THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS

2018 CEFLI Compliance and Ethics Benchmarking Survey Report

Benchmarking Survey Report

Introduction

CEFLI is pleased to report the results of its 2018 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 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 complete with charts and analysis of the results based on company size.

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.

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 62 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 year's Surveys, small life insurance companies were characterized as organizations with less than 500 employees, medium companies were characterized as organizations having between 501-10,000 employees and large companies were characterized as organizations having 10,001 or more employees. Survey responses were received from a broad range of companies including large, medium and small companies.

When asked to identify their role within their organization, the majority of Survey respondents (39%) characterized themselves as "compliance professional." Other Survey respondents identified themselves as "Chief Compliance Officer" (“CCO”) (19%), "legal professional" (8%), “Chief AML Officer” (7%), General Counsel (5%), “Chief Ethics and Compliance Officer” (4%), “Fraud/SIU Specialist” (4%), “Chief Risk Officer” (3%), and others (11%) identified themselves in a variety of other different positions including Complaint Handling Specialist, Regulatory Affairs Manager and Corporate Policy Administrator.

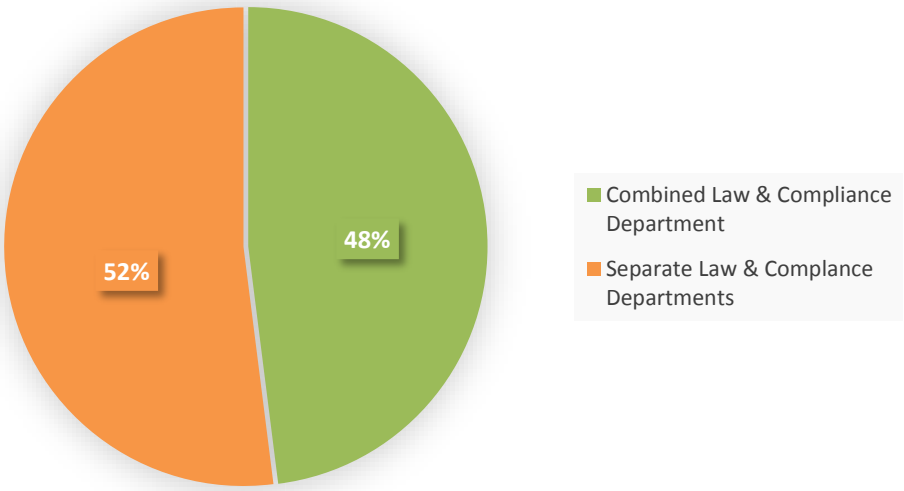
In sum, the Survey respondents constituted a representative cross-section of individuals throughout the life insurance industry with responsibility for the compliance and ethics function within their respective organizations.

Organizational Structure

Law and Compliance

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

Organizational Structure of Law and Compliance Departments



Companies that chose to establish separate Law and Compliance departments provided various rationales for their selected organizational structures. In these cases, the Survey respondents recognized that law and compliance are distinct areas of technical expertise, responsibility and function. They also viewed staffing requirements and applicable skill sets as being distinct for each function. Some respondents indicated that their organization utilizes external counsel rather than maintaining an internal Law Department.

When asked to describe the rationale that led to a decision to combine the law and compliance functions into a single department within their life insurance company, Survey respondents with combined Law and Compliance departments cited corporate structure, limited resources and greater efficiencies as reasons for combining departments.

Survey data from the past three years indicates that a majority of Survey respondents report that their organization maintains separate Law and Compliance 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 the Compliance department is largely responsible for overseeing the ethics program at most companies (46%), a significant number of Survey respondents indicated this a function of the Law department (30%), Human Resources (13%) or a standalone Ethics department (11%).

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. Even though a small but growing trend exists for establishing separate compliance and ethics functions within life insurance companies, most Survey respondent companies (89%) have opted not to maintain separate departments for these distinct functions. Large companies are more than twice as likely (17%) as

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

medium companies (7%) and more than three times as likely as small companies (4%) to report having established a separate Ethics department.

