respondents reported they were not aware of their company's state of readiness to comply with CGAD, which may indicate that Compliance is not actively engaged in the CGAD process at a number of life insurers.

Department of Labor Fiduciary Rule Readiness

Given the Department of Labor's finalization of a new Fiduciary Rule introducing standards to address conflicts of interest in retirement advice beginning in 2017, this year's Survey sought to determine respondent companies' state of readiness to meet the new requirements.

The majority of Survey respondent companies (52%) indicated their company had started, but not yet finalized their strategy for meeting the DOL Fiduciary Rule requirements, while 10% already had their strategy determined. Another third of all respondent companies (33%) reported that their company had just begun to develop a strategy, and still others (5%) indicated they had not yet begun to develop their strategy.

How Would You Describe Your Organization's "State Of Readiness" To Meet The Department Of Labor's Fiduciary Rule Requirements Beginning In 2017?



When examining responses based on company size, it may be interesting to note that small and medium companies were most likely to report that they have their strategy for complying with the DOL Fiduciary Rule already determined, while large companies were most likely to report they had not yet begun to develop their strategy.

The majority of Survey respondents, primarily those representing medium and large companies, indicated they would be seeking external assistance with respect to developing their strategy for compliance with the DOL Fiduciary Rule.

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Market Regulation Experience

Based on comments received from the 2015 Compliance and Ethics Benchmarking Survey, this year's Survey included questions pertaining to companies' experience with market analysis (e.g. data calls, interrogatories) and examinations (targeted and comprehensive). In particular, in light of state market regulatory reform initiatives, the Survey sought to determine if companies were experiencing a decline in the amount of onsite market examination activity, which tends to be more resource-intensive, in favor of increased market analysis activity (i.e., not requiring an onsite visit).

Year-To-Year Market Analysis Experience – 2016 v. 2015

The Survey results indicated that many companies (42%) experienced an increase in state market analysis activity in 2016 when compared to 2015. However, most life insurance companies (46%) responding to the Survey indicated that they experienced no change in state market analysis activity when comparing 2016 versus 2015. A smaller number of companies (12%) reported a decrease in the amount of state market analysis activity in 2016. No large companies indicated a decrease. When compared to last year's Survey results, more companies reported a change in state market analysis activity in 2016 than in 2015, with activity increased at 7% more companies, and 4% more companies reporting a decrease in activity.

Year-To-Year Targeted Market Examination Experience – 2016 v. 2015

The majority of life insurance companies (61%) responding to the Survey indicated that they experienced no change in state targeted market examination activity when comparing 2016 versus 2015. A significant number of companies (27%), however, reported experiencing an increase in state targeted market examination activity in 2016 when compared to 2015, while a smaller percentage (12%) reported a decrease in targeted market conduct exams in 2016.

Year-To-Year Comprehensive Market Examination Experience – 2016 v. 2015

When asked to compare their experience with comprehensive examination activity by the states in 2016 versus 2015, a majority of life insurance companies (55%) responding to the Survey indicated that they experienced no change. Survey results indicated, however, that nearly a third of companies (30%) experienced an increase in state comprehensive market examination activity in 2016 when compared to 2015, while another group of companies (15%) actually experienced a decrease in market analysis activity over the same time.

Year to year review of data suggests that regulators use of market analysis is on the rise, while examination activity is declining.

These findings may be significant in that they appear to show that regulators use of less intrusive market analysis is on the rise, while more resource-intensive methods of market regulation are decreasing.

Compliance Challenges - 2016 and 2017

This year's Survey once again concluded by asking respondents to evaluate compliance issues experienced in 2016 and those predicted for 2017. Specifically, we asked respondents to identify which top 5 compliance issues consumed the most compliance resources in 2016. The Survey results in priority order were:

- DOL Fiduciary Rule.
- Cybersecurity.
- Annuity Suitability.
- AML/OFAC.
- ERM and Privacy (tie).

