



THE COMPLIANCE & ETHICS FORUM FOR LIFE INSURERS

# 2020 Compliance and Ethics Benchmarking Survey

Full Report

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# Introduction

CEFLI is pleased to report the results of the 2020 Compliance and 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 industry to participate in Surveys over the past several years. Data collected provides CEFLI with the ability to gauge the current state of compliance and ethics in the life insurance industry.

Through the Survey results, CEFLI seeks to identify possible trends that may be of interest to the life insurance industry's compliance and ethics professionals and senior management.

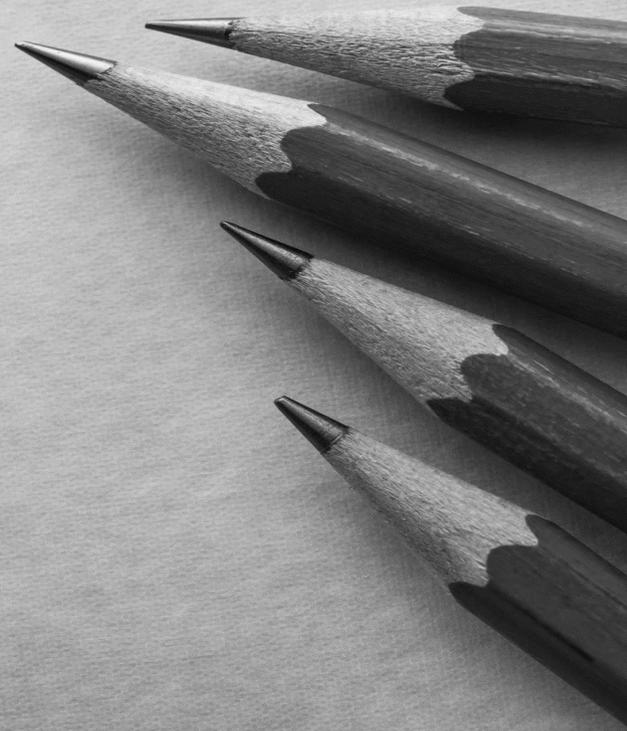
New this year is the inclusion of various charts and graphs designed to provide more detailed information with respect to the nuances of the data based on company size. More detailed information regarding selected subject matters identified within the Report also can be found in the Appendices. It is hoped that the additional visuals will serve to help compliance professionals quickly benchmark their experience with that of their peers.

The 2020 Survey saw the addition of three new questions. Two new questions were designed to elicit company experience regarding SEC Regulation Best Interest compliance efforts, while one new question was designed to measure the perceived value of the data derived from the Benchmarking Survey in the eyes of Chief Compliance Officers.

# Purpose

The purpose of this Survey is to determine the current state of Compliance and Ethics functions within the life insurance industry. To gauge current practices, the Survey asked objective questions related to overall staffing, organizational structure, budgeting, and compensation. The Survey also included questions regarding training as well as significant current Compliance and Ethics issues.

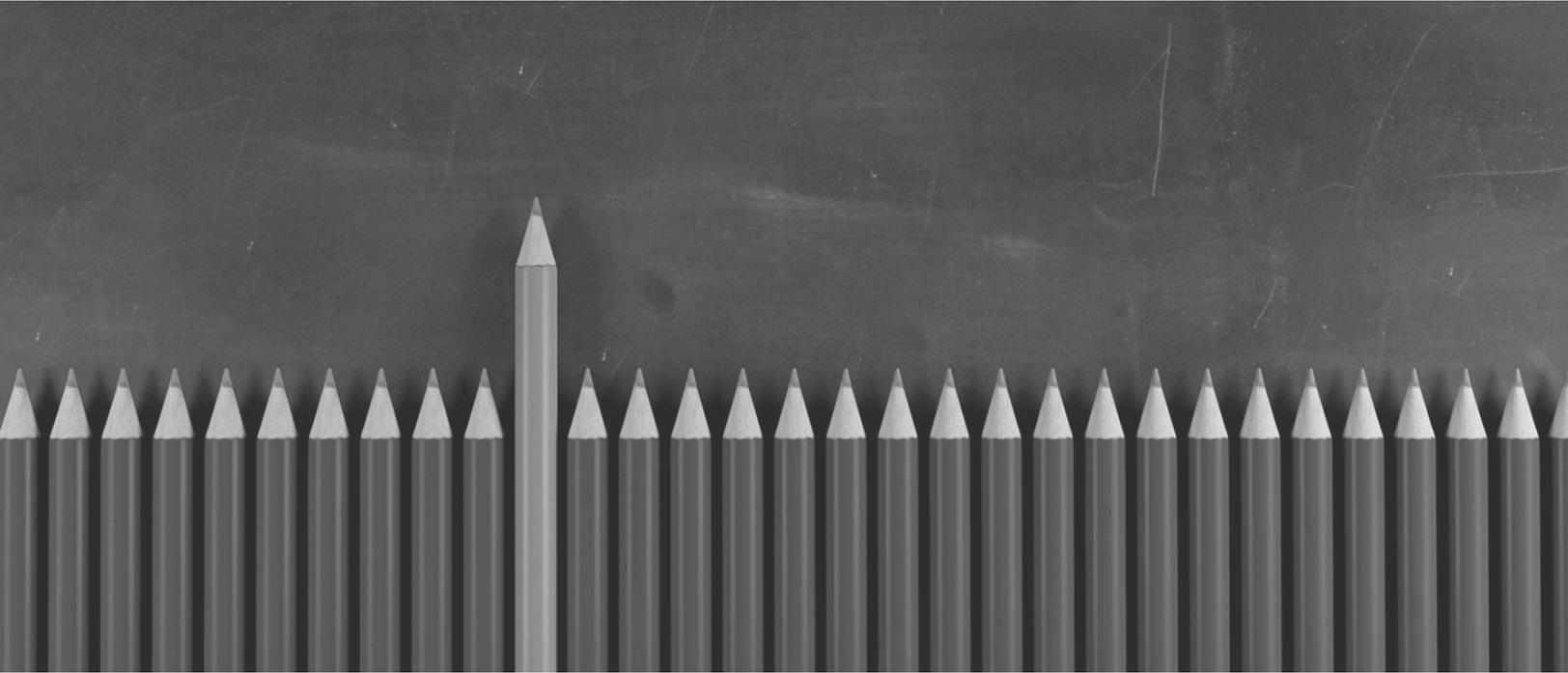
Since its inception, the Survey has sought to identify distinctions between the important roles of Legal, Compliance and Ethics within organizations. To achieve this objective, the Survey gathers information regarding the organizational structure of Legal and Compliance



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 with 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 size and different scope.

Through the comparison of the responses to this year's Survey versus past annual Survey responses, CEFLI is able to establish a benchmark to evaluate trends in the design, staffing and budgets dedicated to supporting the Compliance and Ethics function within the life insurance industry.

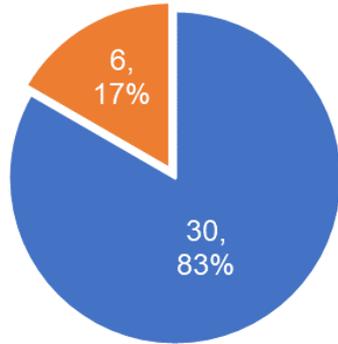


# Methodology

CEFLI solicited input from CEFLI Member life insurance companies and non-CEFLI member companies of all sizes. Our Report is premised upon the perspectives submitted by 36 respondent life insurance companies.

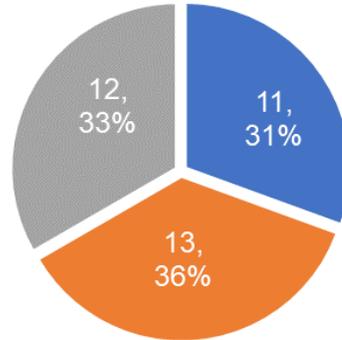
The graphs on the following page provide a visual of the composition of Survey respondents. In summary, 83% of responses were submitted by CEFLI Member companies and 17% of responses were submitted by non-member companies. Overall, the responses resulted in an even cross-section of representation by company size (small = <500 employees; medium = 501-10,000 employees, large = 10,001 or more employees).

