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THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS

2019 CEFLI Compliance and Ethics Benchmarking Survey Report

Benchmarking Survey Report

Introduction

CEFLI is pleased to report the results of its 2019 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 gather data to gauge the current state of compliance and ethics in 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 compiles all the Survey data and includes charts and analysis of the results based on company size.

Purpose

The purpose of this Survey is 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 Legal, Compliance and Ethics within organizations. To achieve this objective, the Survey gathers information regarding the organizational structure of Legal 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 gathers 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 collects 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 is able to use the findings of this year's Survey to establish a benchmark that can be used in later years 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 Regulation 187 – Suitability & Best Interest in Life Insurance and Annuity Transactions.

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

Survey respondents were asked to identify the size of their organization based upon the number of overall employees. As in past 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 large (10%), medium (62%) and small companies (28%).

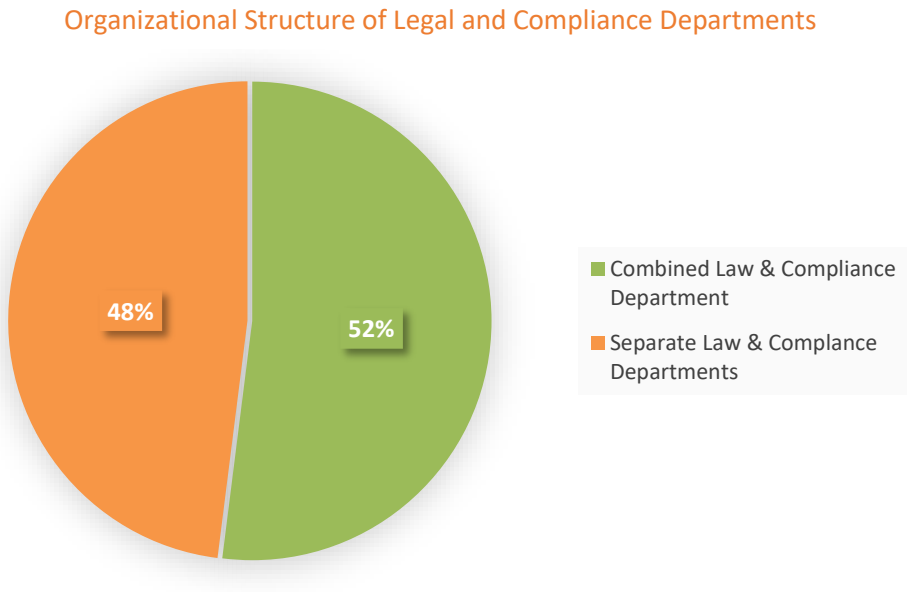
When asked to identify their role within their organization, most Survey respondents (51%) characterized themselves as "compliance professional." Other Survey respondents identified themselves as "Chief Compliance Officer" (“CCO”) (14%), General Counsel (5%), “Chief Ethics and Compliance Officer” (5%), “Chief AML Officer” (3%), Regulatory Affairs (3%), Chief Ethics Officer (2%)“ and others (17%) identified themselves in a variety of other different positions.

In sum, the Survey respondents constituted a representative cross-section of individuals throughout the life insurance industry with responsibility for the Compliance and Ethics function within their respective organizations.

Organizational Structure

Legal and Compliance

Survey respondents were asked to indicate the organizational structure that best describes their company's Legal and Compliance departments. For the first time in three years, a slight majority of overall Survey respondents (52%) indicated that their organization maintains a combined Legal and Compliance department. Small Companies were more likely to maintain a combined department, followed by large companies, while most medium companies indicated that they had separate Legal and Compliance departments.



Companies that chose to establish separate Legal and Compliance departments provided various rationales for their selected organizational structures. In these cases, the Survey respondents recognized that the objectives of each discipline are different and require differing viewpoints and approaches to effectively manage the risks and issues presented. Some respondents indicated that their organization utilizes external counsel rather than maintaining an internal Legal Department.

When asked to describe the rationale that led to a decision to combine the Legal and Compliance functions into a single department within their life insurance company, Survey respondents with combined Legal and Compliance departments cited corporate structure, limited resources and the ability to speak to regulators with one voice as reasons for combining departments.

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.

Survey results over the past three years indicate that more and more companies are establishing separate Ethics (or business conduct) programs which are distinct from the Compliance function. While overall responsibility for the Ethics program at most companies falls to Compliance (42%), a significant number of Survey respondents indicated this is a function of the Legal Department (38%). At a smaller number of companies, Human Resources (14%) or a standalone Ethics Department (6%) oversees the Ethics 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 functions into separate departments. Survey results from the past several years suggest a growing trend exists for establishing separate Compliance and Ethics functions within life insurance companies, with 13% of Survey respondent companies opting to maintain separate departments for these distinct functions. When analyzed by company size, all sizes of companies appear to be moving toward

Large companies are more than twice as likely as medium companies, and more than five times as likely as small companies to maintain a standalone Ethics department.

creating a separate Ethics Department, though large companies are more likely (33%) to report having established a separate Ethics Department than medium (13%) or small (6%) companies.

Those companies that have established a separate Ethics Department offered several reasons including a desire to have focused, dedicated resources to ensure prioritization of the activities of the function and minimizing the potential for conflicts of interest. Alternatively, the rationale for not establishing a separate Ethics department often comes down to wanting to emphasize that ethics is part of the corporate culture and owned by all employees.

