



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



CEFLI Electronic Business Processing Benchmarking Survey Report

Benchmarking Survey Report



Introduction3

Purpose.....4

Methodology4

Characteristics of Respondents.....5

 Company Size5

 Roles5

Distribution6

 States Licensed to Sell In6

 Distribution Channels.....6

Companies Utilizing Electronic Business Processes7

 Primary Driver for Developing Electronic Business Capabilities7

 Types of Electronic Business Processes Implemented8

 Use of Technology.....8

 E-signatures9

 Oversight10

 Compliance Challenges11

Companies Not Currently Utilizing Electronic Business Processes.....11

Perceived Need for Additional Regulatory Guidance12

Summary.....13



Introduction

CEFLI is pleased to report the results of its 2016 Electronic Business Processing 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 2016 Electronic Business Processing Survey was designed to capture data associated with the current life insurance industry practices with respect to the electronic business processing within the life insurance industry. This Report summarizes the key findings of the Survey.

CEFLI would like to extend a special thanks to members of its Electronic Business Issue Forum for their assistance in the development of this Survey.



Purpose

The purpose of this Survey was to determine the current state of practices with respect to the implementation of electronic business processes within the life insurance industry. While electronic commerce is an established and growing field in many industries, electronic business processes such as electronic applications, signatures and policy delivery continue to raise a variety of challenges for the life insurance industry. In light of these challenges, this Survey was developed by CEFLI's Electronic Business Issue Forum to determine, among other matters, the types of electronic business processes that have been pursued and the extent to which various electronic business processes have been successfully implemented within life insurance companies to date.

While electronic commerce is an established and growing field in many industries, business processes such as electronic applications, signatures and policy delivery continue to raise a variety of challenges for the life insurance industry.

To gauge current practice, the Survey asked objective questions designed to ascertain the nature and scope of electronic business processing at respondent life insurance companies. Aspects covered included: drivers behind developing electronic business capabilities, technologies currently in use, lines of business utilizing electronic business processes, compliance challenges and perceived need for additional regulatory guidance.

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 64 life insurance companies across a range of company sizes.



Characteristics of Respondents

Company Size

Survey respondents were asked to identify the size of their organization based upon the number of overall employees. For purposes of this Survey, small life insurance companies were characterized as organizations with 500 or fewer employees, medium companies were characterized as organizations with 501-10,000 employees, and large companies were characterized as organizations with 10,001-50,000 employees. Survey responses were received from a broad range of companies including large life insurance companies (7%), medium companies (58%), and small companies (35%).

Roles

When asked to identify their role within their respective life insurance companies, the majority (58%) of Survey respondents characterized themselves as "compliance professional." Other Survey respondents identified themselves as "chief compliance officer" (18%), "legal professional" (8%), "fraud/SIU specialist" (4%), "general counsel" (3%) and others (9%) identified themselves in a variety of other different positions including, but not limited to, ethics professional, chief ethics officer, chief AML officer, chief risk officer, chief privacy officer, claims specialist and complaint handling specialist.



Distribution

States Licensed to Sell In

The Survey sought to determine the number of states in which companies responding to the survey were licensed to sell insurance. A large percentage (89%) of Survey respondents indicated they were licensed in 31-50 states, while a smaller percentage indicated they were licensed to sell in 16-30 states (4%) or 5-15 states (7%).

Distribution Channels

The Survey also sought to identify the various types of distribution systems used by companies in selling their products. The Survey results confirmed that companies use a broad range of distribution systems with many companies using more than one type of distribution. The majority of respondents (82%) reported that their company utilizes independent producers and over half (52%) reported they distribute through a captive sales force. Broker-dealer distribution is used by almost half (49%) of the life insurers surveyed. A significant percentage of respondent life insurers also distribute their products through worksite sales (27%) and other direct sales channels (23%).