**Member vs. NonMember**



■ Member ■ Nonmember

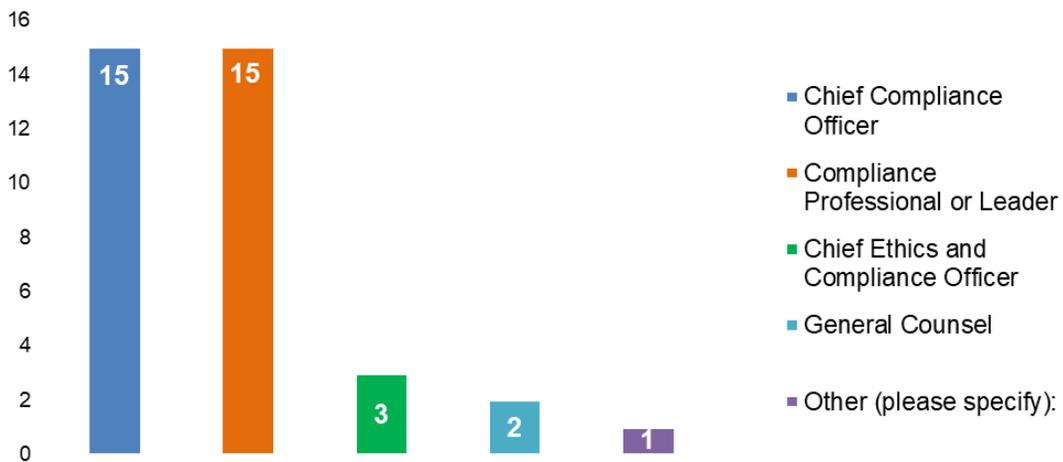
**Size of the Organization**



■ Small ■ Medium ■ Large

When asked to identify their role within their organization, most Survey respondents indicated they were Chief Compliance Officers or Chief Ethics and Compliance Officers (50%). Just under half (42%) of the respondents indicated they were in a Compliance Professional or Leader role, while a few (6%) respondents indicated they were in a General Counsel role.

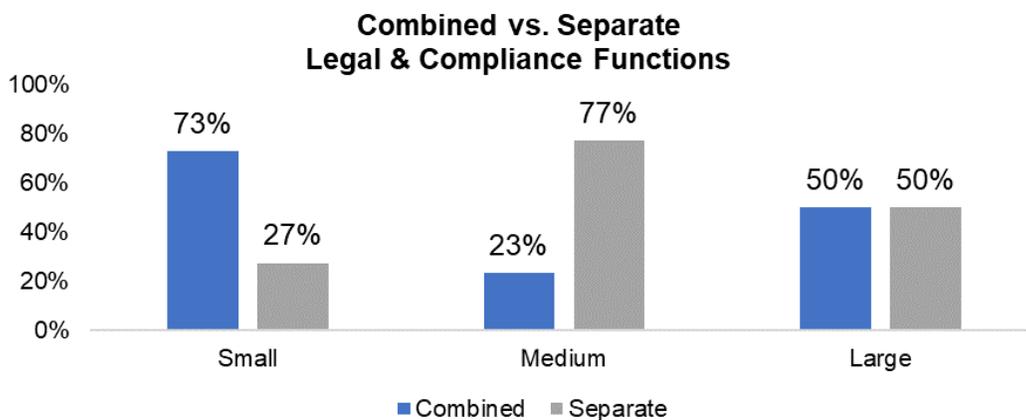
**Survey Respondent's Role in the Organization**



# Organizational Structure

## Legal and Compliance

Survey respondents were asked to indicate the organizational structure that best describes their company's Legal and Compliance departments. Overall, 47% of companies maintain a combined function (in 2019 that number was 52%), while 53% of companies maintain separate functions. Interestingly, small vs. medium-sized companies utilized completely different strategies, while large companies were evenly split in their approach.

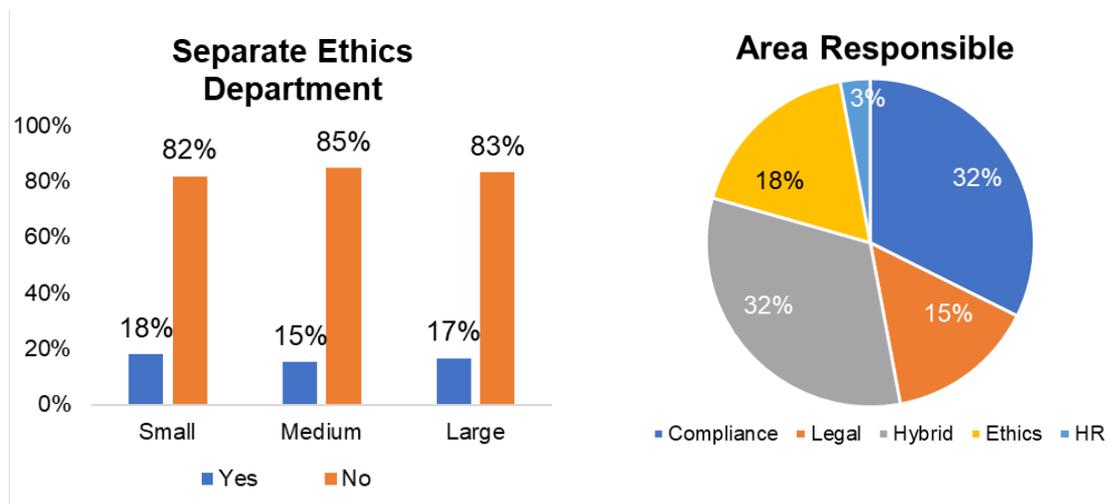


Companies that chose to establish separate Legal and Compliance departments provided various rationales for their selected organizational structures. In some cases, it was noted that a separate structure reflects the unique responsibilities of each respective area. In other cases, it was noted (often by small companies) that a combined function promotes ease of administration and other efficiencies. Several respondents noted that such functions, regardless of whether they were combined or separate, often reported to the same executive leader.

# Compliance and Ethics

The Survey 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.

While past Survey results seemed to indicate a trend with establishing separate Ethics (or business conduct) programs distinct from the Compliance function, the 2020 Survey results showed the opposite. In fact, over 80% of companies, regardless of size, indicated they do not have an Ethics program that is distinct and separate from their Compliance function but have chosen to incorporate those responsibilities within Compliance.



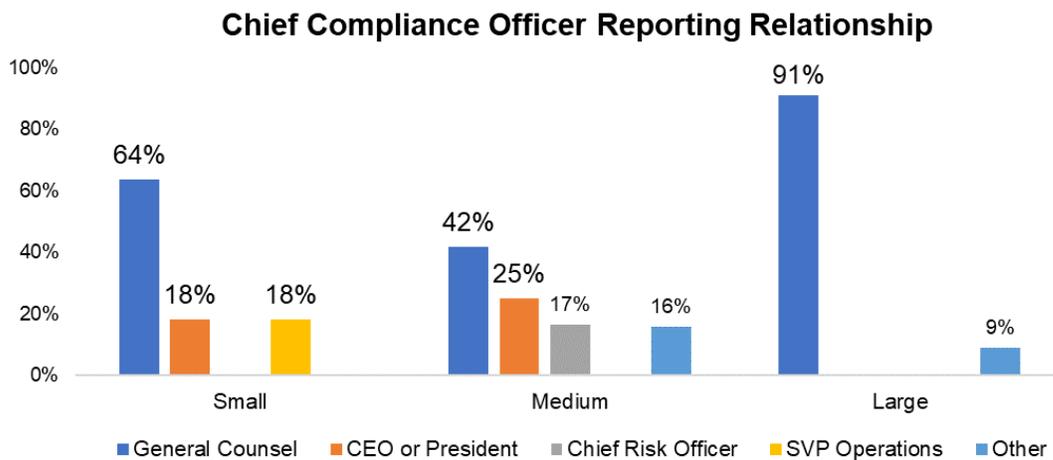
Overall responsibility for the Ethics program at most companies falls within Compliance (32%) or is the responsibility of more than one functional area—a hybrid approach, whereby the Ethics program is owned by Legal/Compliance or by Legal/Compliance/HR (32%). In some companies, the Ethics program is part of a dedicated Ethics department (18%) or falls within the company's Legal department (15%).

# Reporting Relationships and Compliance Reports

## Direct Reporting Relationships

The Survey sought to determine current practices with respect to reporting relationships for life insurance company Chief Compliance Officers. Survey results indicated that 65% of Chief Compliance Officers at companies of all sizes report to the company's General Counsel compared to 57% in 2019. This number was highest amongst large companies (91%) and was materially lower at medium companies (42%).

A few Survey respondents noted, in Survey question comments, that their CCO has a dotted line reporting relationship with the company's Board of Directors or with a 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 such relationships.

Nearly 50% of total respondents indicated their Chief Compliance Officer has a dotted line reporting relationship to the Company's Board of Directors or to a Committee of the Board. Of note is the fact that 35% of all companies, and nearly 50% of medium and large companies, indicated the CCO has no dotted line reporting relationship.<sup>1</sup>

## 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 to 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 most prevalently that such information is shared with the company's General Counsel (74%), Senior Management (74%), and Audit or a

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<sup>1</sup> More detailed information concerning Dotted Line Reporting Relationships by company size can be found in Appendix A.