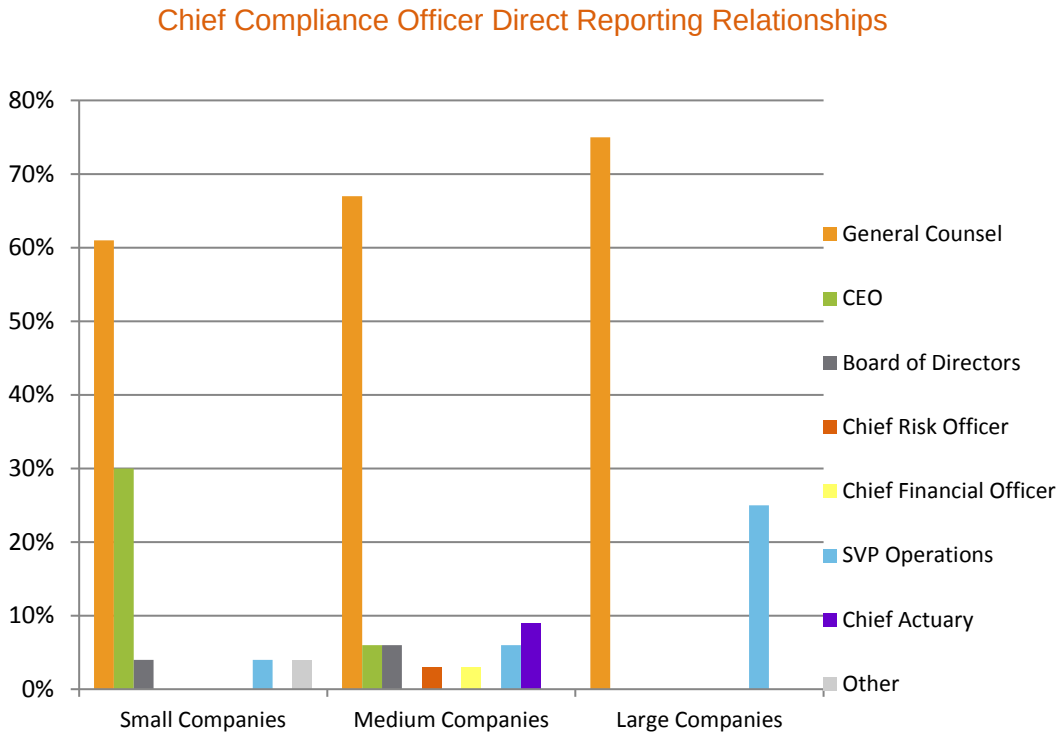
Those companies that have established a separate Ethics department offered a number of reasons including a desire to have focused, dedicated resources to ensure prioritization of the activities of the function and minimizing the potential for conflicts of interest.

Reporting Relationships and Compliance Reports

Direct Reporting Relationships

The Survey also sought to determine current practices with respect to reporting relationships for life insurance company Chief Compliance Officers. Not surprisingly, the Survey results indicated that a significant number of Chief Compliance Officers (59%) report to the company's General Counsel. This number was highest among large companies where 75% of survey respondents have their CCO report to the General Counsel. While it is common for the CCOs of small companies to report to the General Counsel, a significant number (29%) report instead to the CEO.

It may be interesting to note that there appears to be a small but growing trend for the Chief Compliance Officer to report directly to the company's Board of Directors.



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 varied somewhat based on company size. While one third of all small company respondents indicated that their organization's Chief Compliance Officer does not maintain a dotted line reporting relationship whatsoever, a significant number (25%) have a dotted line reporting relationship to the company's Board of Directors. While CCO's at medium companies maintain dotted line reporting relationships either directly to their Board of Directors or to an appropriate Board Committee (e.g., Audit) (26% and

23%, respectively), large company CCOs are most likely to maintain a dotted line reporting relationship with an appropriate committee of their Board of Directors.

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 that senior management was most likely to be the recipient of compliance reports (at 59% of companies), followed by the General Counsel (at 57% of companies). This year's Survey indicates that a growing number of CCOs also provide reports to their Board of Directors (at 41% of companies), followed by the Audit Committee (or an appropriate Committee of the company's Board of Directors) (at 35% of companies), the company's CEO (at 33% of companies) and the company's Risk Committee (at 23% of companies).

The number of CCOs being called upon to deliver compliance reports directly to their company's Board of Directors increased 10% over last year's Survey results. This trend appears to be growing at companies of all sizes.

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

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

Staffing and Budgets

Compliance and Ethics Staffing

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

While Survey results indicated a wide range in the size of compliance and ethics staff between companies (anywhere from 1 to over 300 people), the most common response among small companies was a staff of between 1-5 people. Among medium companies, the majority indicated a compliance and ethics staff of between 10-49 people, and among large company respondents, the compliance & ethics staff size ranged from 10 to 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 20 staff reporting to them, and large company CCOs have 50 or more staff reporting to them.