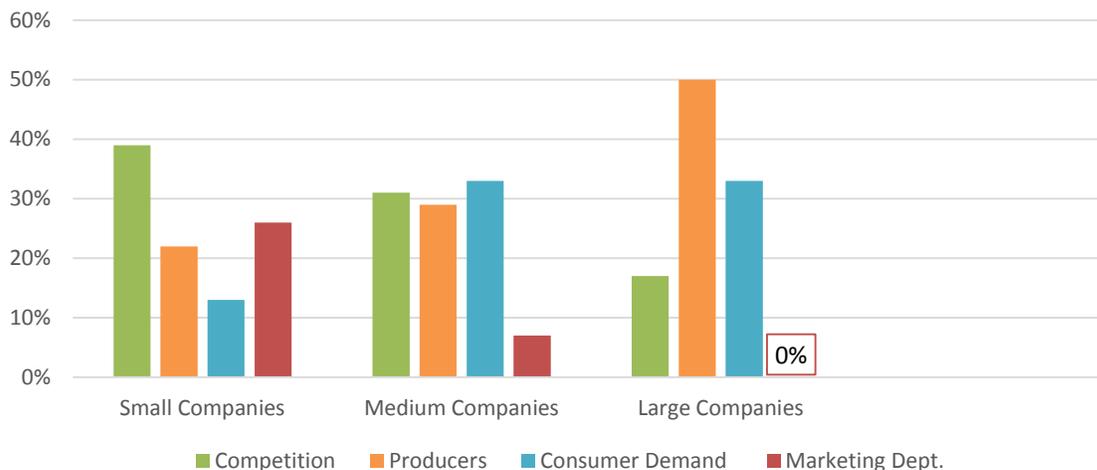
Companies Utilizing Electronic Business Processes

The Survey determined that the vast majority of respondent life insurers, including all large life insurers who responded to the Survey, have developed some electronic business capabilities (94%). For the companies indicating they had already developed electronic business processes, the Survey sought to gather information regarding the drivers behind the development, compliance challenges and responsibilities associated with electronic business processing as well as the types of electronic business processes and technologies currently in use.

Primary Driver for Developing Electronic Business Capabilities

While reduced costs and improved efficiencies were noted influences in the decision to implement electronic business processing capabilities, when asked which of the following was seen as the primary driver in developing electronic processes at their company, Survey respondents ranked “competition” first (32%), followed by “producers” (28%), “consumer demand” (27%) and “marketing department” (13%).

Primary Driver Behind Developing
Electronic Business Processing Capabilities
By Company Size





Types of Electronic Business Processes Implemented

Insurers were most likely to have electronic capabilities in place for taking applications, performing underwriting, producer licensing and appointment and post-sale servicing.

When asked which electronic business processes were currently used at their company, Survey respondents were most likely to have electronic capabilities in place for taking applications (84%), performing underwriting (37%), producer licensing and appointment (34%) and post-sale servicing such as address and beneficiary changes (31%). A smaller percentage of respondent life insurers indicated having developed electronic business processes to handle policy delivery (18%), amendments and endorsements (11%) and claims processing (9%). A number of medium and large companies (5%) indicated, however, that they had implemented electronic business capabilities for all of the above processes.

Use of Technology

The Survey asked respondents to identify the various types of technology used in their company's sales and servicing of life insurance products today. Among those widely used were E-signatures (89%), tablets (49%). Direct sales via telephone (45%), online sales via computer (37%) and Skype/video conferencing (31%). Electronic kiosks are also used by some companies for sales (4%) and post-sale servicing (3%).

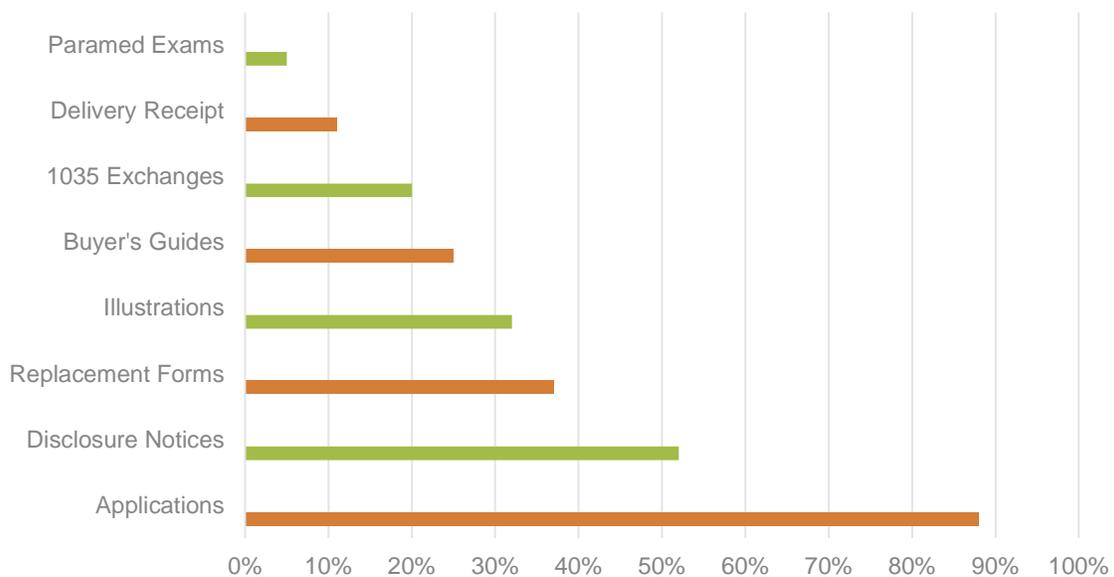
The Survey also sought to determine the extent to which life insurers permit producers to use their own personal portable electronic devices companies when conducting business on behalf of the company. Just over half (51%) of the life insurers responding to the Survey indicated they permitted producers to use their own portable electronic devices, while a third of all respondents (33%) did not permit their use in conducting business on behalf of the company. Other companies (15%) indicated that some, but not all, producers were permitted to use personal electronic devices and a few companies (1%) approved their use only by registered representatives.