Committee of the Board (62%). Additionally, many respondents (59%) indicated they also share such information with the company's CEO or President.<sup>2</sup>

When asked what is typically contained in the reports made by the organization's CCO, the Survey results indicated the following issues were most frequently reported:

- Regulatory Inquiries and Investigations
- Company Policy and Compliance Violations
- Regulatory Examinations and Data Calls
- Regulatory Actions
- Investigations/SIU
- Required Reports (e.g. AML, annuity suitability)
- Emerging Issues, Concerns, Trends, etc.
- Compliance Metrics
- Complaints
- Initiatives to Promote Compliance in the Organization

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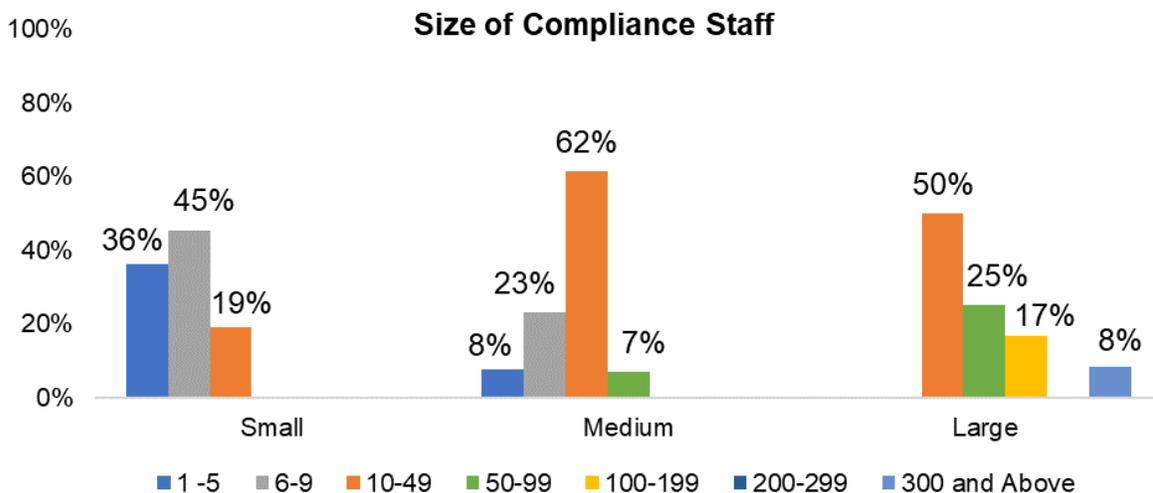
<sup>2</sup> More detailed information concerning to whom CCOs provide Compliance Reports by company size can be found in Appendix B.

# Staffing and Budgets

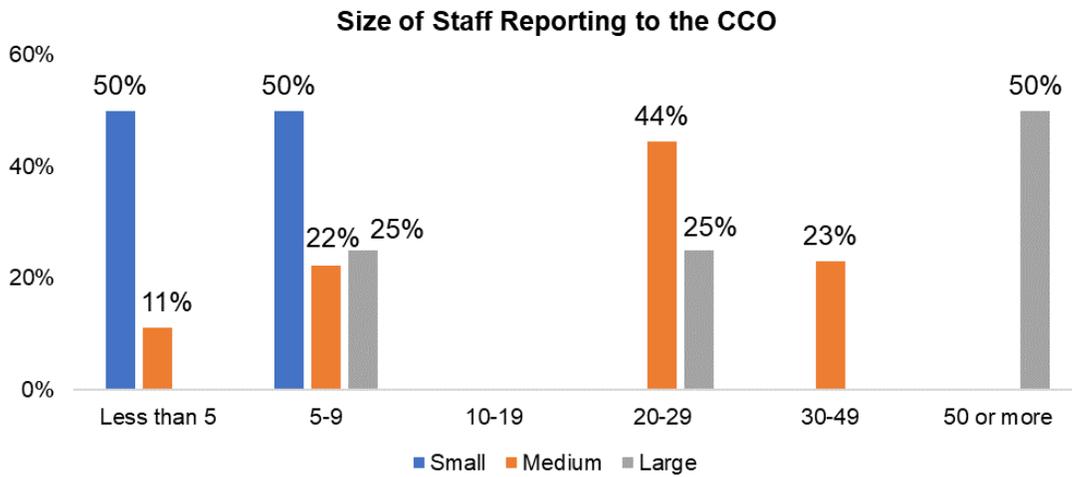
## Compliance Staffing

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 individuals), the most common response for small companies was a staff of between 1-5 individuals (36%) or 6-9 individuals (45%). Amongst medium companies, the majority indicated a Compliance staff of between 10-49 individuals (62%). Large companies were split. They reported a staff of between 10-49 individuals (50%) or 50 or more individuals (50%).



When asked how many staff report directly to the CCO, small companies indicated that either less than 5 (50%) or 6-9 (50%) individuals report to the CCO. Medium companies most prominently indicated that 20-29 individuals report to the CCO (44%). Large companies most prominently indicated that 50+ staff report to the CCO (50%).



The companies that reported having a combined Chief Ethics and Compliance Officer (CECO), also noted a wide range of staff reporting to the CECO, as summarized in the table below:

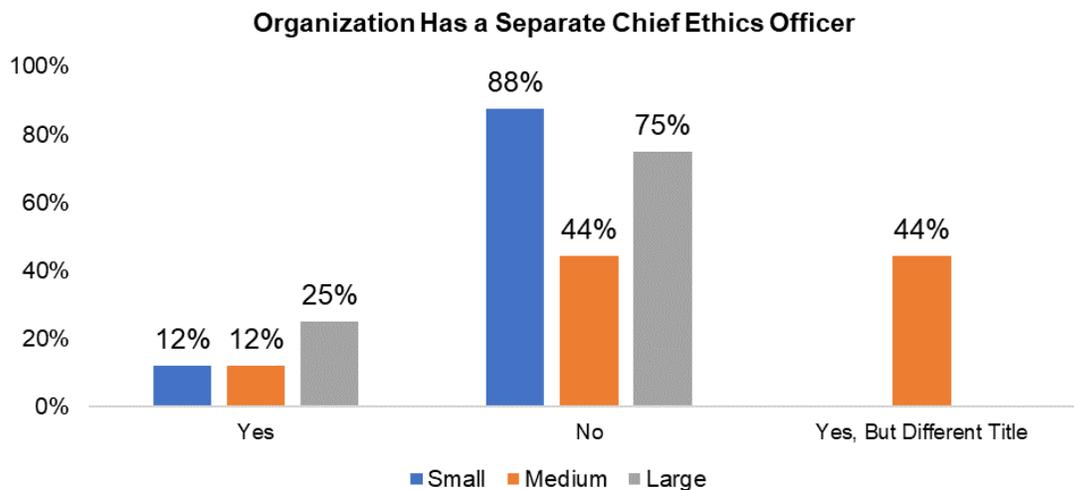
	<5	5-9	10-19	20-29	30-49	50+
Small	67%		33%			
Medium		25%	50%	25%		
Large		14%		14%	29%	43%

# Ethics Staffing

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

The Survey results indicated a wide range of practice in this area. Though many companies do not devote staff whose sole responsibility is Ethics, several companies of all size reported that they did have staff solely dedicated to Ethics with staff numbers ranging from 1-9 individuals with such responsibility.

The Survey asked whether the organization has a Chief Ethics Officer or similar role under a different title. One third (33%) of companies responded affirmatively though two thirds (66%) indicated they do not have a Chief Ethics Officer or similar role under a different title.

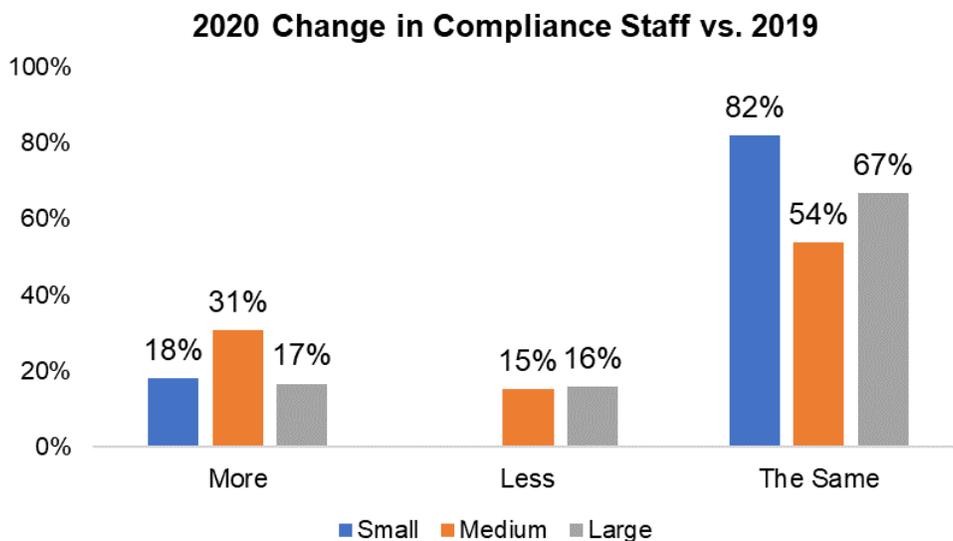


We asked the companies that indicated they had appointed a Chief Ethics Officer (or equivalent position by another title) to indicate the size of the staff reporting directly to that individual. The Survey results indicated that it is rare for life insurance companies to have staff reporting directly to the Chief Ethics Officer and, in fact, most companies reported that

they do not have staff that reports directly to the Chief Ethics Officer. At those companies that do have staff that report to the Chief Ethics Officer, the Survey data indicates that number of staff people is generally five or less.