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 (57% overall) of Chief Compliance Officers at companies of all sizes report to the company's General Counsel. This number was highest among medium companies where 63% of survey respondents have their CCO report to the General Counsel. Other common reporting relationships vary somewhat by company size with many large company CCO's reporting to the President, CEO or Chief Risk Officer, while a growing number of CCO's at small and medium companies report directly to the company's Board of Directors or Committee of the Board.

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.

Responses did not vary significantly based on company size. While many organizations (39%) indicated that their CCO does not maintain a dotted line reporting relationship whatsoever, those that do tend to have a dotted line to the company's Board of Directors (25%), appropriate committee of the Board of Directors, General Counsel (17%), CEO (10%) or Chief Risk Officer (6%).

Compliance Reports

Survey results from past years have taught us that Chief Compliance Officers are increasingly called upon to provide a variety of different compliance 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 growth in reporting to every category of recipient with the General Counsel most likely to be the recipient of compliance reports (at 71% of companies), followed by Senior Management (at 67% of companies), the Audit Committee (or an appropriate Committee of the company's Board of Directors) (at 60% of companies), Board of Directors (at 50% of companies), the company's Risk Committee (at 46% of companies) and the CEO (at 42% of companies).

The number of CCOs being called upon to deliver compliance reports directly to their company's Board of Directors has increased 19% over the last two years. This trend appears to be growing at companies of all sizes.

When asked what is typically contained in the reports made by the organization's CCO, the following information was most often selected (in ranked order):

- Required reports such as AML and annuity suitability.
- Emerging issues, concerns and trends.
- Fines and penalties.
- Regulatory inquiries.
- Compliance metrics.

Staffing and Budgets

Compliance and Ethics Staffing

The Survey sought to determine the number of staff at various size companies whose primary role is related to Compliance and has a reporting relationship to Compliance (which sometimes includes ethics professionals.)

While Survey results indicated a wide range in the size of compliance 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 staff of between 10-49 people; and while some large companies reported as few as 10 compliance staff, the most common response was over 300 people.

When asked how many staff report directly to the CCO, responses were consistent with prior years by indicating that the majority of small company CCOs have 5 or fewer staff reporting to them, medium companies CCOs have between 5 and 29 staff reporting to them, and large company CCOs have 50 or more 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.

More than half of all small companies reported having no staff whose job responsibilities are solely related to ethics, though some (17%) indicated maintaining 1 - 2 full time ethics staff and almost a third reported an ethics staff size of three or more. Over half (55%) of medium companies surveyed reported having a staff devoted exclusively to ethics, with most indicating a staff size of 1 - 4. While the majority of large insurers (67%) reported that they do maintain an ethics staff, sizes of staff varied greatly with

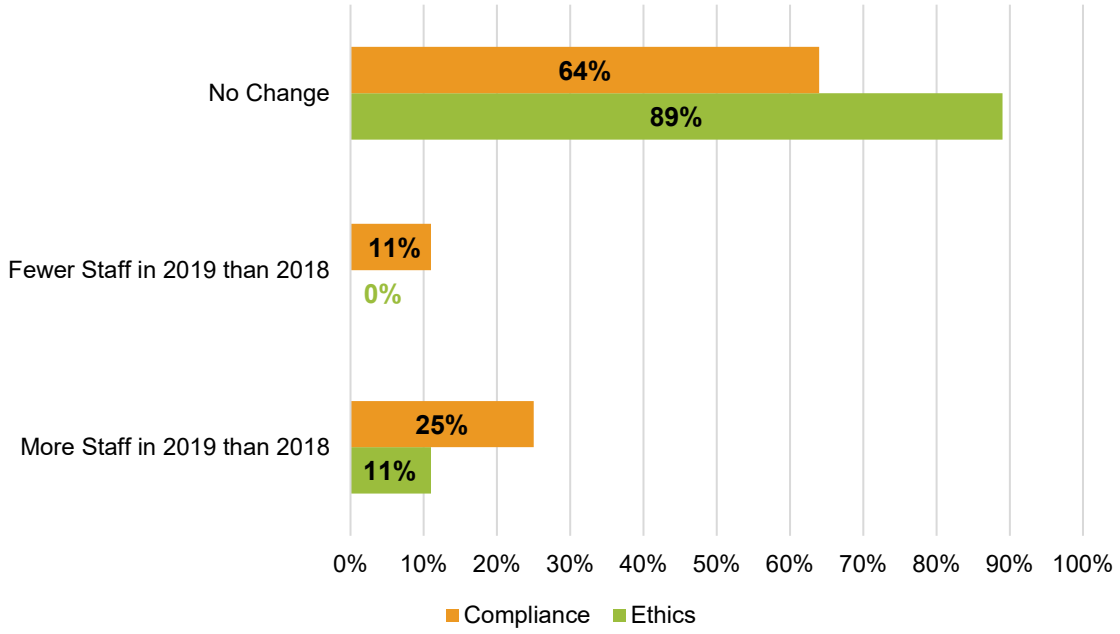
some (17%) indicating as few as 1 staff member devoted to ethics and others (50%) reporting an ethics staff of 25 or more.