E-signatures

For those Survey respondents indicating their company has implemented e-signature capabilities, the following forms were most likely to utilize this technology: applications (88%), disclosure notices (53%), replacement forms (38%) and illustrations (33%). E-signatures were also accepted by some companies for the delivery of buyer's guides (26%), 1035 exchange requests (20%), delivery receipts (12%) and even paramed exams (5%). A few companies noted they also accept e-signatures on forms that do not require a signature, such as suitability profile forms.

E-signatures Accepted

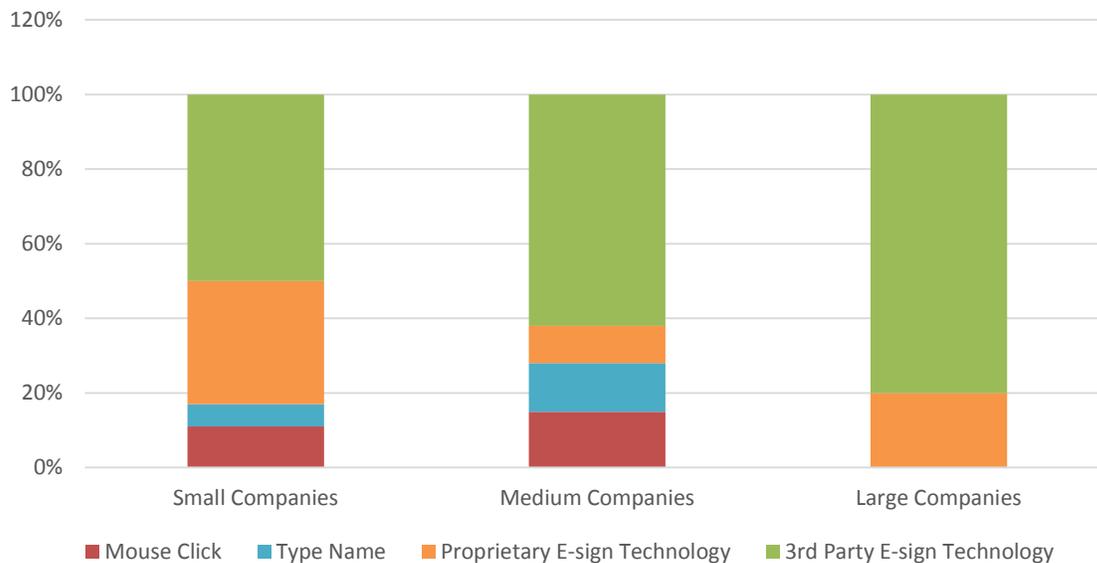


E-signatures were most likely to be accepted by Survey respondents on applications for traditional life insurance products such as term life (70%), standard whole life (65%) and fixed annuities (52%), while responses indicated less willingness to accept e-signatures on applications for variable annuities (15%) and variable life (9%) products. This was true for companies of all sizes and is likely attributable to the potential for market fluctuations, which could impact variable interest rates.



Insurers use a variety of different technologies to capture e-signatures with most Survey respondents indicating that e-signatures are most commonly captured using a third party vendor's e-signature technology (60%). Others rely upon the insurers own proprietary e-signature technology (18%), or a simple mouse-click (13%) or by typing in the signer's name (9%). Signature capture was also achieved by uploading a signature image, entering an assigned PIN code or through voice signature technology at some companies.

E-sign Technology By Company Size



Oversight

Companies use a variety of testing techniques to oversee their electronic business processes. For companies with established electronic business processes, the responsibility for testing procedures was decentralized in the appropriate business unit at almost half (49%) of those surveyed, while other companies indicated testing of electronic business processing procedures fell to the Information Technology Department (35%), Compliance (8%) or Law (3%). Other companies indicated testing of electronic business processes was a shared responsibility among several departments (5%).



