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THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS

2017 CEFLI
Compliance and Ethics
Benchmarking Survey Report
Executive Summary

Introduction

CEFLI is pleased to provide the Executive Summary of the results of its 2017 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. All CEFLI Member companies are entitled to receive the Full Report of the 2017 Compliance & Ethics Benchmarking Survey. This Executive Summary 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 New York State Department of Financial Services' new Cybersecurity Regulation.

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 68 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 years' 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 (43%) characterized themselves as a "compliance professional" or "Chief Compliance Officer" ("CCO") (31%). Other survey respondents identified themselves as "General Counsel" (9%), "legal professional" (4%), and "Chief Ethics and Compliance Officer" (3%), and a few identified themselves in a variety of other positions including risk management and product development.

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

Key Findings

Organizational Structure

- A majority of Survey respondents (57%), mostly medium and large companies, indicated that their organization maintains separate law and compliance departments.
- Organizational structures combining law and compliance departments are most prevalent among small companies, with over two-thirds (70%) of small company Survey respondents indicating that law and compliance is combined in one department.
- While ethics may exist as a separate function from compliance at a growing number of companies, most Survey respondents (89%) do not maintain separate departments for these distinct functions.
- The majority of Chief Compliance Officers (77%) report to the company's General Counsel or Deputy General Counsel. This remained consistent across the Survey data regardless of company size.
- Survey results show that at more than half of all respondent companies (53%) Chief Compliance Officers have a dotted line reporting relationship to the company's Board of Directors or other appropriate Board Committee.

Staffing and Budgets

- 38% of respondent companies reported growth in the size of their compliance staff in 2017, and 40% anticipate further growth in 2018.
- Among companies with staff devoted solely to ethics dedicated ethics staff 25% experienced an increase in staff size in 2017, while 66% are planning to add staff in 2018.

66% of companies responding to the Survey anticipate increasing the size of their ethics staff in 2018.

- When asked whether their compliance budget had changed in 2017, Survey respondents were split evenly with half indicating their budget had stayed the same and the other half indicating their budget had increased since 2016. 5% of respondent companies, however, anticipate a decrease in budget for the coming year.
- 18% of Survey respondents indicated that their compliance budget allows them to hire outside legal services for the Compliance Department on an independent basis, a slight decrease from last year's Survey results.
- While only 8% of companies reported having named a Chief Ethics Officer distinct from their CCO, 26% of life insurance companies responding to the Survey have elected to combine the role of Chief Ethics & Compliance Officer (though this role may not always be identified by the title of "Chief Ethics and Compliance Officer").
- Salaries were generally higher for individuals who hold the combined title of Chief Ethics & Compliance Officer, than for Chief Ethics or Chief Compliance Officers.
- The practice of identifying an individual to serve as a Chief Compliance Officer for a specific business unit (e.g. Broker-Dealer, product lines, investment advisers, asset management) is more prevalent at medium and large companies, though also does occur at some small companies.

Location of Compliance-Related Functions

- The Survey sought to determine where certain compliance-related functions reside within the organization. It may be interesting to note that there was little variation in responses (see chart below) between companies of different sizes.[1]

	Compliance	Own Department	Operations	IT
Advertising Review	X			
Complaint Handling	X			
Customer Service		X	X	
Replacements			X	
Licensing & Appointments		X		
AML	X			
Suitability	X		X	
Cybersecurity				X
Privacy	X			
Claims		X	X	
Form Filing	X			
Unclaimed Property			X	
Regulatory Reporting	X			

[1] Some functions were equally dispersed between various departments. In those instances, they have been identified with multiple check boxes for the specific compliance function.

Succession Planning CCO Qualifications

- The majority of companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer, an increase of 4% over last year's Survey results.
- Most companies identify their future Chief Compliance Officer candidates through consultation with senior legal and compliance executives at the company. Business leaders are often consulted as well for their input into the identification of possible CCO candidates.
- When analyzing this year's Survey responses it appears that fewer companies (29% compared to 33% last year) require an individual to hold a legal degree in order to serve as their Chief Compliance Officer.
- When asked to identify the most important 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.
- To develop their potential to serve as a CCO, the majority of companies responding to the Survey indicated that their candidates participate in internal leadership development programs and life insurance industry leadership conferences specifically designed for aspiring Chief Compliance Officers.