We also asked companies that have appointed a Chief Ethics Officer (26%) to indicate the size of the staff reporting directly to that person. The most common response from medium companies indicates a staff of 1-10 reporting to their Chief Ethics Officer, though there are still several medium companies that indicated that their Chief Ethics Officer has no direct reports. All large companies reported having appointed a Chief Ethics Officer and all had a staff size over 30. This year, for the first time, some small companies (10%) indicated that they had appointed a Chief Ethics Officer, all with a small staff size of under 5.

Year-To-Year Compliance and Ethics Staffing – 2019 v. 2018

The Survey sought to determine the extent to which Survey respondent life insurance companies made changes to their Compliance and Ethics staff size in 2019 versus 2018. The chart below indicates the Survey results:

Year-to-Year Changes in Compliance and Ethics Staffing – 2019 v. 2018



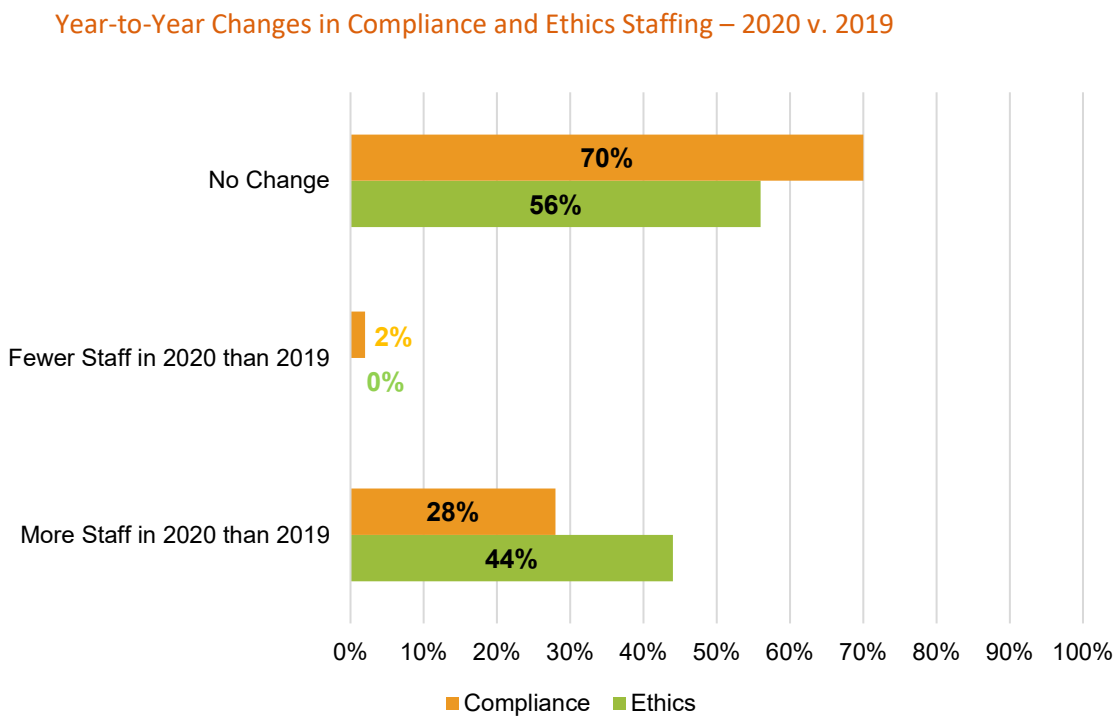
This year's results were like last year's results with most life insurance companies (64%) responding to the Survey indicating that they experienced no change in the size of their compliance staff when comparing 2019 versus 2018 staffing. Survey results also indicated, however, that a quarter of all companies (25%) added to their compliance staff in 2019. Survey responses indicating an increase in compliance staff in 2019 versus 2018 came from small (24%), medium (30%) companies only. 11% of companies reported decreasing their compliance staff in 2019, which is up from last year (7%). It may be interesting to note that company size appeared to have an inverse effect on whether staff sizes were decreased, with small companies being least likely to report cutting compliance staff in 2019.

For life insurance company respondents with separate Ethics staff, the large majority (89%) indicated that they experienced no change in the size of their Ethics staff when comparing 2019 versus 2018. When analyzed by company size, the Survey results

indicated that only medium companies (11%) reported an increase in Ethics staff size over the prior year. Encouragingly, no companies of any size reported a decrease in Ethics staff in 2019.

Year-To-Year Compliance and Ethics Staffing – 2020 v. 2019

The Survey also sought to identify anticipated changes in Compliance and Ethics staffing in 2020. The chart below summarizes the Survey results:



While a significant number of life insurance companies of all sizes (29%) anticipate increasing their number of compliance staff in 2020, over two-thirds of all Survey respondent companies (70%) indicated that they currently have no plans to add to their compliance staff in 2020. A small number of large companies (2%) indicated that they plan to reduce compliance staff in 2020.

It may be interesting to note that, while last year no companies anticipated any change to the size of their ethics staff in 2019, this year 44% reported they are likely to add to their ethics staff in the coming year.