Ethics Staffing

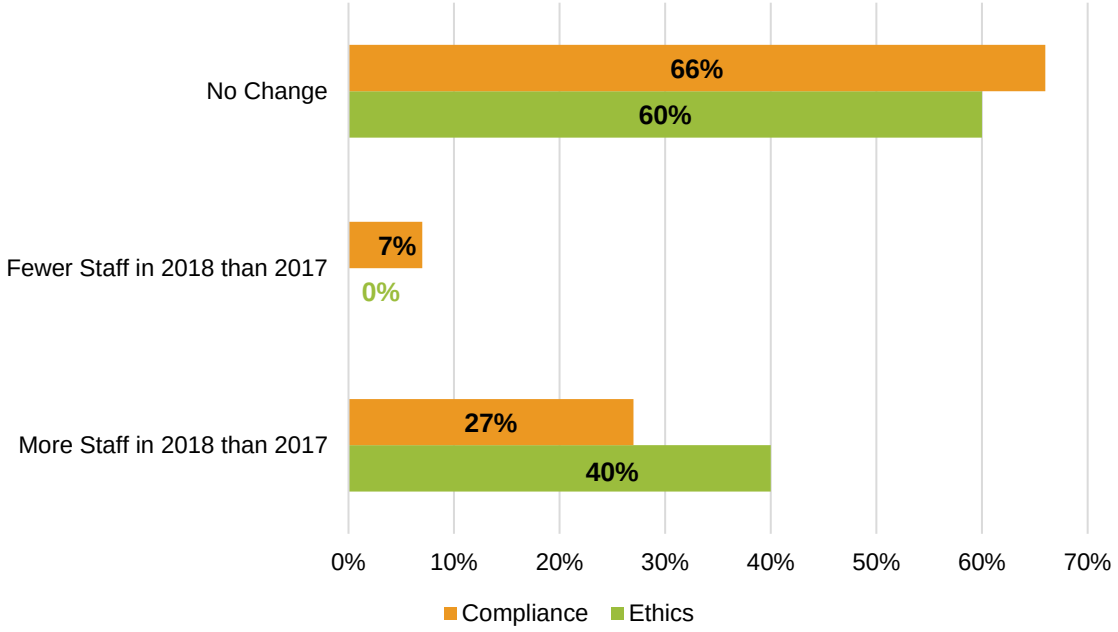
The Survey also sought to determine the number of professionals whose responsibilities were devoted exclusively to ethics within the life insurance company.

More than half of all small companies reported having no staff whose job responsibilities are solely related to ethics, though over a third (36%) indicated maintaining 1 - 2 full time ethics staff. Almost two-thirds (64%) of medium companies surveyed reported having a staff devoted exclusively to ethics, with most indicating a staff size of 1 - 4. While the vast majority of large insurers reported that they do maintain an ethics staff, many indicated a small staff size of between 3 and 4 and there are a few large companies who report having no full-time ethics staff.

We also asked companies that have appointed a Chief Ethics Officer to indicate the size of the staff reporting directly to that person. While some medium companies reported having as many as 30 - 49 staff reporting to their Chief Ethics Officer, 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 of between 30 and 49. No small company indicated that they had appointed a Chief Ethics Officer, which mirrors prior year's results.

Year-To-Year Compliance and Ethics Staffing – 2018 v. 2017

The Survey sought to determine the extent to which Survey respondent life insurance companies made changes to their compliance and ethics staff size in 2018 versus 2017. The chart below indicates the Survey results:



The majority of life insurance companies (66%) responding to the Survey indicated that they experienced no change in the size of their compliance staff when comparing 2018 versus 2017 staffing. The Survey results indicated, however, that several companies (27%) actually added to their compliance staff in 2018. Survey responses indicating an increase in compliance staff in 2018 versus 2017 came from small (22%), medium (32%) and large (20%) companies. Encouragingly, only 7% of companies reported decreasing their compliance staff in 2018. 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 2018.

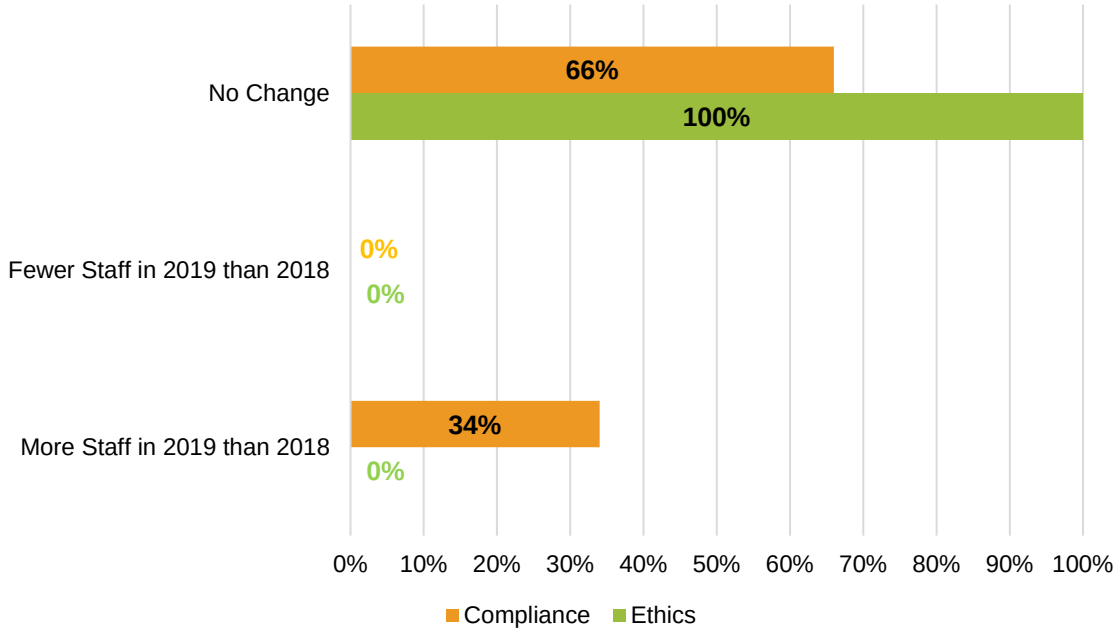
Large companies were more than twice as likely (20%) as medium companies (8%) to have reduced compliance staff size in 2018. Only 4% of small companies reported a decrease.