## Staffing—2020 vs. 2019

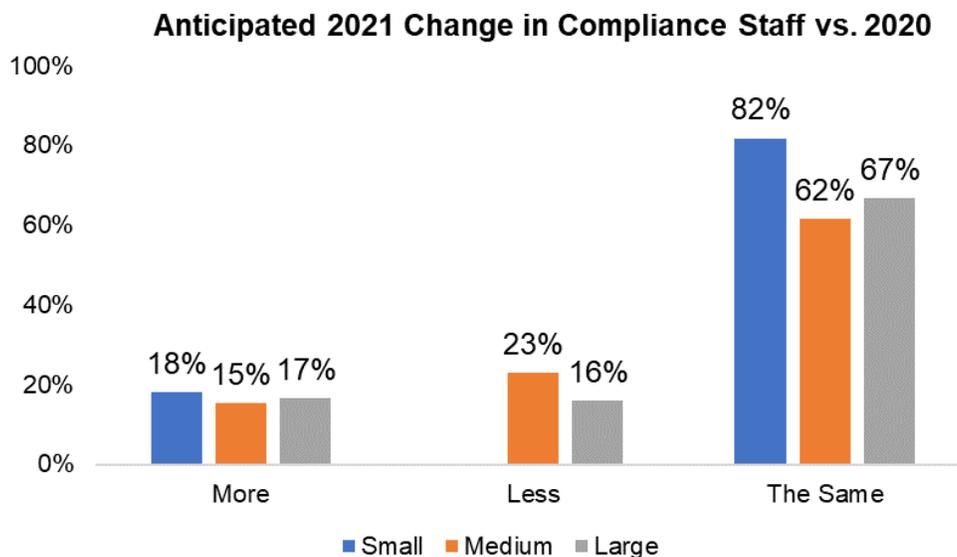
The Survey sought to determine the extent to which Survey respondent life insurance companies made changes to their Compliance and Ethics staff size in 2020 versus 2019. The chart below reveals that most companies had retained the same amount of staff in 2020 versus 2019 regardless of company size. However, there was more variation in the responses received from medium companies, with nearly a third (33%) of such companies reporting an increase in staffing during 2020 compared to 2019. Additionally, 15-17% of medium and large companies reported a reduction in staffing while the same number noted an increase.



## Staffing—2021 vs. 2020

The Survey also sought to identify anticipated changes in Compliance and Ethics staffing in 2021. In aggregate, 17% of companies plan to add staff, 69% of companies plan to retain current staffing levels, and 14% plan to reduce staff.

The chart summarizes the Survey results, by company size. In summary, small companies indicated a greater likelihood of retaining their current staffing level (82%), compared to two thirds of medium and large companies.



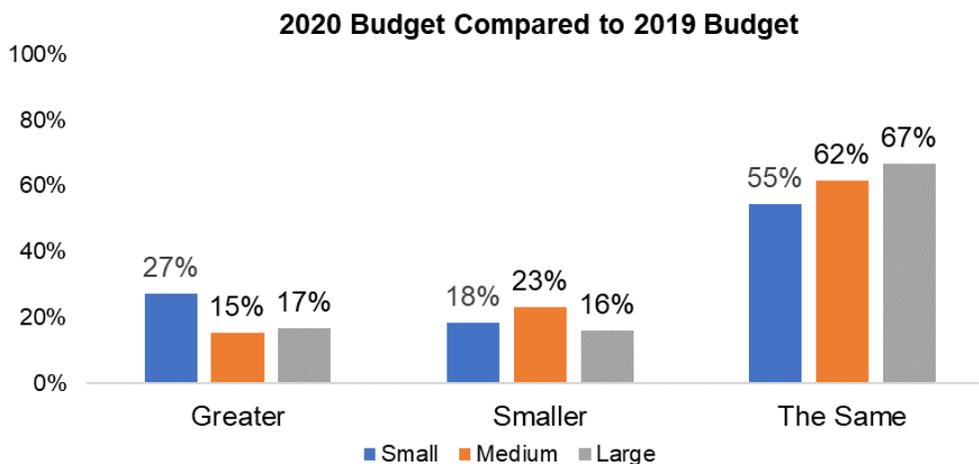
For life insurance company respondents with separate Ethics staff, 100% of small, medium, and large companies indicated they anticipate no change in the size of their Ethics teams in 2021.

## Budgeting—2020 vs. 2019

In addition to determining year-over-year changes in staffing, the Survey also gathered data regarding 2020 budgets compared to 2019 budgets.

When asked whether their Compliance and Ethics budget had changed in 2020, most respondents (61%) indicated their budget had not changed, while the remaining respondents (49%) were split, with half noting a larger budget and half noting a smaller budget in 2020 compared to 2019.

The graph below illustrates budget information by company size.



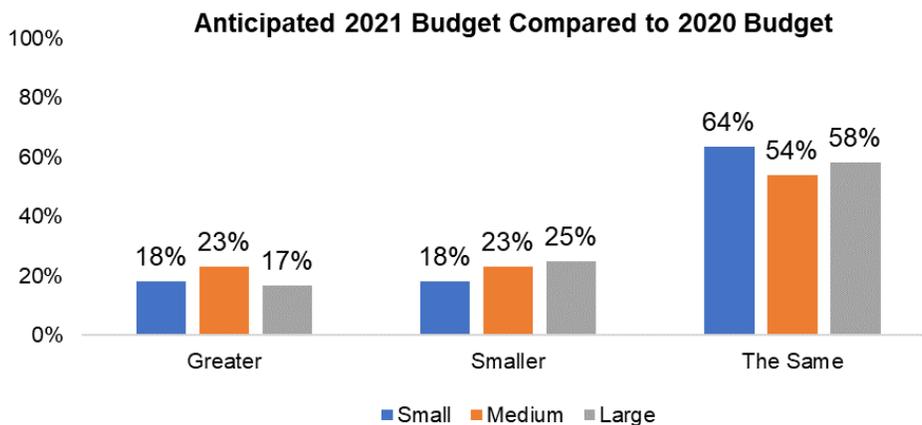
For companies indicating they maintain a separate Ethics budget (19%), 100% of respondents (7 companies) indicated their 2020 Ethics budget was about the same as their 2019 budget.

# Budgeting—2021 vs. 2020

Survey respondents were asked to project their anticipated Compliance and Ethics budgets for 2021, compared to their budgets for 2020.

**While data, by company size, appears below, in aggregate, 58% of companies indicated they anticipated their 2021 budget would remain the same, while the remaining responses were almost evenly split between anticipating a reduction in their 2021 budget vs. anticipating an increase in their 2021 budget.**

For companies indicating they maintain a separate Ethics budget (19%), 100% of respondents (7 companies) indicated their 2021 Ethics budget will likely be about the same as their 2020 budget, consistent with their response regarding anticipated staffing changes.



Overall, just over one third (37%) of total Survey respondents indicated that Compliance maintains a Legal budget. Nearly two thirds (63%) of Survey respondents indicated that Compliance does not maintain a Legal budget.

## Outside Legal Services

When analyzing the data by company size, most large companies and most small companies maintain a Legal budget within Compliance. Interestingly, no medium companies indicated they maintain a Legal budget in Compliance.

# 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.

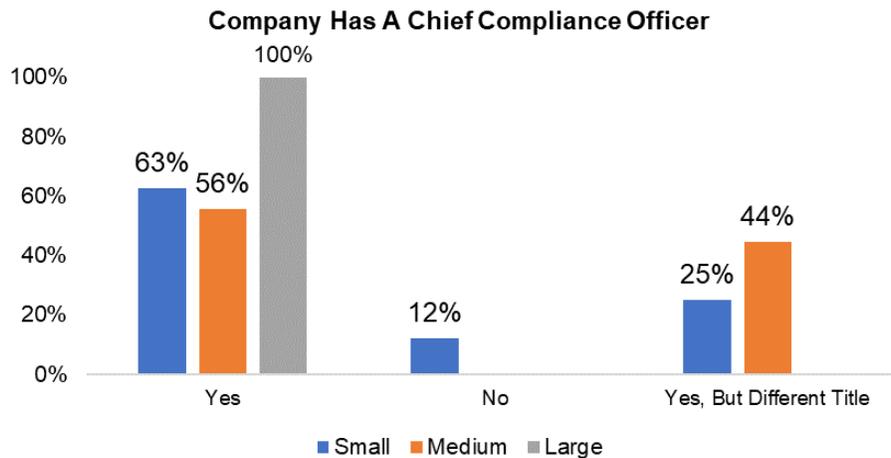
This year's Survey continued to gather data concerning these developments with a goal toward identifying industry-wide trends.

## Chief Compliance Officer

The Survey sought to obtain data regarding whether the company has a Chief Compliance Officer or an equivalent position utilizing another title. In summary, 100% of medium and large companies indicated they had a Chief Compliance Officer (or equivalent position utilizing another title) compared to 88% of small companies.