Compliance & Ethics Budgets

The Survey gathered data concerning the range of budgets devoted to Compliance and Ethics at small, medium and large life insurance companies. Survey respondents indicated that combined Compliance and Ethics budgets at the majority of small companies range from $10,000-$499,999, combined Compliance and Ethics budgets at the majority of medium companies range from $1,000,000-$2,499,999 and combined Compliance and Ethics budgets at the majority of large companies range from $1 million to $5 million and above. These results are consistent with prior year's findings.

Survey respondents also were asked to indicate if their company maintains separate budgets for Compliance and Ethics and, while most companies (86%) indicated that they do not maintain separate budgets for Compliance and Ethics, some companies in each size category reported having separate budgets for the two functions, with large companies being the most likely to maintain a separate budget for Ethics in the range of $10,000-$1,000,000.

Year-To-Year Budgeting - 2019 v. 2018

In addition to determining year-to-year changes in staffing, the Survey also gathered data regarding year-to-year changes in budgeting in 2019 versus 2018.

When asked whether their Compliance and Ethics budget had changed in 2019, most respondents indicated no change, though a significant number of small (33%) and medium (36%) companies indicated that they had seen an increase. Conversely, some companies of all sizes (11% overall) reported they had experienced a decrease in their budget from the prior year.

For those companies indicating they maintain a separate Ethics budget (14%), only medium companies reported any change, with many (33%) receiving an increase in their Ethics budget in 2019.

Year-To-Year Budgeting - 2020 v. 2019

We also asked Survey respondents to project their anticipated Compliance and Ethics budgets for 2020 and compare them to their budgets for 2019.

Results mirrored those for 2019 budgets, with the majority of all sizes of companies (61%) forecasting no change in 20 budgets. But, while most companies do not anticipate any change in 2020, a significant number of small (20%) and medium (33%) companies expect to increase their budgets in 2020 and fewer than 9% are anticipating a decrease (no small company is forecasting a decrease in 2020).

For companies with a separate Ethics budget, it is largely thought that there will be no change in 2020 (67% of overall respondents) though some medium and large companies are forecasting an increase in their Ethics budgets for the coming year.

Compliance Budgets Devoted to Outside Legal Services

While nearly two-thirds of Survey respondents reported that payment for outside legal services is budgeted through their legal department, a growing number of companies (35%) (mostly medium and large) indicated that their Compliance budget allows them to hire outside legal services for the Compliance department on an independent basis

A growing number of companies (35%) indicated that their compliance budget allows them to hire outside legal services for the compliance department on an independent basis.

We will continue to monitor this data in the years ahead to discern whether Compliance departments (and their budgets) are being granted greater autonomy to engage outside legal services.

Senior Position Titles and Compensation

The roles of senior compliance and ethics professionals within life insurance companies have become increasingly complex and differentiated. 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.

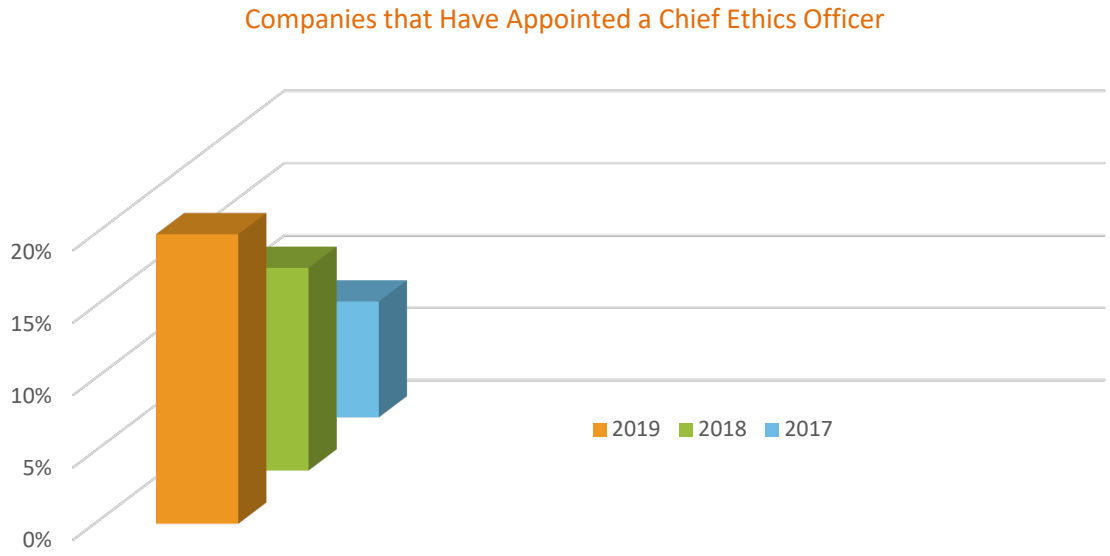
This year's Survey continued to gather data concerning these developments with a goal toward identifying industry-wide trends.

Chief Compliance Officer

The Survey sought to obtain data concerning the title that is used to describe the most senior enterprise-wide compliance professional at life insurance companies. As anticipated, most Survey respondents (66%) indicated that their most senior compliance professional is described as "Chief Compliance Officer." However, at many small and medium life insurance companies, the most senior enterprise-wide compliance professional does not carry the “Chief Compliance Officer” designation and may instead use such titles as: Compliance Director, Compliance Manager, VP Compliance or General Counsel. All large company respondents indicated that they utilize the Chief Compliance Officer title for their most senior compliance professional.