For life insurance company respondents with separate ethics departments, the majority (60%) indicated that they experienced no change in the size of their ethics staff when comparing 2018 versus 2017 staffing. When analyzed by company size, the Survey results indicated that a significant number of medium companies (67%) actually increased their ethics staff size over the prior year, and no companies of any size reported a decrease in ethics staff in 2018.

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

The Survey also sought to identify anticipated changes in compliance and ethics staffing in 2019. The chart below summarizes the Survey results:

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



While a significant number of life insurance companies of all sizes (34%) anticipate increasing their number of compliance staff in 2019, two-thirds of all Survey respondent companies (66%) indicated that they currently have no plans to add to their compliance staff in 2019. Encouragingly, no Survey respondents indicated that they plan to reduce compliance staff in 2019.

It may be interesting to note that while there have been variances in responses between company sizes in past years, this year no company reported anticipating any change to the size of their ethics staff in 2019.

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 $100,000-$499,999, combined compliance and ethics budgets at the majority of medium companies range from $500,000-$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 (94%) 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.

Year-To-Year Budgeting - 2018 v. 2017

In addition to determining year-to-year changes in staffing, the Survey also gathered data regarding year-to-year changes in budgeting in 2018 versus 2017.

When asked whether their compliance and ethics budget had changed in 2018, most respondents indicated no change, though a significant number of small (30%) and medium (38%) companies indicated that they had seen an increase. Conversely, a few small (5%) and medium (12%) companies reported they had experienced a decrease in their budget from the prior year.

For those companies indicating they maintain a separate ethics budget, only medium companies reported any change, with several receiving an increase in their ethics budget in 2018.

Year-To-Year Budgeting - 2019 v. 2018

We also asked Survey respondents to project their anticipated compliance and ethics budgets for 2019 and compare them to their budgets for 2018.

Results mirrored those for 2018 budgets, with the majority of all sizes of companies forecasting no change in 2019 budgets. But, while large companies do not anticipate any change in 2019, a significant number of small (33%) and medium (40%) companies expect to increase their budgets in 2019 and fewer than 5% are anticipating a decrease.

For companies with a separate ethics budget, it is largely thought that there will be no change in 2019 though some medium companies do anticipate seeing an increase in their ethics budgets in the coming year.

Compliance Budgets Devoted to Outside Legal Services.

While the majority of Survey respondents indicated that budgeting for outside legal services takes place through their legal department budget, 20% indicated that their compliance budget allows them to hire outside legal services for the compliance department on an independent basis. When responses are analyzed by company size there appears to be little variance in this practice among companies of different sizes.

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.

20% of Survey respondents indicated that their compliance budget allows them to hire outside legal services for the compliance department on an independent basis. This practice appears to be similar across life insurers regardless of size.

Senior Position Titles and Compensation

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

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

Chief Compliance Officer

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, the majority of Survey respondents (80%) indicated that their most senior compliance professional is described as "Chief Compliance Officer." However, at many life insurance companies the most senior enterprise-wide compliance professional does not always carry the “Chief Compliance Officer” designation and at small companies may instead use such titles as: Compliance Director, Compliance Manager or Compliance Director. At medium and large companies, titles such as General Counsel, Vice President or Senior Vice President are commonly used by the senior compliance professional.

Chief Ethics Officer

When asked whether their organization has a Chief Ethics Officer separate from any other Chief Compliance Officer, a growing number of Survey respondents (14%, compared to 8% in 2017 and 5% in 2016) indicated they had. The most senior ethics professional may not carry the “Chief Ethics Officer” title though and this role may

instead be combined under a Director, Vice President or other senior title associated with Legal, Privacy or HR.