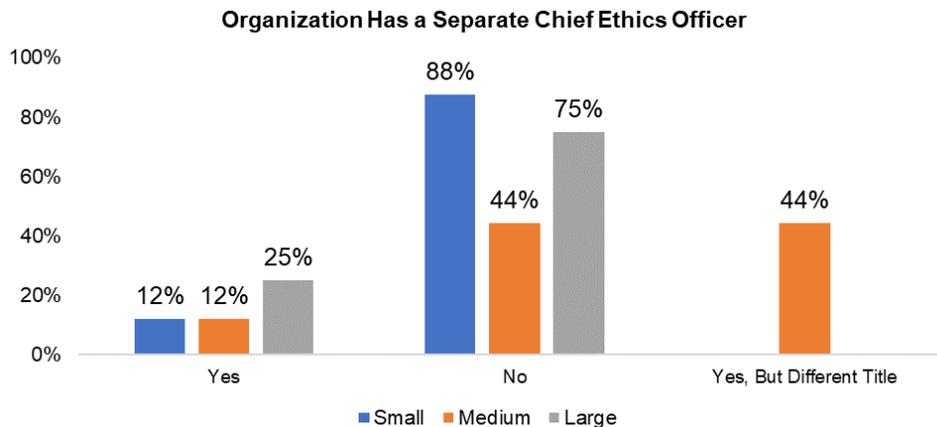
Additionally, 100% of large companies use the title Chief Compliance Officer, compared to 56% of medium companies and 63% of small companies. Alternative titles included: Vice President Compliance Officer, Vice President Compliance, Senior Vice President and General Counsel, Insurance Operations Compliance Officer, and Compliance Director.

Summary data, by company size, appears in the following graph.

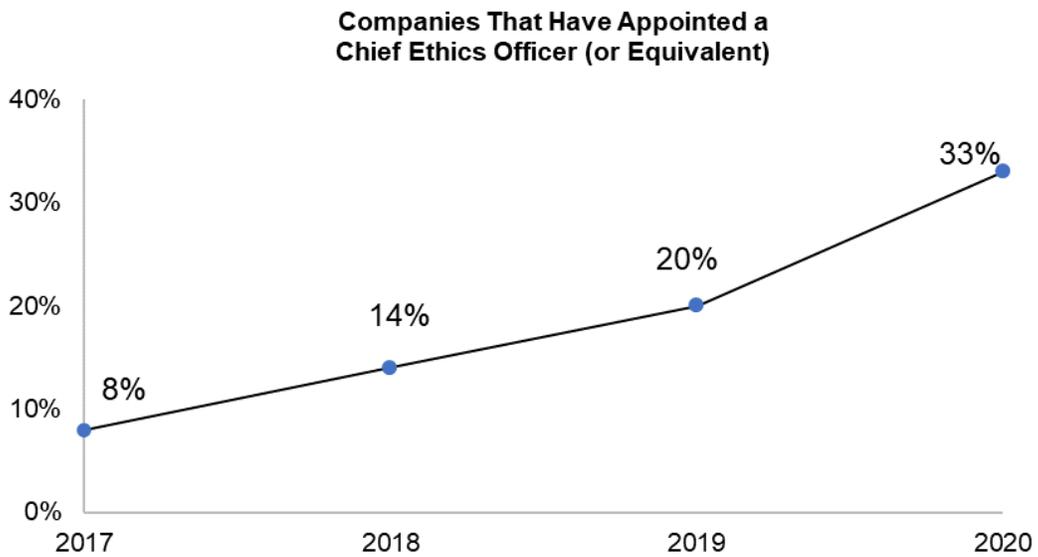


## Chief Ethics Officer

Overall, one third of companies (33%) have a Chief Ethics Officer or equivalent role utilizing a different title. Alternative titles included: General Counsel (2 responses) and Chair—Ethics Committee (1 response).



For comparative purposes, the year-over-year experience reflects a notable trend in life insurance companies having a dedicated Chief Ethics Officer position. **Between 2019 and 2020, there was a 65% increase in company reliance on a designated Chief Ethics Officer (or equivalent) position.**



## Combined Position

A significant number of life insurance companies (42%) 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") compared to 29% of companies in 2019. This represents a 46% increase. 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. A variety of reasons were offered, including ease of administration, limited resources, similar and inextricably intertwined functions, and efficiencies associated with having a combined role.

## Compensation—CCOs, CEOs & CECOs

The Survey gathered data concerning the salary compensation range for Chief Compliance Officers, Chief Ethics and Compliance Officers, and Chief Ethics Officers within various sized organizations. As anticipated, responses varied greatly.<sup>3</sup>

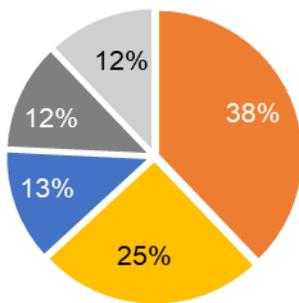
Overall, the salary range for CCOs was quite broad across small and medium companies, while the salary for CCOs at large companies reflected a more limited range of \$200,000 - \$399,000. With regard to salary, however, it is important to note that a CCO's salary may reflect not only company size, but also the CCO's span of control with respect to the number of direct reports as well as the CCO's breadth of responsibility, which may include Compliance, Legal and/or Ethics functions. Additionally, some CCOs may have responsibilities across entities, serving as the CCO for one or more affiliated insurance

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<sup>3</sup> Due to differing compensation arrangements, CEFLI will be exploring a change in how this question is worded with future Benchmarking Surveys, to capture information regarding total CCO compensation (i.e. salary and incentive compensation).

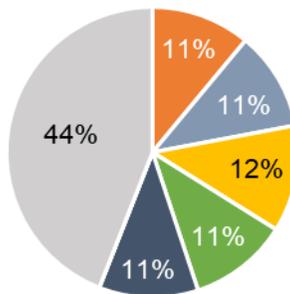
companies and potentially for an affiliated broker-dealer. The graphs below provide detail reflecting how small, medium, and large companies responded.

**Small Companies**



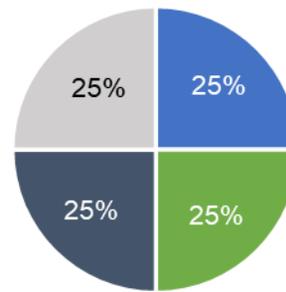
- \$100,000 - \$149,999
- \$175,000 - \$199,999
- \$200,000 - \$249,999
- \$500,000 and Above
- I don't know

**Medium Companies**



- \$100,000 - \$149,999
- \$150,000 - \$174,999
- \$175,000 - \$199,999
- \$250,000 - \$299,999
- \$300,000 - \$399,999
- I don't know

**Large Companies**



- \$200,000 - \$249,999
- \$250,000 - \$299,999
- \$300,000 - \$399,999
- I don't know

## CCOs in 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 (Business Unit Compliance Officers or BUCOs). Two-thirds (66%) of the Survey respondents indicated they do not maintain separate BUCOs. While no small companies reported the use of BUCOs, 62% of medium companies and 36% of large companies reported the use of BUCOs.<sup>4</sup> The Survey revealed that the majority (58%) of respondents indicated the BUCOs were part of Compliance.

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<sup>4</sup> More detailed information concerning which Business Units may have dedicated Chief Compliance Officers according to company size can be found in Appendix C.

# Compliance Functions

The Survey sought to determine where certain compliance-related functions resided within organizations. The chart below summarizes the most prominent locations by function.<sup>5</sup>

Function	Compliance	Own Dept.	Operations	IT
Advertising Review	X			
Complaint Handling	X			
Customer Service			X	
Replacements			X	
Licensing & Appointments		X		
AML	X			
SIU/Antifraud	X			
Suitability/Best Interest			X	
Cybersecurity				X
Privacy	X			
Claims		X		
Form Filing	X			
Unclaimed Property			X	
Regulatory Reporting	X			
Regulatory Exams	X			
Vulnerable Adult (nonfinancial)	X			
Senior Financial Exploitation	X			

<sup>5</sup> A detailed breakdown of the data, by function and by company size, appears in Appendix D.

# Succession Planning and CCO Qualifications

## Succession Planning

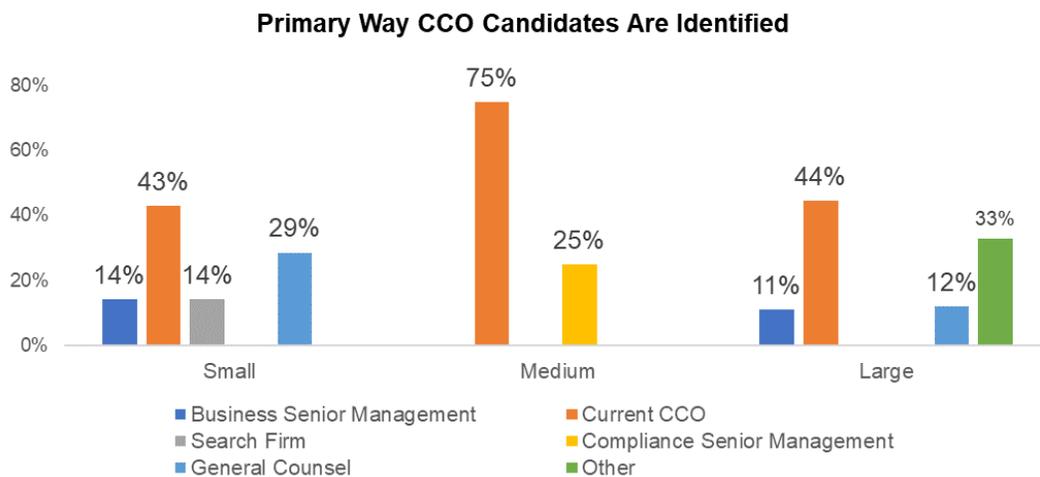
Succession planning is a critical component of maintaining strong leadership capabilities within an organization. This is also true for the Compliance function.