Chief Ethics Officer

Survey results appear to confirm a steadily growing trend among life insurance companies of all sizes to designate a Chief Ethics Officer separate from their CCO (20%, up from 14% in 2018 and 8% in 2017). At some companies the most senior ethics professional does not carry the “Chief Ethics Officer” title. This role may instead be combined under a General Counsel, VP or other senior management title.



Combined Compliance & Ethics Position

A significant number of life insurance companies (29%) 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"). 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, mostly small, indicated that leveraging limited budget and staffing resources was a key factor in their rationale to combine the responsibility for Compliance and Ethics into one role. Others shared the view that centralizing responsibility for Compliance and Ethics improved consistency and control of these interdependent functions. And some companies offered that combining the roles, thereby adding “Ethics” to the title, elevated the importance of Ethics in the organization.

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 sized 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-$199,999 and $100,000 to $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 the most common response from large company respondents identified compensation in excess of $500,000 for a Chief Compliance Officer.

There was little variation in CECO salaries when compared to those paid to a CCO in a similar sized company.

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 (BUCOs).

Most Survey respondents (65%) indicated that they do not maintain separate BUCOs. While it is relatively uncommon for a small company to report having separate CCOs devoted to business units (those that do reported having Broker-Dealer or Investment Adviser BUCOs only), a significant number of medium (38%) and all large (100%) companies surveyed still maintain this practice.

We also asked a question concerning whether BUCOs are located within the business or reside within the Compliance department. For those companies that do maintain separate Chief Compliance Officers for business units, Survey responses indicated that the majority (37%) of these BUCOs are part of Compliance.

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.
- Group.
- Asset Management.
- Investment Adviser.

Location of Compliance-Related Functional Areas

The Survey sought to determine where certain compliance-related functions reside within the organization. The chart below indicates the majority among Survey responses we received, with any significant variation based on company size noted.

	Compliance	Own Department	Operations	IT
Advertising Review	X			
Complaint Handling	X			
Replacements	X		X (large)	
Licensing & Appointments	X (large)	X	X (medium)	
AML	X			
SIU	X			
Suitability	X		X (medium)	
Cybersecurity		X (large)		X
Privacy	X	X (large)		
Claims		X	X	
Form Filing	X	X (large)		
Unclaimed Property		X (large)	X	
Regulatory Reporting	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.

The Survey 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. Continuing a trend identified in prior Surveys, this year's results indicate that a majority (60%) of companies of all sizes have a formal succession plan for replacing 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.

Most companies identify their future CCO candidates through consultation with senior Compliance and Legal executives at the company. Survey results also indicated that business unit leaders or a combination of all these channels are consulted for their input into the identification of possible Chief Compliance Officer candidates.

To develop their potential to serve as a Chief Compliance Officer, most companies responding to the Survey indicated that their Chief Compliance Officer candidates participate in both internal leadership development programs and external conferences designed specifically for aspiring Compliance leaders. A significant number of companies also utilize internal rotational assignments to broaden a candidate's understanding of the company's compliance function and overall business.

Educational and Experience Qualifications - Chief Compliance Officer

Over the years, CEFLI has fielded questions from several life insurers concerning whether companies 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 an educational prerequisite to become a Chief Compliance Officer with a life insurance company.

2019 Survey data affirms the trend we have seen in recent years away from a legal education being an educational prerequisite to become a Chief Compliance Officer with a life insurance company.

While most companies responding to the Survey indicated that their company considers a legal education very important or important, only a third (33%) of the companies responding to the Survey require an individual to hold a legal degree in order to serve as their CCO. 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; in particular, business and management experience.

Ethics/Business Conduct Programs

As in past years, this year's Survey also gathered information about Ethics programs within the life insurance industry. The large majority of all companies surveyed (88%) indicated that their organization maintains a written Code of Ethics or business conduct program. At most companies, the Compliance Department is responsible for the company's Ethics program (while almost half of small companies assign responsibility for their Ethics Program in their Legal Department. Some companies, predominantly larger ones, report having a dedicated Ethics department responsible for their Ethics program and the Human Resources department is also involved to a degree at several companies.

88% 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 three-quarters (75%) of Survey respondents indicated that their company's Ethics program maintains the following elements:

- Code of Ethics/Conduct.
- Annual Attestation.
- Ethics Hotline.
- Anonymous Reporting.

Other common elements of ethics programs include training, investigations and regular communications.

Hotlines

Many life insurance companies (80%) have instituted "hotlines" for reporting of ethical violations as part of their Ethics program, and the majority (67%) of these companies have established a relationship with a third-party vendor to provide hotline services. Large companies are more likely to report having an internal Ethics Hotline.

Some of the third-party vendors contracted for the reporting of misconduct are Navex Global, EthicsPoint, Lighthouse, Convercent, InTouch and KPMG.

Raising Awareness of Ethics

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. Those most used are ranked as follows:

- Messaging on Company Intranet.
- Annual Training & Events.
- Internal Meetings.
- Executive Speeches and Messaging.
- Posters.
- Sales Conferences.

Ethics in the Performance Evaluation Process

Making ethics and adherence to the organizations' values a formal part of an employee's performance evaluation is an increasingly accepted practice within the life insurance industry.