Combined Compliance & Ethics Position

A significant number of life insurance companies (28%) 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 indicated that their ethics and compliance programs are housed in the same department and, therefore, it was appropriate to combine both functions into a singular position. Others shared the view that combining responsibility for ethics and compliance improved consistency and control of what they consider interdependent functions. Some companies also offered 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.

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 ($100,000-$249,999 and $150,000 to over $500,000 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-$299,999 and the most common response from large company respondents identified compensation in excess of $500,000 for a Chief Compliance Officer.

When asked about the salary range for individuals holding the combined title of Chief Ethics and Compliance Officer (versus Chief Compliance Officer), it may be interesting to note that there was little variation in 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.

Survey results over the past three years appear to indicate that the practice of naming business unit CCOs is declining, though a significant number of medium and large companies still maintain this practice.

A majority of Survey respondents (75%) indicated that they do not maintain separate Chief Compliance Officers devoted to business units. When comparing this year's Survey responses to prior years, it appears that the practice of appointing business unit CCOs has been declining over the past three years. While it is relatively uncommon for a small company to report having separate CCOs devoted to business units, a significant number of medium (36%) and large (50%) companies still maintain this practice.

We also asked a question concerning whether these business unit Chief Compliance Officers are located within the business or reside within the Compliance department. For those companies that do maintain separate Chief Compliance Officers for business units, Survey responses indicated that the majority (56%) of these business unit Chief Compliance Officers reside within the business unit itself.

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;
- Asset Management;
- Investment Adviser; and
- Group.

Chief Suitability Officer

In 2014 we began asking whether life insurance companies had taken the step of naming a Chief Suitability Officer.

While most life insurers have not yet named a Chief Suitability Officer, this year's Survey results indicate an increase (12% as compared to 8% in 2017) in the number of companies who reported that they maintain a Chief Suitability Officer for their organization.

In light of the revived regulatory focus on annuity suitability, we will continue to monitor this data in the years ahead to gauge the extent to which this practice may become more prevalent across the life insurance industry.

The number of life insurers who report having appointed a Chief Suitability Officer grew this year. We will continue to monitor this data in light of the revived regulatory focus on annuity suitability.

Location of Compliance-Related Functional Areas

The Survey sought to determine where certain compliance-related functions reside within the organization. It was interesting to note that there was little variation in responses between companies of different sizes. While many of the responses were consistent with expectations, it was somewhat surprising to note that advertising review has not warranted into its own department at many companies, given the amount of resources that are consumed by this function. The chart below indicates the Survey responses we received.[1]

	Compliance	Own Department	Operations	IT
Advertising Review	X		X (large)	
Complaint Handling	X			
Replacements	X		X	
Licensing & Appointments		X		
AML	X			
Suitability	X (small)		X (med, lg)	
Cybersecurity				X
Privacy	X			
Claims		X		
Form Filing	X	X (emerging)		
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. Also denoted are any emerging trends, based on company size where applicable.

Succession Planning and CCO Qualifications

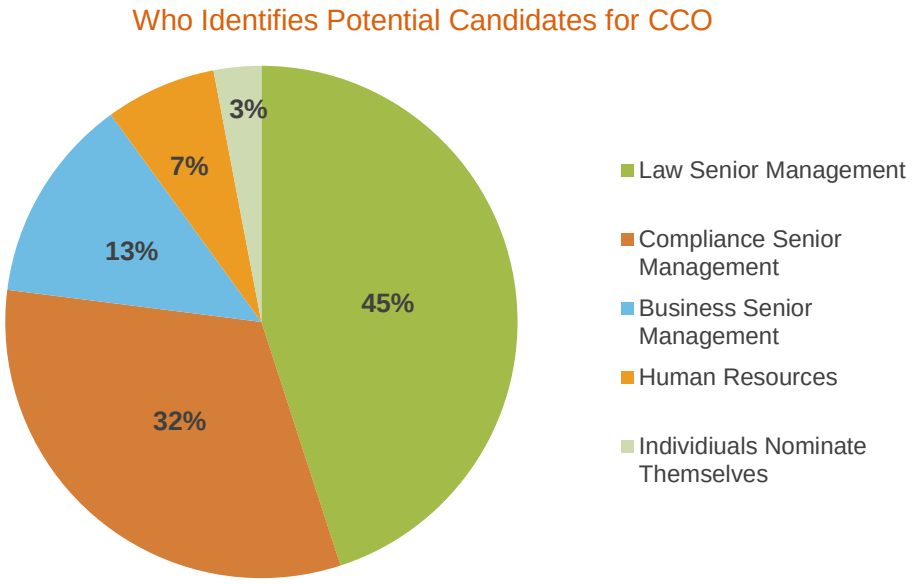
Succession Planning

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

With this in mind, 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. Encouragingly, this year's Survey results indicate that a growing number of companies (63%, compared to 59% in 2017 and 55% in 2016) reported that they have a formal succession plan to replace a departed Chief Compliance Officer.