Compliance Challenges

The Survey also sought to identify compliance challenges associated with electronic business processes. When asked which of the following was seen as the most significant compliance challenge associated with electronic business processing, Survey respondents indicated “lack of regulatory guidance” (19%), “fraud” (14%), “cybersecurity” (10%), “privacy” (6%) and “product filing issues” (3%). It also may be important to note that almost half of the companies surveyed (48%) indicated “all of the above” when asked to identify compliance challenges associated with electronic business processes.

Companies Not Currently Utilizing Electronic Business Processes

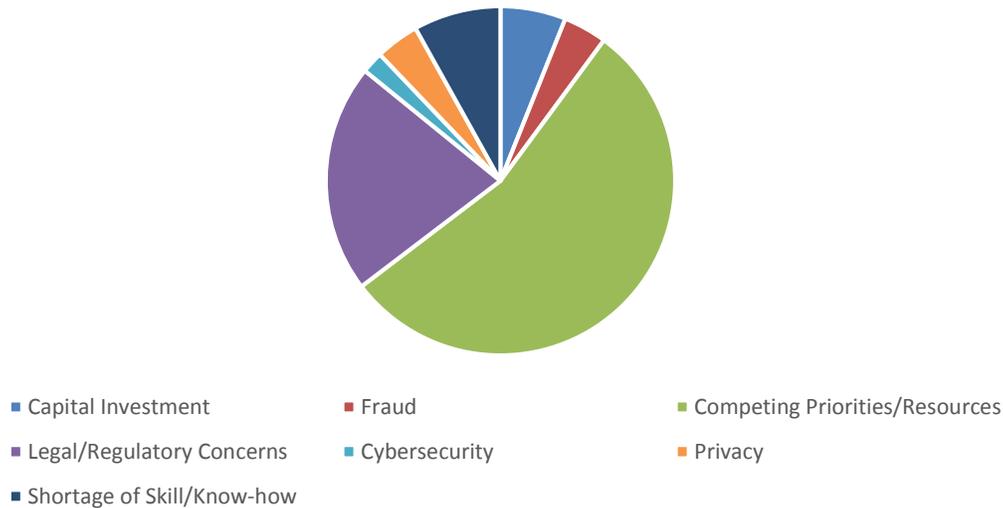
Though the overwhelming majority of life insurers responding to the Survey indicated that their company is engaged in some type of electronic business processing, some small and medium sized companies (6%) have not yet entered this domain. Of these companies, most (75%) indicated that their company has plans to begin utilizing electronic business capabilities within the next year.

75% of respondent life insurers who aren't currently engaged in electronic business processing indicated their company plans to develop electronic processing capabilities in the next year.

When asked what they would characterize as the primary impediment to developing electronic business processes today, “competing priorities/resources” was cited most frequently (54%), followed by “legal/regulatory concerns” (20%) and “shortage of skill/know-how” (8%). Others indicated capital investment, fraud, cybersecurity and privacy concerns or a combination thereof as the primary impediment to entering into the electronic business processing domain.



Impediments to Entering Electronic Business Domain For Small and Medium Companies



Perceived Need for Additional Regulatory Guidance

In closing, the Survey asked respondents whether they saw a need for additional regulatory guidance in order to grow their company's use of electronic business processing of life insurance and annuity products. Just over two-thirds of all Survey respondents (67%) indicated that they do perceive a need for additional regulatory guidance, in particular in the areas of "policy and form delivery requirements" (68%), "e-signature requirements" (61%), "validation of ID" (59%), "record keeping" (46%) and "privacy" (29%).

Comments offered with respect to this Survey question noted that a number of life insurance regulations should be revisited with electronic sales of life insurance in mind since they were originally drafted for manual, face-to-face sales. Other comments indicated that the liability risk associated with data security breaches may be impeding the growth of electronic business processing of life insurance.



Summary

CEFLI's 2016 Electronic Business Processing Benchmarking Survey serves as a way to gauge the current state of practice with respect to electronic business processing within the life insurance industry. By establishing this benchmark, this information can be used to track the evolution of electronic business processing capabilities and analyze possible trends that may occur in electronic business processing in the life insurance industry over the years ahead.

The Survey determined that 94% of respondent life insurers have already developed some electronic business processing capabilities.

The Survey determined that the vast majority (94%) of respondent life insurers have already developed some electronic business processing capabilities. While several small and medium companies participating in the Survey have yet to enter the electronic business processing domain, all large insurers indicated that they currently conduct some electronic business processing.

Overall, the primary driver behind developing electronic business capabilities appears to be competition (32%); especially, among small company participants. Medium companies were more likely to identify consumer demand as the primary driver for their decision to develop electronic business processing capabilities, while the influence of producers was overwhelmingly the driver at large companies.