> *Business experience, management experience and senior leadership experience were all considered more important qualifications for becoming a CCO than a legal education.*

Ethics Program

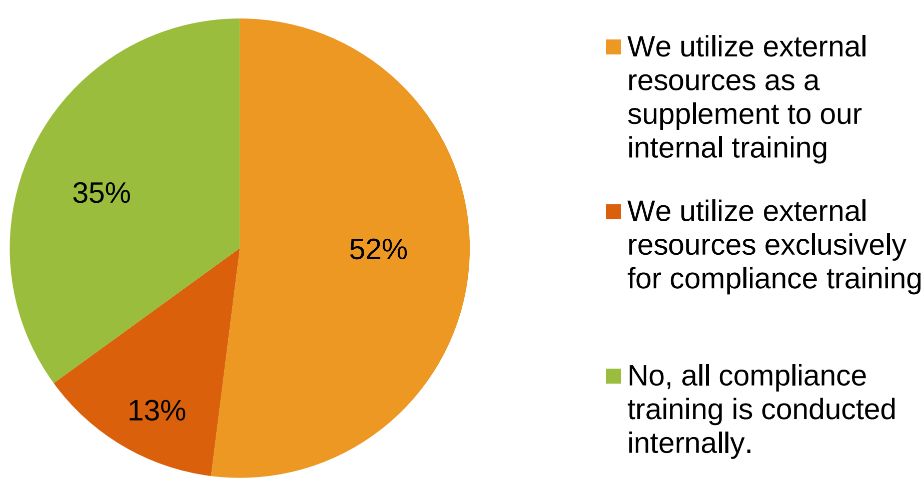
- Nearly all (96%) companies surveyed indicated that their organization maintains a written ethics or business conduct program, which commonly includes such elements as:
  - Code of ethics/conduct
  - Training
  - Annual attestation
  - Anonymous reporting
  - Investigations
- Survey respondents reported that conducting annual ethics training and awareness events was the primary way they raise awareness of the importance of ethics within their organizations.
- An increasing number of life insurance companies (81%, up from 68% on last year’s survey) have instituted "hotlines" for reporting of ethical violations as part of their ethics program and over half of them have established a relationship with a third-party vendor to provide their hotline services rather than maintaining it internally
- Half of all 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.

The number of Survey respondents reporting that ethics and adherence to their company's values are a formal and documented part of an employee's performance evaluation criteria grew by 7% on this year’s Survey.

Training and Education

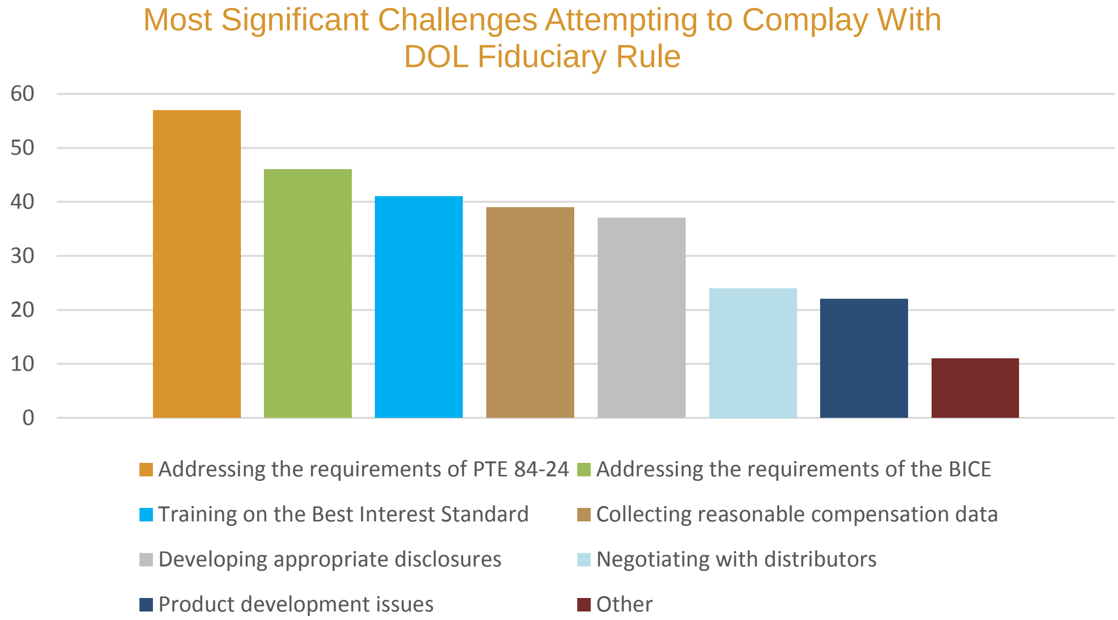
- Survey results indicated that a growing majority (87%) of Survey respondent companies maintain their own compliance-specific training programs.
- An overwhelming majority of Survey respondents (96%) agreed that it was necessary to provide compliance training to business partners. In light of this data, it is not surprising that participation by business partners in CEFLI webinars and events has been increasing in recent years.
- 87% of the companies Surveyed utilize external resources to provide compliance training or as a supplement to internal compliance training programs. The chart below provides a full breakdown for this question:

Use of External Resources for Compliance Training Purposes



Department of Labor (DOL) Fiduciary Rule

- When asked to describe their organization's "state of readiness" to meet the Department of Labor's Fiduciary Rule requirements in the coming year, the majority (53%) indicated their company's strategy is mostly in place and 25% reported their strategy was fully implemented.
- Larger companies were twice as likely to report having fully implemented their compliance strategy
- When asked to rank the most significant challenges associated with attempting to comply with the new fiduciary standard, over half of all companies surveyed indicated that addressing the requirements of PTE 84-24 was their biggest challenge.
- The Survey results to this question are set forth in the following graph:



New York State Department of Financial Services (NYDFS) Cybersecurity Regulation

- A large majority (76%) of companies subject to the NYDFS new cybersecurity requirements indicated they found the reporting requirements challenging or somewhat challenging to comply with, and 16% found complying with the reporting requirements to be very challenging.
- A third of all companies responding to the Survey indicated that they would be seeking external assistance with respect to their cybersecurity program in the coming year.

Compliance and Enterprise Risk Management (ERM)

- For the third year in a row, the number of Survey respondents indicating that Compliance plays an active and ongoing role in their company's ERM process increased. This was true among companies of all sizes.

An increasing majority of Survey respondents (73%) indicated that Compliance plays an active and ongoing role in their company's ERM process.

Market Regulation Experience

- This year more companies reported an increase in market analysis activity (e.g. data calls, interrogatories), while fewer companies reported an increase in examination activity, both targeted and comprehensive, than on prior year's Surveys.
- These findings may be significant in that they appear to affirm that regulators are increasingly relying on market analysis tools, while decreasing their reliance on market examination activity.

Compliance Challenges

- When Survey respondents were asked to rank the 5 compliance challenges of 2017 and predict those for 2018, the same five issues appeared on their lists:
  - DOL Fiduciary Rule.
  - Cybersecurity.
  - New Product/Innovation Initiatives.
  - Annuity Suitability.
  - Fraud Prevention.
- Issues such as AML/OFAC, ERM and Privacy have dropped off the list for top compliance challenges the majority of life insurers are facing.

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 80% 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 over half of these life insurers currently maintain separate Law and Compliance Departments in their organizational structures, many companies house both functions in one combined department, which apears to be a growing trend among smaller life insurers. 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 majority of respondent life insurance companies have not established a separate Ethics Department.

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 another appropriate Board Committee (e.g., Audit).

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 2017 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 General Counsel, Audit Committee or other committee of the company's Board of Directors, the company's CEO, Risk Committee and the company's Board of Directors. **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 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 2017 versus

2016, over a third of the companies surveyed reported a growth in their compliance staff, and no company saw a decrease in the number of staff in 2017. Though a significant number of companies of all sizes anticipate increasing their number of compliance staff in 2018, just over half of Survey respondent companies indicated that they currently have no plans to add to their compliance staff in 2018. 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 2016 and 2017 though the majority of companies reported experiencing no change in staffing over this period. For the third year in a row, no companies reported a decrease in ethics staff over the prior year.

When prediciting changes in ethics staff in the next year, a robust two-thirds of all companies reported that they will likely increase the number of staff devoted to ethics in 2018, and no life insurers anticipate 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 2017 versus 2016, half of all respondent companies indicated that their 2017 budget had increased and for the second year in a row no company reported that their budget had decreased. Responses concerning 2018 compliance and ethics budgets continue to reflect projected budget growth at many companies, with only a few companies aniticpating a reduction in their budget for 2018.

The number of life insurance companies that have appointed a Chief Complaince Officer continues to grow and the majority of them use the title of CCO to describe their most senior enterprise-wide compliance professiona. 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 $75,000-$199,999; from medium

companies, it was $100,000-$399,999 and the most common response from large companies identified compensation in excess of $500,000 for a Chief Compliance Officer.

This year's Survey results confirm that a growing number 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 slightly higher than those identified for CCOs.