The Survey sought to determine the extent to which companies have developed a formal succession plan in the event their current Chief Compliance Officer retires or leaves the organization. Continuing a trend identified in prior Surveys, this year's results indicate that a majority (59%) of companies of all sizes have a formal succession plan for replacing a departed Chief Compliance Officer.

Interestingly, Survey responses varied materially by company size. In summary, 65% of small, 33% of medium, and 82% of large companies indicating they have established a succession plan for their Chief Compliance Officer.

# Identification of Candidates

The Survey elicited information concerning how companies identify potential future Chief Compliance Officer candidates. Companies of all sizes indicated they identify future CCO candidates in consultation with their current CCO (50%) and Senior Compliance Management and/or General Counsel (20%, combined). In some cases, Business Senior Management is also involved with the process. Only one Survey respondent company indicated a search firm is retained.



To develop their potential to serve as a Chief Compliance Officer, most companies (70%) responding to the Survey indicated that Chief Compliance Officer candidates participate in Legal/Compliance industry conferences. Most Survey respondents (55%) also indicated they have candidates participate in life insurance industry leadership conferences. Participation in company Compliance rotational assignments (45%), company internal leadership development programs (45%), and job shadowing or mentoring programs (40%), rounded out the remaining ways that companies develop their CCO candidates.

## Education & Experience—CCOs

Over the years, CEFLI has fielded questions from several life insurers concerning whether companies have preferred educational and/or experience qualifications for individuals seeking to become a Chief Compliance Officer. Specifically, the Survey sought to confirm, once again, whether having a Legal education is viewed as an educational prerequisite to becoming a Chief Compliance Officer with a life insurance company. Survey responses revealed the top qualifications as follows, as follows:

- Compliance experience
- Business experience
- Management experience

Interestingly, 74% of Survey respondents indicated that a having a candidate with compliance experience was very important, while 53% of Survey respondents indicated that having management experience was very important. This may signal that companies are willing to train candidates who may not have prior management experience, but they are less receptive to candidates who lack sufficient relevant compliance experience.

**While most companies indicated their company considers a Legal education to be very important or important, only a quarter (24%) of companies indicated they require an individual to hold a Legal degree to serve as the CCO.** In 2019, this figure was 33%.

Interestingly, the Survey responses varied significantly by company size. While no (0%) large companies required their CCOs to have a Legal degree, a quarter (25%) of medium companies and almost half (45%) of small companies require that their CCOs have a Legal

degree. Of course, a Legal degree would be required to the extent a company's CCO has both Compliance and Legal responsibilities.<sup>6</sup>

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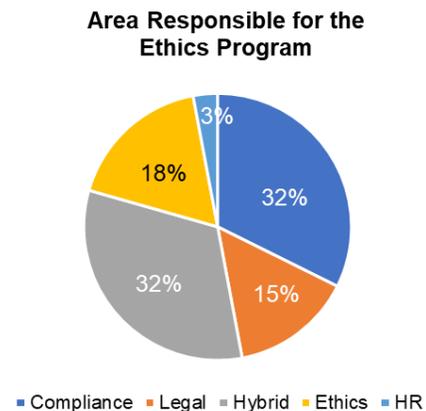
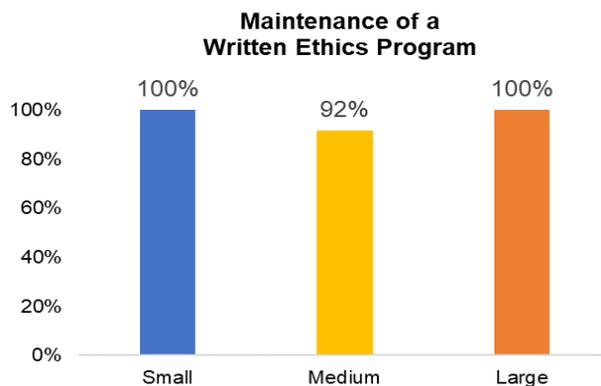
<sup>6</sup> More detailed information concerning CCO Qualification Preferences according to company size can be found in Appendix E.

# Ethics/Business Conduct Programs

As with past years, this year's Survey gathered information about Ethics programs within the life insurance industry.

**Nearly all companies surveyed (97%) indicated their organization maintains a written Code of Ethics or business conduct program.** This finding represents an increase from our 2019 Survey data where 88% of companies surveyed indicated their organization maintains a written Code of Ethics or business conduct program.

As noted earlier in this Report, overall responsibility for the Ethics program at most companies falls within Compliance (32%). Other companies may choose a hybrid approach for responsibility for Ethics whereby the Ethics program is "owned" by Legal/Compliance or by Legal/Compliance/HR. In another strategy, the Ethics program falls within the Legal department at 18% of companies.



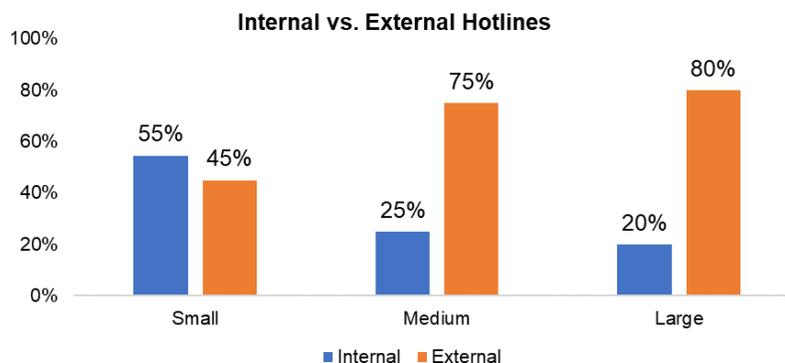
## Elements of Ethics Programs

Companies use a variety of strategies to promote their Ethics programs. For those companies who indicated they maintain an Ethics program, all Survey respondents indicated their company's Ethics program maintains a Code of Ethics/Conduct. Companies also use a variety of techniques to promote awareness of Ethics within their organizations. Key elements of their Ethics programs include staff training, use of annual attestations by all members of their staff, anonymous reporting, use of ethics hotlines and including ethics reminders in company communications.

## Hotlines

Most life insurance companies have instituted "hotlines" for reporting ethical violations as part of their Ethics programs. Two thirds (67%) of these companies have established a relationship with a third-party vendor to provide hotline services while a third (33%) rely on the use of an internal hotline. The finding signals that companies value the use of an external, independent resource for handling the types of issues reported to an ethics hotline.

Examples of vendors that assist companies with their Ethics hotlines included: Navex Global, EthicsPoint, Lighthouse, and InTouch.



## Raising Awareness of Ethics

When asked to identify the practices that are most effective in terms of raising awareness regarding the importance of Ethics, Survey respondents indicated they utilize several strategies. These strategies include messaging on the company's Internet, training new hires, conducting annual training activities, including references to ethics and executive speeches and email announcements, displaying posters/flyers/table tents and using LCD screens within the company to remind employees of the importance of ethics and conducting periodic training events such as establishing an Annual Compliance and Ethics Awareness Week.

## Ethics and Performance Processes

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 (47%) of all Survey respondent companies indicated "yes" (consistent with the Survey responses reported in 2019).

# 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 aligned education and training opportunities for Compliance and Ethics professionals at CEFLI Member Companies.

We were encouraged to learn that nearly all Survey respondent companies (97%) maintain their own Compliance-specific training programs. When analyzing year-over-year trends, it appears that a growing number of companies are developing their own Compliance-specific training programs.

## Internal vs. External Training

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 about half of the respondent companies utilize external resources (either exclusively or to supplement internal compliance training). This finding is consistent with company trends to develop compliance-specific training programs internally. Only a small percentage of respondents noted they use external resources exclusively for training purposes.

The greater reliance on the use of internal programs and resources may be due, in part, to increased regulatory focus on changing sales standards and the need for producers to change their practices to accommodate new regulatory requirements. Additionally, to the extent that companies desire a more customized training approach, the use of internal resources may provide for greater flexibility with content design and messaging.

## External 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. Companies reported that conference calls to discuss leading practices, periodic live webinars, multi-day conferences with regulators and industry experts and online compliance resources were the most important external compliance training resources of value for life insurance companies.