The following topics consumed the most compliance resources 2015:

- *Cybersecurity.*
- *Annuity Suitability.*
- *Privacy.*
- *Unclaimed Property.*
- *ERM and Anti-Money-Laundering/OFAC (tie).*

We also asked the Survey respondents to predict the top 5 most significant compliance challenges to face the life insurance industry in 2017. The Survey results in priority order were:

- DOL Fiduciary Rule.
- Cybersecurity.
- Electronic Signatures/Policy Delivery.
- ERM.
- Annuity Suitability.

Top compliance issues predicted for 2016

- *Cybersecurity.*
- *Enterprise Risk Management.*
- *Privacy.*
- *Electronic Signatures/Policy Delivery.*
- *Federal Insurance Developments.*

Summary

CEFLI's annual Compliance and Ethics Benchmarking Survey serves as a way to gauge the current state of compliance and ethics practices in the life insurance industry and to provide periodic feedback which can be used to analyze possible trends. By comparing Survey responses over several years, we can observe that the compliance and ethics function at life insurance companies is evolving and adapting to the changing nature and scope of compliance and ethics challenges faced by life insurance companies.

That over three qaurters of all respondent companies have appointed a Chief Compliance Officer, many of whom have a sizeable staff reporting to them, confirms the growing role of compliance as a distinct corporate function within life insurance companies. While nearly half of these life insurers currently maintain separate Law and Compliance Departments in their organizational structures, there may be a growing trend to house both functions in one combined department. These developments demonstrate both the distinct technical expertise and responsibilities associated with life insurance company compliance initiatives, as well as the interreleatedness of legal and regulatory functions and the need to maintain corporate efficiencies.

Organizational trends are further differentiated through exploring the distinct roles of compliance and ethics within life insurance companies. When analyzed in comparison to last year’s Survey results, this year's Survey results affirm that there is a growing trend, among companies of all sizes, toward establishing a separate ethics function which is distinct from compliance. However, when asked whether these functional distinctions translate into separate organizational departments for compliance and ethics, the Survey confirmed that a significant

By comparing Survey responses over several years, we can observe that the compliance and ethics function at life insurance companies is evolving and adapting to the changing nature and scope of compliance and ethics challenges faced by life insurance companies.

majority of respondent life insurance companies have not established separate Compliance and Ethics Departments.

The Survey results continue to confirm that the norm in the life insurance industry is to have Chief Compliance Officers report directly to their company's General Counsel. These practices are likely to become more prevalent within the life insurance industry in light of impending regulatory developments pertaining to corporate governance practices.

In addition to a primary direct reporting relationship, the Survey results show that a growing number of Chief Compliance Officers have dotted line reporting relationships to various other senior management roles within their organization, and increasingly to the company's Board of Directors or other appropriate Board Committee (e.g., Audit). This year's Survey results appear to confirm a growing practice of establishing dotted line relationships between CCOs and the Governance, Risk and Compliance Committee at companies of all sizes.

Recognizing that Chief Compliance Officers are increasingly called upon to provide a variety of compliance reports to provide status updates with respect to a company's overall compliance and ethics program, the 2016 Survey asked respondents to identify the various different recipients of these reports within their organization. Survey respondents indicated that senior management was the most likely recipient of compliance reports, followed by the Audit Committee or other committee of the company's Board of Directors, the company's CEO and the company's Board of Directors. When compared to Survey responses from prior years, it is encouraging to note that CCOs at a growing number of companies are called upon to deliver reports directly to the Board of Directors or a Committee of the Board.

The Survey confirmed that the size of the compliance and ethics staff at life insurance companies varies according to company size. Most small companies maintain a compliance and ethics staff of 1-5 people, medium companies maintain a compliance

and ethics staff of between 10-49 people and, while some large companies maintain a compliance and ethics staff in excess of 300 people, the majority have between 20-200 on staff.