When asked whether Ethics and adherence to their company's values are a formal and documented part of an employee's performance evaluation criteria, nearly half of all Survey respondent companies indicated yes. When evaluating Survey results over the past several years, it appears that this is an increasingly accepted practice within the life insurance industry.

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 (80%) 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 most Survey respondent companies (67%) utilize external resources as a supplement to their own internal training programs, while other Survey respondent companies (4%) utilize external resources exclusively. Almost a third of companies (29%) report that they conduct all Compliance training internally. It may be interesting to note that large companies are the least likely to conduct Compliance training internally.

> ***67% of all Survey respondent companies utilize external resources as a supplement to their own internal training programs.***

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 (in ranked order):

- Conference calls for compliance professionals to discuss leading practices.
- Multi-day conferences with regulators, industry experts and company representatives.
- Compliance-specific leadership training conferences.
- Periodic webinars on life insurance industry compliance issues.
- Compliance education courses for self-study.

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. This year's Survey results supported this trend by finding that 88% of all Survey respondents suggest it is important, to some degree, to provide compliance training to business partners and 94% also agree that training business partners on Compliance issues allows Compliance professionals to perform their duties more easily.

Compliance and Enterprise Risk Management (ERM)

The Survey asked respondents to indicate the extent to which compliance is part of their company's ERM programs. This year's Survey results affirms that Compliance plays an active and ongoing role in most company's ERM process (67%). A smaller percentage of Survey respondents (31%) indicated that Compliance only provides input into the ERM process when requested, and only a few medium companies (2%) reported that Compliance is not involved in 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. 100% of large companies and most medium and small companies indicated that Compliance plays an active and ongoing role of their company's ERM process.

Compliance plays an active and ongoing role in the ERM process at 100% of large companies responding to the Survey.

New York State Department of Financial Services (NYDFS) Regulation 187 - Suitability & Best Interests in Life Insurance and Annuity Transactions

The Survey sought to determine respondent companies' experience with meeting the requirements of the NYDFS' Regulation 187 (11 NYCRR 224).

A large majority (89%) of companies subject to Regulation 187 reported that they found compliance with the requirements of Regulation 187 to be "challenging" or "somewhat challenging", and another 11% found the requirements to be "very challenging." Larger companies were more likely to report that compliance was challenging and no companies subject to the new requirements reported that compliance was "easy."

Over half of all companies responding to the Survey indicated that they would be seeking external assistance with respect to NY Regulation 187 compliance in the coming year.

Over half (52%) of all companies responding to the Survey indicated that they would be seeking external assistance with NY Regulation 187 compliance in the coming year.

Market Regulation Experience

Over the past several years, we started including questions on the Survey 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 market examination activity, in favor of increased market analysis activity.

Year-To-Year Market Analysis Experience – 2019 v. 2018

Most life insurance companies (77%) responding to the Survey indicated that they experienced no change in state market analysis activity when comparing 2019 versus 2018. The Survey results indicated, however, that some companies (17%) experienced an increase in state market analysis activity in 2019 when compared to 2018. A smaller number of companies (6%) reported a decrease in the amount of state market analysis activity in 2019.

When analyzed by company size, large companies were most likely to report an increase in market analysis activity (25%), and no large company reported experiencing a decrease in market analysis activity in 2019. Small companies were the least likely to report any change in the amount of market analysis activity.

Year-To-Year Targeted Market Examination Experience – 2019 v. 2018

Once again, most life insurance companies (76%) responding to the Survey indicated that they experienced no change in state-targeted market examination activity when comparing 2019 versus 2018. Several companies (11%), however, reported experiencing an increase in state-targeted market examination activity over the prior year, while 13% reported a decrease.

It may be interesting to note that no large companies reported a change (increase or decrease) in targeted examination activity over the prior year, while small companies were most likely to report that targeted exam activity has decreased.

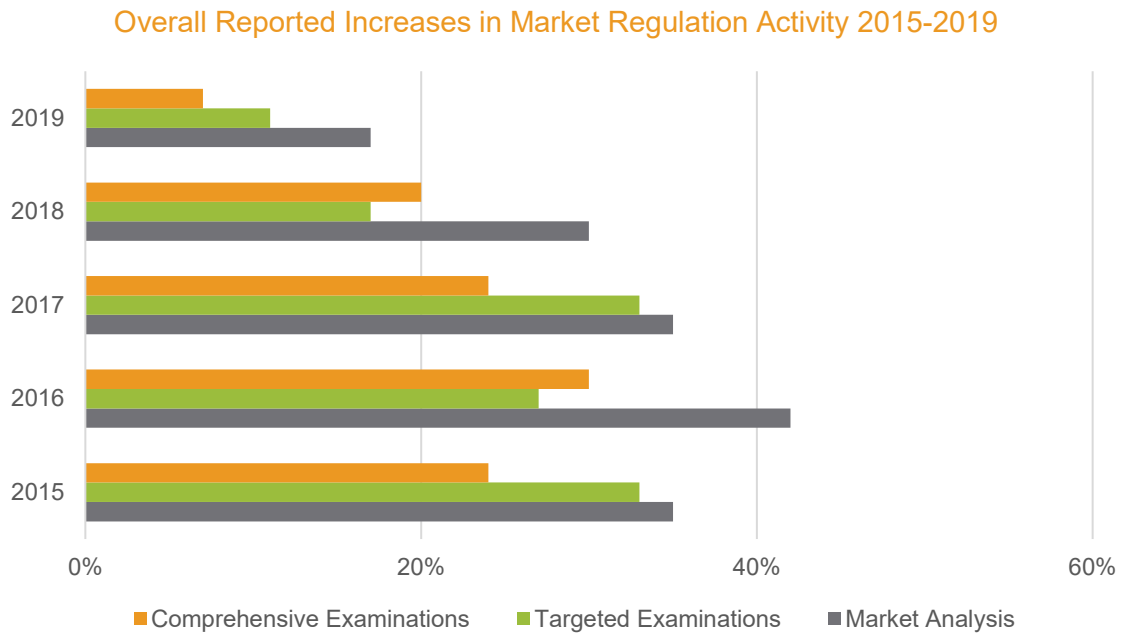
Year-To-Year Comprehensive Market Examination Experience – 2019 v. 2018