Identification of Candidates

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



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

To develop their potential to serve as a Chief Compliance Officer, most companies responding to the Survey indicated that their Chief Compliance Officer candidates participate in both internal leadership development programs and external leadership development conferences. A significant number of companies also seek out leadership conferences designed specifically for aspiring Chief Compliance Officers.

Many medium and large companies utilize internal rotational assignments to broaden a candidate's understanding of the company's compliance function or overall business.

Educational and Experience Qualifications - Chief Compliance Officer.

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

2018 Survey data affirms the trend we have seen in prior years away from a legal education being an educational prerequisite to become a Chief Compliance Officer with a life insurance company

While the majority of companies responding to the Survey indicated that their company considers a legal education very important or important, fewer than half (39%) of the companies responding to the Survey require an individual to hold a legal degree in order to serve as their Chief Compliance Officer. This is particularly true of large companies where it appears to be a rarity. In fact,

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

Ethics/Business Conduct Programs

As in past years, this year's Survey also gathered information about ethics programs within the life insurance industry. The vast majority of all companies surveyed (97%) indicated that their organization maintains a written Code of Ethics or business conduct program. The Compliance Department is responsible for the ethics program at a majority of companies, though a significant number of small companies house this responsibility in the Law Department and some companies, predominantly larger ones, have a dedicated Ethics department responsible for their ethics program. The Human Resources department is also involved to a degree in some companies' ethics program.

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

Elements of Ethics Programs

For those companies who indicated they maintain an ethics program, over three-quarters (75%) of Survey respondents indicated that their company's ethics program maintains the following elements:

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

Hotlines

Many life insurance companies (80%) have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and the majority (61%) of these companies have established a relationship with a third-party vendor to provide hotline services.

Some of the third-party vendors contracted for the reporting of misconduct are Navex Global, Lighthouse, Convercent, ClearView Strategic Partners, EthicsPoint, Alert Line and Listen Up.

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 annual training and events, the company intranet, and executive speeches and messages.

Ethics in the Performance Evaluation Process

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. This response was common across companies of all sizes and, when evaluating Survey results over the past several years, affirms that this is an increasingly accepted practice within the life insurance industry.

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.

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 overwhelming majority (89%) 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 a majority of Survey respondent companies (70%) utilize external resources as a supplement to their own internal training programs. Other Survey respondent companies (5%) utilize external resources exclusively, while 25% conduct all compliance training internally. It may be interesting to note that large companies are the least likely to utilize third-party resources for compliance training.

70% 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):

- Forums to discuss important life insurance industry compliance topics with regulators, industry experts and company representatives.
- Periodic webinars on life insurance industry emerging compliance issues.
- Compliance-specific leadership training conferences.
- Online compliance resources (e.g., websites).
- Periodic calls with regulators to discuss key exam issues and regulatory priorities.

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 all Survey respondents (100%) suggested it was important to some degree to provide compliance training to business partners and a virtually all (98%) also agreed that training business partners on compliance issues allows compliance professionals to perform their duties more easily.

100% of Survey respondents indicated that it is important to provide compliance training to business partners.

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 affirm a growing trend showing that Compliance plays an active and ongoing role in their company's ERM process (71%). A smaller percentage of Survey respondents (27%) indicated that compliance only provides input into the ERM process when requested, and only a few small companies (2%) reported that Compliance is rarely 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 the majority of medium and small companies indicated that compliance plays an active and ongoing role of their company's ERM process.

Compliance plays and 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) Cybersecurity Regulation

The Survey sought to determine respondent companies' experience with meeting the requirements of the NYDFS' new cybersecurity regulation (23 NYCRR 500).

A large majority (84%) of companies subject to the NYDFS cybersecurity regulation reported that they found compliance with the requirements of the cybersecurity regulation to be "challenging" or "somewhat challenging", and another 9% found the requirements to be "very challenging." Only 7% of companies subject to the requirement reported that compliance was "easy."

Almost half 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.

Market Regulation Experience

Beginning in 2015, 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 – 2018 v. 2017

The majority of life insurance companies (66%) responding to the Survey indicated that they experienced no change in state market analysis activity when comparing 2018 versus 2017. The Survey results indicated, however, that some companies (30%) experienced an increase in state market analysis activity in 2018 when compared to 2017. A smaller number of companies (4%) reported a decrease in the amount of state market analysis activity in 2018.