The life insurance application process is the most likely to be made electronic at the majority of insurers with 87% of respondents indicating they have an e-application process in place. This is true for all sizes of companies. While implementation of electronic processes for underwriting, producer licensing and appointment and post-sale servicing such as address and beneficiary changes are also popular, the processing of endorsements/amendments, policy delivery and claims are less likely to be handled electronically today.

Survey results indicate that while the use of electronic kiosks for the sale and servicing of life insurance is not widespread, other technologies such as telephone sales, online sales,



and the use of tablets and Skype/video conferencing are becoming more commonplace in transacting life insurance.

Life insurers are still somewhat split on whether to allow producers to use their own portable electronic devices, such as smart phones and iPads, with just over half of Survey respondents indicating that such use is a permitted practice. Some companies have made the decision to allow some, but not all, producers to use their own portable electronic devices when conducting business on behalf of the company.

Among companies indicating they have already developed some electronic business processing capabilities, the vast majority (89%) have implemented e-signature technology. The most common use for e-signatures is on applications, though they are also being captured on disclosure notices, replacement forms, illustrations and buyer's guide receipts at a number of companies. While e-signatures are less likely to be accepted on 1035 exchange requests, policy delivery receipts and paramed exam forms, a smaller number of companies are utilizing e-signature technology for these items.

Among companies indicating they have already developed some electronic business processing capabilities, 89% have implemented e-signature technology.

With respect to lines of business for which e-signatures are accepted, Survey respondents indicated that their companies are seven times more likely to allow applicants to utilize e-signatures for term life and traditional whole life than for variable life insurance, and three times more likely to accept e-signatures for fixed annuities than for variable annuity business. This is true for respondent companies of all sizes and is likely attributable to the potential for market fluctuations, which could impact variable interest rates.

Survey results show that for companies of all sizes, e-signatures are most commonly captured using a third party vendor's e-signature technology. Proprietary e-signature technology has also been developed by a number of insurers of all sizes, while some small and medium companies rely on a mouse click or permit typing in a name electronically in place of a wet signature.



For companies with established electronic business processes the responsibility for oversight and testing of procedures is generally handled by the business unit that owns the process. A number of companies indicated, however, that testing of electronic business processing procedures fell to the Information Technology Department and a few indicated this was the responsibility of either Compliance, Law or some combination of appropriate departments with oversight of the process.

Though having successfully implemented electronic capabilities for one or more business processes, many respondents (83%) indicated they have experienced/are experiencing significant compliance challenges related to the following:

- Lack of regulatory guidance (19%)
- Fraud (14%)
- Cybersecurity (10%)
- Privacy (6%)
- Product filing (3%)
- All of the above (48%)

Six percent of all Survey respondents, representing only small and medium companies, indicated that their company had yet to enter the electronic business processing domain.

75% of respondent life insurers who are not currently engaged in electronic business processing indicated their company plans to develop electronic processing capabilities in the next year.

Among these companies, 75% have plans to begin utilizing electronic processing capabilities within the next year.

For companies who are not currently engaged in electronic business processing, “competing priorities/resources” was most frequently (54%) cited as the primary impediment, followed by “legal/regulatory concerns” (20%) and “shortage of skill/know-how” (8%). Others impediments identified were capital investment, fraud, cybersecurity and privacy concerns.



Finally, the Survey sought to determine whether life insurers perceive a need for additional regulatory guidance in order to grow their company's use of electronic business processing. Over two-thirds of respondents affirmed such a need in a number of areas, ranking them as follows:

- Policy and form delivery requirements (68%)
- E-signature requirements (61%)
- Validation of ID (59%)
- Record keeping (46%)
- Privacy (29%)

Comments offered with respect to this Survey question indicated that existing regulations were drafted with manual, face-to-face sales of life insurance and annuity products in mind and that all regulations therefore need to be revisited to take into account today's non-face-face sales and advances in technology. Other commenters noted that liability risk associated with data security breaches may be impeding the growth of electronic business processing of life insurance.

The overall results of CEFLI's 2016 Electronic Business Processing Benchmarking Survey indicated that life insurers will continue to explore electronic business processing techniques over the years ahead. As technologies continue to evolve, the life insurance industry will be introduced to new ways of enhancing the "customer experience" for purchasers of life insurance and annuity products. Yet, in order for electronic business processing to flourish, it is clear that current regulations may need to be updated to address evolving technological strategies.

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 2016 Electronic Business Processing 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 CEFLI Electronic Business Processing Benchmarking Survey.

THE FORUM THAT CONNECTS.



**Compliance & Ethics Forum
for Life Insurers**

Bethesda, MD 20814

240.744.3030

info@cefli.org