Other external training activities include the following:<sup>7</sup>

Resources of Value for Compliance Training
• Online compliance resources (e.g., websites)
• On-demand (prerecorded) webinars on compliance issues
• Conference calls to discuss leading practices
• Periodic live webinars on compliance issues
• Compliance-specific leadership training conferences
• Multi-day conferences with regulators and industry experts
• Multi-day conferences for individuals new to compliance
• Industry Quick Polls on compliance topics
• Compliance educational courses for self-study
• Single day in-person forums to discuss hot compliance issues

<sup>7</sup> More detailed information concerning External Training Resources according to company size can be found in Appendix F.

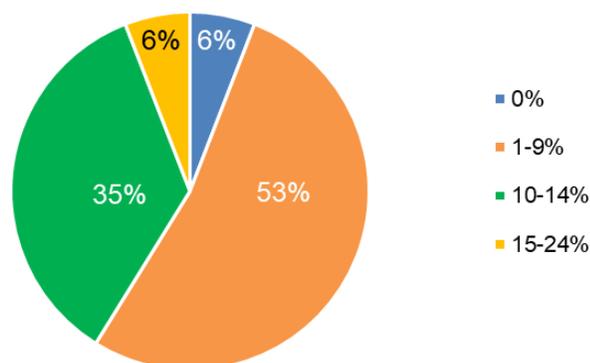
## Training for Business Partners

Increasingly, Compliance professionals are recognizing the benefits of engaging their business partners in Compliance education and training efforts. This year's Survey results supported the trend with 91% of all Survey respondents indicating it is "Important" or "Very Important" to provide compliance training to business partners. CEFLI also has observed a trend in more business partners attending CEFLI webinars and CEFLI's Annual Conference.

## Training Budgets

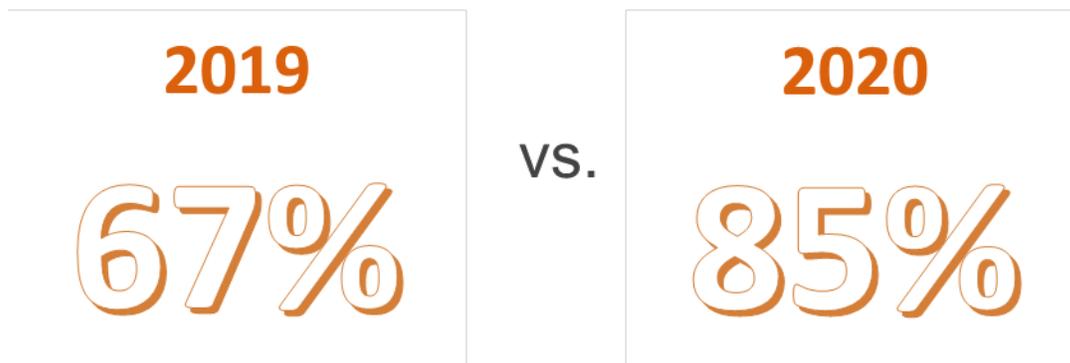
Survey respondents were asked about the percentage of their organization's total Compliance budget devoted exclusively to education and training. In aggregate, most companies (53%) indicated that 1-9% of their overall Compliance budget is devoted to training. A smaller percentage of Survey Respondents (35%) indicated that they spend approximately 10-14% of their Compliance Budget on education and training and some companies indicated that they devote as much as 15-24% of their compliance budget to education and training.

**Percentage of Compliance Budget Devoted to Training**



# Compliance & Enterprise Risk Management (ERM)

Survey respondents were asked to indicate the extent to which Compliance is part of their company's ERM programs. This year's Survey results indicate Compliance is substantially more involved with company ERM processes than in the past.



When factoring for company size, 100% of large, 83% of medium, and 72% of small companies indicated Compliance plays an active and ongoing role with their company's ERM processes. No companies indicated that Compliance was rarely, or was not, involved with company ERM programs.

The results evidence a growing trend toward a holistic and collaborative approach to risk management across life insurance companies.

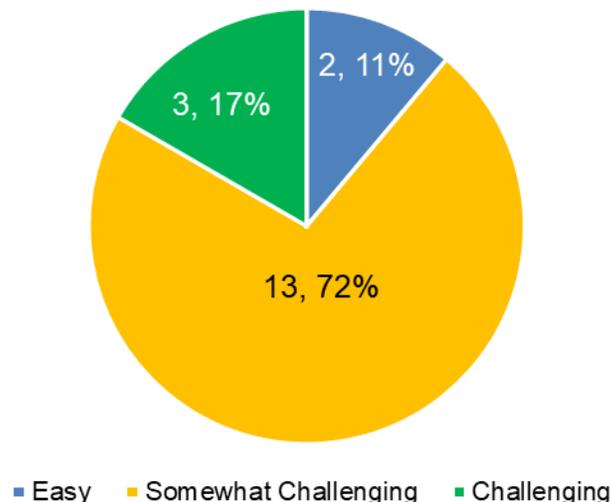
# SEC Regulation Best Interest

The Survey sought to determine respondent companies' experience with meeting the requirements of SEC Regulation Best Interest.

For those Survey respondents who must comply with the requirements of SEC Regulation Best Interest (i.e., those selling securities products), they primarily categorized the compliance effort to be “Somewhat Challenging” (72%). No companies considered the compliance effort to be “Very Challenging.” This finding may be attributed to recent company efforts to prepare for the management of conflicts, to support a best interest sales standard and to comply with the DOL Fiduciary Rule (prior to the Rule subsequently being vacated).

When asked whether their organization sought external assistance to comply with SEC Regulation Best Interest, Survey respondents were evenly split with medium companies more likely to utilize external resources as compared to small and large companies.

**Experience Implementing SEC Regulation Best Interest Requirements**



# Market Regulation

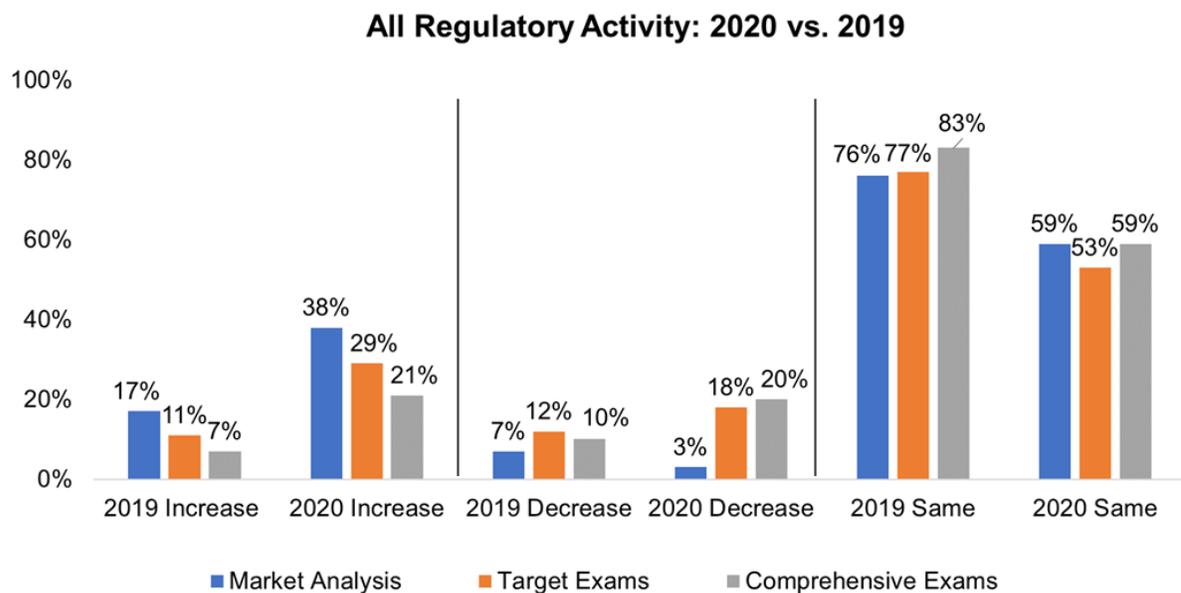
## Overall Trends

The Survey requested information pertaining to companies' experiences with market regulation activity to include: 1.) market analysis (e.g., data calls, interrogatories, etc.); 2.) targeted market conduct examinations; and 3.) comprehensive market conduct examinations.

Aggregated data indicates such activity has increased overall, compared to 2019 experience.

The greatest 2020 increases were seen with market analysis activity (38%), followed by target examination activity (29%), and comprehensive examination activity (21%).