The majority of life insurance companies responding to the Survey indicated that they experienced no change in the amount of state market analysis or examination activity when comparing 2019 versus 2018.

When asked to compare their experience with comprehensive examination activity by the states in 2019 versus 2018, a large majority of life insurers (83%) responding to the Survey reported no change. Survey results indicated, however, that 11% of all companies reported a decrease in comprehensive examination activity in 2019, while a smaller number of companies (6%) reported an increase in comprehensive examination activity this year.

Once again, no large company reported any change in comprehensive exam activity over the prior year, while medium companies were most likely to report an increase and small companies were most likely to report that comprehensive exam activity had decreased this year.

When compared to data collected in prior years, the overall trend appears to show market analysis growth outpacing examination activity each year as depicted in the chart below.



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 - 2019 and 2020

This year's Survey once again concluded by asking respondents to evaluate Compliance issues experienced in 2019 and those predicted for 2020. Specifically, we asked respondents to identify which top 5 Compliance issues consumed the most Compliance resources in 2019. The results in ranked order were:

- Privacy.
- New Product/Innovation Initiatives.
- Cybersecurity.
- Best Interest Sales Practices/Antifraud/AML (tie).
- Annuity Suitability.

We also asked the Survey respondents to predict what the top 5 most significant compliance challenges to face the life insurance industry will be in 2020. The issues most often selected (in ranked order) were:

- Cybersecurity.
- Best Interest Sales Practices.
- Privacy.
- Antifraud.
- New Product/Innovation Initiatives.

For comparison sake, the top compliance issues predicted for 2019 when asked in 2018 were:

- ***Cybersecurity.***
- ***Antifraud.***
- ***New Product/Innovation Initiatives.***
- ***Privacy.***
- ***Annuity Suitability.***

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 two-thirds of 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 maintain separate Legal and Compliance Departments in their organizational structures, many companies house both functions in one combined department (which apears to be a prevalent practice among small life insurers). These findings 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 benchmarking the evolution of Complaince and Ethics as distinct functions within life insurance companies. Survey results over the past three years indicate that more and more companies are establishing separate Ethics (or business conduct) programs which are distinct from the Compliance function. When asked whether these functional distinctions translate into separate organizational departments for Compliance and Ethics, this year's Survey confirmed that while a significant majority of respondent life insurance companies have not established a separate Ethics Department, there appears to be a growing trend to establish separate departments for the two functions..

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, though many large company CCOs report directly to their CEO. **It may be interesting to note that there appears to be a growing trend for the Chief Compliance Officer at smaller companies to report directly to the company's Board of Directors or Board Committee.**

In addition to a primary direct reporting relationship, the Survey results show that a growing number of Chief Compliance Officers now 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).

Survey results from past years have taught us that Chief Compliance Officers are increasingly called upon to provide a variety of compliance reports and to provide status updates with respect to a company's overall Compliance and Ethics program. In addition to reports that are required (such as AML and annuity suitability), Survey respondents indicate that this reporting commonly focuses on emerging issues and trends, fines and penalties, and regulatory inquiries. While senior management and the company's General Counsel are the most likely recipient of compliance reports, **it is encouraging to note that CCOs at a growing number of companies of all sizes 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; while some large companies reported anywhere from 10 to over 300 people on their Compliance and Ethics 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 2019 versus 2018, a quarter of the companies surveyed reported growth in staff size. Encouragingly, only a few companies reported a decrease in Compliance staff in 2019. It may be interesting to note that company size appeared to have an inverse effect on whether staff sizes were decreased with small companies being least likely to report cutting Compliance staff in 2019.

Though over two-thirds of the companies surveyed are not forecasting any changes to the size of their Compliance staff in 2020, 28% anticipate growth in the coming year and only a small number reported plans to decrease the size of their Complaince staff.

For life insurance company respondents with separate Ethics Departments, the majority (89%) indicated that they experienced no change in the size of their Ethics staff when comparing 2019 versus 2018 staffing. When analyzed by company size, the Survey results indicated that several medium companies (11%) increased their Ethics staff size over the prior year, and for the fifth consecutive year no company reported a decrease in Ethics staff from the prior year.

When asked to predict changes in Ethics staff for the coming year, it may be interesting to note that, while last year no company reported anticipating any change to the size of their Ethics staff in 2019, this year nearly half are prediciting growth in 2020.