The Survey also analyzed data based upon year-to-year staffing and budgeting on a retrospective and prospective basis. Though the majority of life insurance companies indicated that they saw no change to their compliance and ethics staff in 2016 versus 2015, a significant number of companies of all sizes reported a growth in their compliance staff, while only a few small and medium companies indicated a decrease in the number of staff. Though a significant number of companies of all sizes anticipate increasing their number of compliance staff in 2017, just over half of Survey respondent companies indicated that they currently have no plans to add to their compliance staff in 2017. Encouragingly, very few Survey respondent companies indicated that they plan to reduce the size of compliance staff in the coming year.

When analyzing Survey results for those companies indicating that they maintain a separate Ethics Department, a quarter of all companies Surveyed indicated their ethics staff had, in fact, grown between 2015 and 2016 though the majority of companies reported experiencing no change in staffing over this period. For the second year in a row, no companies reported a decrease in ethics staff over the prior year.

When prediciting changes in ethics staff in 2017, most companies reported that they will likely maintain their ethics staff at current levels in 2017, with no life respondents anticipating a decrease in the size of their Ethics Department.

Though many life insurance companies indicated that their compliance and ethics budget remained the same in 2016 versus 2015, half of all respondent companies indicated that their 2016 budget had increased and, while many companies reported last year that their budgets had decreased in 2015, no respondents to this year's Survey indicated their compliance budget was reduced from the year before. Responses concerning 2017 compliance and ethics budgets continue to reflect projected budget

growth at many companies with others indicating their budget was expected to stay the same in 2017.

It came as no surprise that the majority of life insurance companies describe their most senior enterprise wide compliance professional as "Chief Compliance Officer." Compensation associated with the CCO position varies between companies of different sizes with the most common response to this Survey question from small companies being $100,000-$149,999; from medium companies it was $200,000-$249,999 and the most common response from large companies identified compensation in excess of $500,000 for a Chief Compliance Officer.

Survey results appear to confirm that a growing percentage of life insurance companies have elected to combine their Chief Compliance and Chief Ethics Officers into one position (though this role may not always be identified by the title of "Chief Ethics and Compliance Officer.") Compensation ranges for this combined role of “Chief Ethics and Compliance Officer” are similar to those identified for CCOs.

The Survey also revealed that a majority of life insurers lean toward identifying individuals to serve as Chief Compliance Officers for specific business units within their company (a practice which is more prevalent at larger life insurers though it does exist at some small companies). 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, investment adviser,asset manager, or bank/thrift company as applicable. This year’s Survey appears to confirm a trend toward bringing these individuals into the Compliance Department or possibly other corporate departments such as Legal, Risk or Governance rather than housing them in the business units themselves.

As with last year’s Survey, this year's Survey also gauged the extent to which life insurance companies have begun to name an individual to serve as Chief Suitability Officer. Though the number of life insurance companies that have taken the step of

naming a Chief Suitability Officer hasn't changed, this nascent trend within the life insurance industry will continue to be monitored in the years ahead.

The Survey once again sought to determine where certain compliance-related functions (such as complaint handling, privacy, unclaimed property and suitability) reside within the organization. The Survey responses confirmed that many compliance-related functions reside within the Compliance Department. It may be interesting to note, however, that some companies are establishing separate claims departments. (This may be due to recent compliance focus on Unclaimed Property matters.) Alternatively, other functions such as advertising review have not warranted separate departments. In addition, the Survey results indicated that cybersecurity is most often housed within the IT department (rather than the Compliance Department) at many companies.

The 2016 Survey queried the extent to which companies have developed a formal succession plan in the event that their current Chief Compliance Officer may retire or leave the organization. This year it was encouraging to learn that more than half of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer, and this was true for all company sizes. A formal succession plan may be considered a best practice for more companies to explore developing.

Consistent with last year's Survey results, Survey results for 2016 revealed that factors such as business experience, management experience, and senior leadership experience were rated as more important factors than having a legal education when evaluating candidates to become a Chief Compliance Officer. In fact, only a thrid of respondent companies indicated they require an individual to hold a legal degree in order to serve as a CCO.

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.