When analyzed by company size, large companies were most likely to report an increase in market analysis activity (60%), and no large company reported experiencing a decrease in market analysis activity in 2018. Small companies were the least likely to report any change in the amount of market analysis activity.

Year-To-Year Targeted Market Examination Experience – 2018 v. 2017

Once again, the majority of life insurance companies (66%) responding to the Survey indicated that they experienced no change in state targeted market examination activity when comparing 2018 versus 2017. A number of companies (17%), however, reported experiencing an increase in state targeted market examination activity over the prior year, while the same number (17%) reported a decrease.

Large companies were the most likely (50%) to have reported an increase in targeted examination activity over the prior year, and no large company indicated a decrease in

targeted market examination activity in 2018. Small companies were least likely to report an increase.

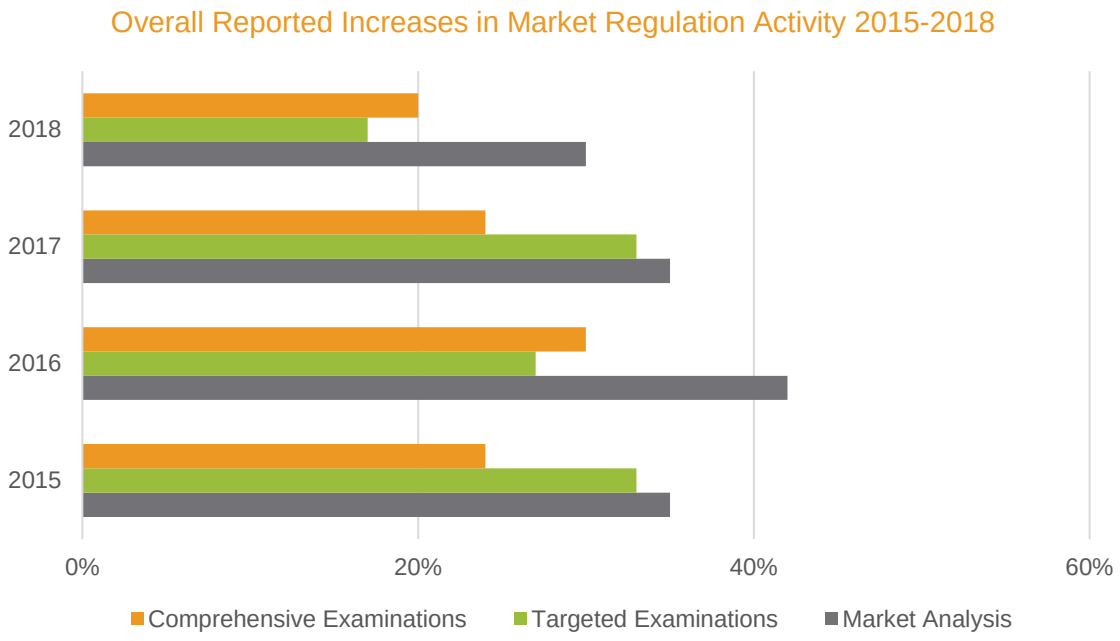
Year-To-Year Comprehensive Market Examination Experience – 2018 v. 2017

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 2018 versus 2017.

When asked to compare their experience with comprehensive examination activity by the states in 2018 versus 2017, a majority of life insurers (63%) responding to the Survey reported no change. Survey results indicated, however, that 20% of all companies experienced an increase in comprehensive examination activity in 2018, while a smaller number of companies (17%) reported a decrease in comprehensive examination activity this year.

Once again, large companies were most likely (75%) to report an increase in comprehensive examination activity and no large company indicated a decrease. Small companies were least likely to report an increase.

While a number of companies in each size category have reported increases in market analysis as well as targeted and comprehensive examination activity in 2018, 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 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 - 2018 and 2019

Once again, the Survey concluded by asking respondents to evaluate compliance issues experienced in 2018 and those predicted for 2019. Specifically, we asked respondents to identify which top 5 compliance issues consumed the most compliance resources in 2018. The Survey results in ranked order were:

- Cybersecurity.
- DOL Fiduciary Rule and Antifraud (tie).
- Data Calls/Regulatory Reporting.
- New Product/Innovation Initiatives and Privacy (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 2019. The Survey results most often selected (in ranked order) were:

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

For comparisons sake, the top compliance issues predicted for 2018 when asked in 2017 were:

- *DOL Fiduciary Rule.*
- *Cybersecurity.*
- *New Product /Innovation Initiatives.*
- *Antifraud.*
- *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 80% 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 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 prevalent trend 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. 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,

though a significant number of small company CCOs report directly to the CEO. It may be interesting to note that there appears to be a small but growing trend for the Chief Compliance Officer to report directly to the company's Board of Directors.