Though most life insurance companies indicated that their Compliance and Ethics budget remained the same in 2019 as in 2018, a significant number of small and medium companies reported that their 2019 budget had increased. Conversely, 11% of small and medium companies also reported they had experienced a decrease in their budget from the prior year. Responses concerning 2020 Compliance and Ethics budgets suggest that most companies will maintain their current budgets for the coming year, though some small and medium companies are predicitng an increase.

For those companies indicating they maintain a separate Ethics budget, only medium companies reported any change in 2019 with a third receiving an increase in their Ethics budget. Looking ahead to 2020, little change is anticipated, though some medium and large companies are forecasting an increase in their Ethics budgets in the coming year.

The majority of life insurance companies have appointed a Chief Complaince Officer and most of them use the title of CCO to describe their most senior compliance professional. Compensation associated with the CCO position varies between companies of different sizes. While the most common response to this Survey question from small companies ranged from $75,000-$199,999; from medium companies, the range was $200,000 to over $499,999; and the most common response from large companies identified compensation in excess of $500,000 for a Chief Compliance Officer.

The practice of appointing a separate Chief Ethics Officer appears to be growing at companies of all sizes, with 20% of this year's respondents reporting they have a Chief Ethics Officer, compared to 14% in 2018 and 8% in 2017.

Survey results show that nearly a third 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 consistent with those identified for CCOs.

The Survey also revealed that the practice of appointing business unit CCOs though rare at small companies is relatively common at medium companies and in place at virtually all large companies. Business units that most often have a dedicated Chief Compliance Officer include a life insurance company's broker-dealer, life insurance product line, and annuity product line. This year's Survey results suggest that these individuals are most often housed within Compliance rather than in the business units themselves.

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 and appointment and claims, while cybersecurity is usually housed within the IT Department (rather than the Compliance Department). This year we have also tried to denote emerging trends such as form filing becoming a standalone department, and variances in the way companies of different sizes might house compliance-related functions.

The 2019 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 60% of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer.** 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 2019 revealed that factors such as business experience and management experience were considered more important qualifications for becoming a CCO than having a legal education**. In fact only a third of respondent companies indicated they require an individual to hold a legal degree in order to serve as a CCO.**

Survey respondents identified many common elements when describing the components of their company's ethics program. Top cited elements include: a code of ethics/conduct, annual attestation, a hotline and anonymous reporting. 80% of life insurance companies have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and the majority of these companies have established a relationship with a third-party vendor to provide their hotline services. Survey respondents indicated that they utilize several strategies to raise awareness of Ethics

within their organizations. Those most used are the company intranet, annual training and events, intrenal meetings and, executive speeches and messages. **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 an increasingly accepted practice within the life insurance industry.**

The Survey attempted to gauge the extent to which Compliance education and training efforts rely upon external resources to provide Compliance training. Results indicated that two-thirds of Survey respondent companies utilize external resources as a supplement to their own internal training programs, while a small number utilize external resources exclusively to provide training. It may be interesting to note that large companies are the most likely to utilize third-party resources for Compliance training.

This year, 884% of Survey respondents indicated that it is also important to provide Compliance training to business partners. 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.

Survey respondents were once again asked to indicate the extent to which Compliance is part of their company's enterprise risk management (ERM) program. Over two-thirds **of Survey respondents from companies of all sizes (100% of large companies) indicated that Compliance plays an active and ongoing role in their company's ERM process.**

The 2019 Survey sought to determine respondent's experience with meeting the requirements of the NYDFS Regulation 187. A large majority of companies' subject to

NYDFS Regulation 187's requirements indicated they found compliance “challenging” or “somewhat challenging”, while 11% found that compliance with the new regulation was “very challenging” Over half of all companies responding to the Survey indicated that they would be seeking external assistance with respect to Regulation 187 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 some companies (mostly medium and large) did report increases in market analysis as well as targeted and comprehensive examination activity in 2019, the large majority reported no change. When compared to data collected in prior years, the overall trend appears to indicate fewer companies are reporting an increase in examination activity, while reported increases in market analysis are outpacing examination activity each year. **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 2019 and to forecast the most significant Compliance challenges facing the life insurance industry in 2020. The Survey yielded the following responses (in ranked order) as those that consumed the most Compliance resources in 2018:

- Privacy.
- New Product/Innovation Initiatives.
- Cybersecurity.

- Best Interest Sales Practices Standards/AML/Antifraud (tie).
- Annuity Suitability.

Looking ahead to 2020, life insurers predicted that the following issues will pose the most significant compliance challenges (ranked in order):

- Cybersecurity.
- Best Interest Sales Practices Standards.
- Privacy.
- Antifraud.
- New Product/Innovation Initiatives.

We hope that readers of the 2019 CEFLI Compliance and Ethics Benchmarking Survey Report will find this information useful in comparing their current Compliance and Ethics strategies to those 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 2019 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 2019 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 2019 CEFLI Compliance and Ethics Benchmarking Survey.

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For any questions or comments regarding this presentation, please contact:

Kelly Ireland
Vice President – Compliance & Ethics
Compliance & Ethics Forum for Life Insurers
(240) 744-3023
kellyireland@cefli.org

www.cefli.org