The Survey also revealed that a minority of life insurers lean toward identifying individuals to serve as Chief Compliance Officers for specific business units within their company (a practice which may be 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 include a life insurance company's broker-dealer, life insurance product line, investment adviser, annuities product line, and asset management. This year's Survey suggests that these individuals are most often housed in the business units themselves rather than within Compliance.

As with last year's Survey, this year's Survey also gauged the extent to which life insurance companies have named 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 increased, 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 have established standalone department for functions such as producer licensing & appointment and claims. Alternatively, other functions

such as form filing and 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 2017 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. **It was encouraging to learn that 59% of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer, an increase of 4% over last year's results.** 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 2017 revealed that factors such as business experience, management experience, and senior leadership experience were all considered more important qualifications for becoming a CCO than having a legal education. In fact, less than a third 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.

Survey respondents identified many common elements when describing the components of their company's ethics program. These elements include: a code of ethics/conduct, training programs, annual attestation, anonymous reporting, and investigations. Many life insurance companies have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and half of these companies have established a relationship with a third-party vendor such as Lighthouse or NAVEX Global to provide their hotline services. Companies reported a variety of techniques used to raise awareness of ethics

within their organizations including annual training/awareness events, materials on the company's intranet, executive speeches and messages, internal meetings devoted to ethics awareness and posters throughout the workplace.**The Survey also confirmed that the practice of making ethics and adherence to company values a formal and documented part of employee performance evaluations is a growing within the life insurance indiustry**

Recognizing CEFLI's growing leadership role in compliance and ethics education and training in the life insurance industry, the Survey asked questions 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. A growing number of companies, however, reported that they conduct all of their complaince training internally. When asked to evaluate various types of education and training opportunities available throughout the life insurance industry, a significant number **of Survey respondents identified the type of education and training activities offered by CEFLI 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 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. **An increasing 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, for the second year in a row no company reported that compliance is not part of their company's ERM program. Companies may begin to explore new ways to align Compliance and ERM as their programs continue to evolve.

The 2017 Survey sought to determine respondent companies' state of readiness to meet the requirements imposed by the Department of Labor's new Fiduciary Rule in the coming year. While some companies reported that they still have work to do, the majority of Survey respondent companies indicated their company's strategy is mostly in place and a quarter of all respondents reported their strategy was fully implemented. In general responses concerning "state of readiness" did not vary by company size, except that larger companies were twice as likely to report having fully implemented their compliance strategy for complying with the DOL Fiduciary Rule.

Respondents were asked to rank the most significant challenges associated with attempting to comply with the new fiduciary standard and over half of all companies surveyed indicated that addressing the requirements of PTE 84-24 was their biggest challenge. This was followed closely the challenge of addressing the requirements of the BICE, developing training on the Best Interest Standard, collecting reasonable compensation data, and developing appropriate disclosures.

For the first time the Survey sought to determine respondent's experience with meeting the requirements of the NYDFS new cybersecurity regulation. A large majority of companies subject to the NYDFS cybersecurity requirements indicated they found the reporting requirements challenging or somewhat challenging to comply with, while fewer than 10% indicated the new cybersecurity regulation's reporting requirements were easy to comply with. **Not surprisingly, a third of all companies responding to the Survey indicated that they would be seeking external assistance with respect to their cybersecurity program in the coming year.**

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 2017, more companies reported an increase in market analysis activty than reported increases in examination activity. **These findings may be significant in that they appear to affirm that regulators are increasingly relying on market analysis tools, while decreasing their reliance on market examination activity.**

Finally, the Survey asked respondents to evaluate the issues that consumed the most compliance resources in 2017 and to anticipate the most significant compliance challenges facing the life insurance industry in 2018. The Survey yielded the following responses (in priority order) as those that consumed the most compliance resources in 2017:

- DOL Fiduciary Rule.
- Cybersecurity.
- New Product/Innovation Initiatives.
- Annuity Suitability.
- Fraud Prevention.

Looking ahead to 2018, life insurers predicted that the following issues will pose the most significant compliance challenges (ranked in order):

- DOL Fiduciary Rule.
- Cybersecurity.
- New Product/Innovation Initiatives.
- Fraud Prevention.
- Annuity Suitability.

We hope that readers of the 2017 CEFLI Compliance and Ethics Benchmarking Executive Summary 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 2017 CEFLI Compliance and Ethics Benchmarking Survey.

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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 2017 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 2017 CEFLI Compliance and Ethics Benchmarking Survey.

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