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 issue and trends, violation and fines 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 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 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 2018 versus 2017, nearly a third of the companies surveyed reported a growth in their compliance staff. Encouragingly, only a few companies reported decreasing their compliance staff in

2018. 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 2018.

Though two-thirds of the companies surveyed are not forecasting any changes to the size of their compliance staff in 2019, the remaining third anticipates growth in the coming year and no company reported plans to decrease the size of their complaince staff.

For life insurance company respondents with separate ethics departments, the majority (60%) indicated that they experienced no change in the size of their ethics staff when comparing 2018 versus 2017 staffing. When analyzed by company size the Survey results indicated that a significant number of medium companies (67%) actually increased their ethics staff size over the prior year, and no companies of any size reported a decrease in ethics staff in 2018.

When analyzing Survey results for those companies indicating that they maintain a separate Ethics Department, a significant number of companies surveyed (mostly medium sized) indicated their ethics staff had, in fact, grown between 2017 and 2018 though the majority of companies reported experiencing no change in staffing over this period. For the fourth year in a row, no companies reported a decrease in ethics staff over the prior year.

When predicting changes in ethics staff in the coming year, it may be interesting to note that, while there have been variances in responses between company sizes in past years, this year no company reported anticipating any change to the size of their ethics staff in 2019.

Though most life insurance companies indicated that their compliance and ethics budget remained the same in 2018 versus 2017, a significant number of small and medium companies reported that their 2018 budget had increased. Conversely, a number of

small and medium companies also reported they had experienced a decrease in their budget from the prior year. Responses concerning 2019 compliance and ethics budgets suggest that companies will maintain their current budgets for the coming year.

For those companies indicating they maintain a separate ethics budget, only medium companies reported any change in 2018 with a significant number receiving an increase in their ethics budget. Looking ahead to 2019, little change is anticipated, though some medium companies are forecasting an increase in their ethics budgets in the coming year.

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 compliance professional. Compensation associated with the CCO position varies between companies of different sizes with the most common response to this Survey question from small companies ranged from $100,000-$249,999; from medium companies, the range was $1500,000 to over $500,000 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 fairly consistent with those identified for CCOs.

The Survey also revealed that the practice of appointing business unit CCOs has been declining over the past three years, though this practice appears to be more prevalent at larger life insurers. 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 suggests that these individuals are most often housed in the business units themselves rather than within Compliance.

In 2014, we began asking whether life insurance companies had taken the step of naming a Chief Suitability Officer. While most life insurers have not yet named a Chief Suitability Officer, this year's Survey results indicate an increase in the number of companies who reported that they maintain a Chief Suitability Officer for their organization. In light of the revived regulatory focus on annuity suitability, we will continue to monitor this data to gauge the extent to which this practice may become more prevalent across the life insurance industry.

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 2018 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 63% of all companies Surveyed indicated that they have a formal succession plan to replace a departed Chief Compliance Officer (compared to 59% in 2017 and 55% in 2016).** 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 2018 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. Approximately one third of respondent companies indicated

they require an individual to hold a legal degree in order to serve as a CCO, though this is a rarity among large companies.

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, anonymous reporting, annual attestation, hotlines and investigations. Many life insurance companies have instituted "hotlines" for reporting of ethical violations as part of their ethics program, and more than half of these companies have established a relationship with a third-party vendor such as Navex Global, Lighthouse or Convercent 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 annual training and events, the company intranet, 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 complaince training. Results indicated that a majority 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 least likely to utilize third-party resources for compliance training. This year, 100% 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.

Since enterprise risk management ("ERM") remains a subject of regulatory focus within the life insurance industry, Survey respondents were once again 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 third consecutive year no company reported that compliance is not part of their company's ERM program.

The 2018 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 compliance "challenging" or "somewhat challenging", while fewer than 10% indicated that compliance with the new cybersecurity regulation's reporting requirements was "very challenging" or "easy." Almost half 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 a number of companies in each size category did reports with increases in market analysis as well as targeted and comprehensive examination activity in 2018, 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 2018 and to forecast the most significant compliance challenges facing the life insurance industry in 2019. The Survey yielded the following responses (in ranked order) as those that consumed the most compliance resources in 2018:

- Cybersecurity.
- DOL Fiduciary Rule and Antifraud (tie).
- New Product/Innovation Initiatives and Privacy (tie).
- Data Calls/Regulatory Reporting.
- Annuity Suitability.

Looking ahead to 2019, life insurers predicted that the following issues will pose the most significant compliance challenges (ranked in order):

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

We hope that readers of the 2018 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 2018 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 2018 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 2018 CEFLI Compliance and Ethics Benchmarking Survey.

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