More than half of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer.

Survey respondents identified many common elements when describing the components of their company's ethics program. These elements include: a code of ethics/conduct, trianing programs, annual attestation, anonymous reporting, and internal communications. Many life insurance companies have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and over half of these companies have established a relationship with a third-party vendor to provide their hotline services. Companies reported a variety of techniques used to raise awareness of ethics within their organizations including annual training, materials on the company's intranet, executive speeches and messages, ethics newsletters and internal meetings devoted to ethics awareness. The Survey also confirmed that ethics and adherence to company values as a formal and documented part of employee performance evaluations is an increasingly accepted practice within the life insurance indiustry.

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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 the majority of life insurers utilize external resources as a supplement to their own internal training programs with some companies

indicating they utilize external resources exclusively for compliance training purposes. 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.

Since enterprise risk management ("ERM") remains a subject of heightened regulatory focus within the life insurance industry, Survey respondents were asked to indicate the extent to which Compliance is part of their company's enterprise risk management programs. As with last year's Survey, a majority of Survey respondents from companies of all sizes indicated that Compliance plays an active and ongoing role in their company's ERM process.   While other Survey respondents indicated that Compliance is rarely involved in ERM or provides input into the ERM process when requested, this year it was encouraging to see that no company reported that compliance is not part of their company's ERM program. Companies may begin to explore ways to align Compliance and ERM as their programs continue to evolve. When these Survey responses were analyzed according to company size, there was little differentiation with respect to the majority response. The majority of Survey respondents at small, medium and large size companies indicated that compliance plays an active and ongoing role of their company's ERM process.

The 2016 Survey sought to determine respondent companies' state of readiness to meet the requirements imposed by the Department of Labor's new Fiduciary Rule which are set to take effect next year. The majority of Survey respondent companies indicated their company had begun to develop, but had not yet finalized, their strategy for meeting the new standards. It may be interesting to note that small and medium companies were most likely to report that they have

A majority of Survey respondents indicated that compliance plays an active and ongoing role in their company's ERM process.

their strategy for complying with the DOL Fiduciary Rule already determined, while large companies were most likely to report they had not yet begun to develop their strategy. Many companies indicated they would be seeking external assistance with respect to developing their strategy for compliance with the DOL Fiduciary Rule.

This year's Survey once again included questions pertaining to companies' experience with market analysis (e.g. data calls, interrogatories) and examinations (targeted and comprehensive). In particular the Survey sought to determine if companies were experiencing a decline in the amount of onsite market examination activity, which tends to be more resource-intensive, in favor of increased market analysis activity (i.e., not requiring an onsite visit).

While the majority of life insurance companies experienced no change in the amount of state market analysis or examination activity in 2016, 42% reported an increase in market analysis, 27% reported an increase in targeted market conduct exams, and 30% reported an increase in comprehensive exams. These findings may be significant in that they appear to show that regulators use of less instrusive market analysis is on the rise, while more resource intensive methods of market regulation are decreasing.

Finally, the Survey asked respondents to evaluate the issues that consumed the most compliance resources in 2016 and to anticipate the most significant compliance challenges facing the life insurance industry in 2017. The Survey yielded the following responses (in priority order) as those that consumed the most compliance resources in 2016:

- DOL Fiduciary Rule.
- Cybersecurity.
- Annuity suitability.
- AML/OFAC.
- ERM and Privacy (tie).

Looking ahead to 2017, life insurers predicted that the following issues will be the most significant complaince challenges (ranked in order):

- DOL Fiduciary Rule.
- Cybersecurity.
- ERM.
- Annuity suitability.
- Electronic signatures/policy delivery.

We hope that readers of the 2016 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 2016 CEFLI Compliance and Ethics Benchmarking Survey.

*   *   *   *   *   *

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 2016 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 2016 CEFLI Compliance and Ethics Benchmarking Survey.

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Compliance & Ethics Forum
for Life Insurers

Bethesda, MD 20814

240.744.3030

info@cefli.org