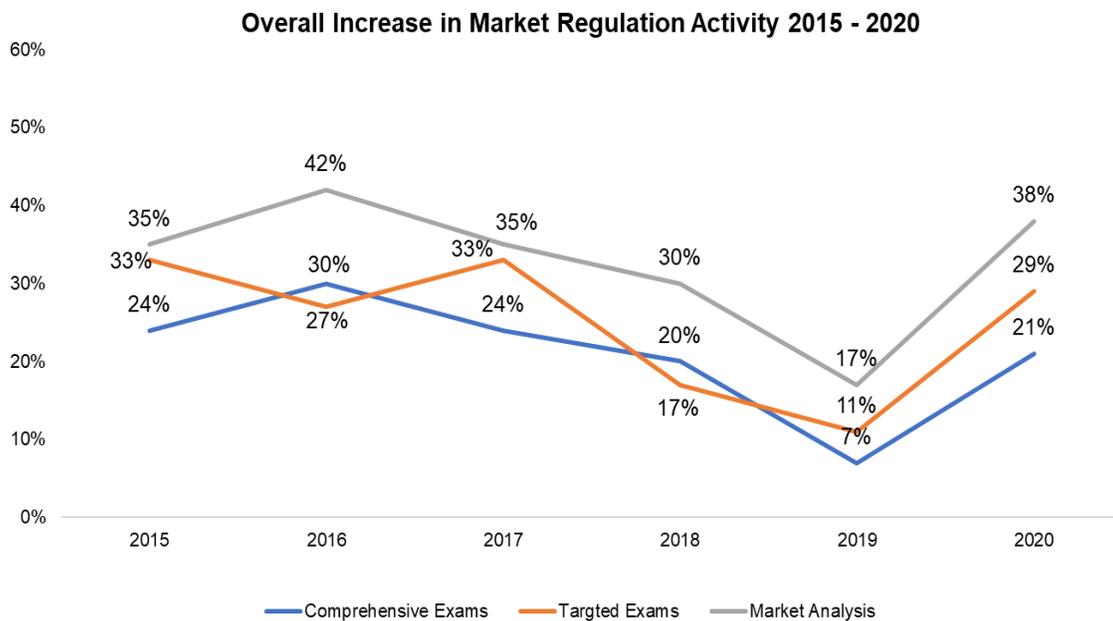
To determine the significance of the percentage of companies reporting an increase in such activity, the current year's data was compared to historic data from recent years. After



several years of a decline in the percentage of companies incurring an increase in market regulation activity, this year’s Survey results indicate more companies are now experiencing an increase in such activity.

**The percentage of companies reporting an increase in market regulation activity increased materially (225%-300%) for the first time in four (4) years.**

These findings may be attributable to several factors. Regulators may be seeking to establish a more consistent level of Market Regulation activity year-over-year. They also may be under increased pressure to monitor industry practices more closely to validate compliance with the rules and regulations in their respective states. This development will continue to be monitored to identify whether the increase in market regulation activity is an anomaly or whether the reported experience reflects a shift in regulatory practice with respect to market regulation activity.<sup>8</sup>



<sup>8</sup> Additional data related to company experience with respect to Market Analysis, Targeted Exams and Comprehensive Exam can be found within Appendix G.

# 2020 Challenges

## Top Challenges—All Companies

This year's Survey once again asked respondents to evaluate the top compliance issues that consumed the most compliance resources thus far in 2020. The results were as follows:

- COVID-19 Compliance Activities
- Cybersecurity
- Regulatory Exam Management
- Fraud Prevention
- Annuity Suitability/Best Interest—State DOIs
- New Product/Innovation Initiatives
- Supervision and Oversight
- SEC and State Securities Best Interest
- Electronic Signatures/Policy Delivery
- Privacy

# 2021 Challenges

## Top Challenges—All Companies

This year's Survey also asked Survey respondents to again predict what the most significant compliance challenges would be for life insurance companies in the next year (as of May 2020). The results were as follows:

- Cybersecurity
- Annuity Suitability/Best Interest—State DOIs
- Fraud Prevention
- Privacy
- New Product/Innovation Initiatives
- Regulatory Exam Management
- Electronic Signatures/Policy Delivery
- Supervision and Oversight
- COVID-19 Compliance Activities
- SEC and State Securities Best Interest
- Enterprise Risk Management

# Value of the Survey Data

For the first time, the Survey asked respondents to assess the value of CEFLI Compliance and Ethics Benchmarking Survey data to the company's Chief Compliance Officer. On a scale of 1 to 5 (with 1 being low and 5 being high), the weighted average score was 3.9.

Most Survey respondents (75%) indicated the data from the Survey provides "Material Value" or "Significant Value" to the company's CCO. Fewer Survey respondents (12%) indicated the data is of "Modest Value", and others (12%) indicated the data is of "Little Value" or "No Value."

## The Survey Provides Material or Significant Value to the CCO

75%

### Affirmative Response

In summary, it is apparent life insurance company CCOs value the data derived from the Benchmarking Survey as they seek to manage company risk, identify future areas of compliance focus, plan their budgets, and work to develop the company's compliance staff and compliance leaders.

# 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. It provides 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 functions at life insurance companies are evolving and adapting to the new challenges faced by life insurance companies.

Data from the Survey offers a rich and in-depth array of findings covering company organizational structure, staffing, budgeting, reporting, Ethics and Compliance programs, market regulation activity, and insight regarding current compliance challenges.

Key findings from this year's Survey include the following:

## Compliance and Ethics Department Organizational Structures:

- Almost half of Survey respondents indicated they maintain a combined Compliance and Legal department with nearly two-thirds of company CCOs reporting directly to the company's General Counsel.
- Almost half of CCOs maintain a dotted line reporting relationship to the company's Board of Directors or to a Committee of the Board.
- While just under 20% of companies maintain a separate Ethics department, a third all companies have a Chief Ethics Officer or equivalent role; representing a 65% increase over 2019.

Code of Conduct:

- Nearly all companies (97%) indicated their company maintains a written Code of Conduct or Ethics, or business conduct program. This signals that companies have prioritized Ethics within their cultures.

Staffing and Budgets:

- With regard to staffing trends, most companies indicated they retained the same level of staff in 2020 when compared to 2019.
- While a small number of companies reported having a larger staff in 2020, other companies, to a lesser extent, reported having a smaller staff.
- From a budgeting perspective, Compliance and Ethics budgets were primarily consistent with the prior year. This aligns with the staffing trend.
- A minority of respondents were split between having a larger or a smaller budget in 2020.
- Relatively few companies reported having a separate Ethics budget.
- Looking ahead to 2021, most companies noted they anticipate their budgets will remain the same in 2021 with the remaining respondents split between having a potential increase or decrease in their 2021 budgets.

CCO Succession Planning and Qualifications:

- Regarding CCO succession planning and qualifications, over half of those responding to the Survey have a formal succession plan in the event their CCO retires or leaves the organization.

- In the event of CCO turnover, companies most often look to their current CCO or to their Senior Compliance Leadership or General Counsel to help identify potential CCO candidates.
- Survey respondents also noted the importance of CCO candidates having compliance experience, business experience, and management experience as key factors in evaluating their candidacy to serve in a compliance leadership role. This may signal that companies are willing to train candidates who may not have prior management experience, but they are less receptive to candidates who lack sufficient relevant compliance experience.
- Only about a quarter of companies indicated they require the CCO to hold a Legal degree.

#### Education and Training:

- When asked about their education and training practices, approximately half of the respondents indicated they utilize external resources exclusively or to supplement internal compliance training; a 21% decline since 2019.
- A total of 44% of respondents reported they conduct all Compliance training internally; a 52% increase over 2019.
- The top training activities identified by Survey respondents included conference calls to discuss leading practices; periodic live webinars on compliance issues; multi-day conferences with regulators and industry experts; and online compliance resources such as websites.

#### Market Regulation Activity:

- After a three-year decline, the number of companies reporting *an increase* in Market Regulation activity in 2020 increased materially (225%-300%). This may signal that

regulators are seeking to establish a more consistent level of Market Regulation activity year-over-year or that they may be under increased pressure to monitor industry practices more closely to validate compliance with state rules and regulations.

#### Compliance and ERM:

- Most Survey respondents indicated Compliance is part of their company's ERM program, a 27% increase over 2019. The results evidence a growing trend with respect to a holistic and collaborative approach to risk management across life insurance companies.

#### SEC Regulation Best Interest:

- The majority of respondents indicated that efforts to comply with the new regulation were "Somewhat Challenging." No companies indicated that compliance efforts were "Very Challenging." This may be attributed to recent company efforts to prepare for the management of conflicts, to support a best interest sales standard and to comply with the DOL Fiduciary Rule (prior to the Rule subsequently being vacated).
- Survey responses also revealed that half of the companies sought assistance from external resources to help them prepare for the new regulation.

#### Top Compliance Challenges:

- With regard to overall compliance challenges, Survey respondents were asked to share their top challenges of 2020. The top challenges identified included:
  - COVID-19 Compliance Activities;
  - Cybersecurity;
  - Regulatory Exam Management;
  - Fraud Prevention; and

- Annuity Suitability/Best Interest—State DOIs.
  
- Looking ahead to 2021, Survey Respondents indicated they anticipate the top Compliance challenges may include:
  - Cybersecurity;
  - Annuity Suitability/Best Interest—State DOIs;
  - Fraud Prevention;
  - Privacy; and
  - New Product/Innovation Initiatives.

In closing, we hope readers of the 2020 CEFLI Compliance and Ethics Benchmarking Survey Report find the information to be useful when benchmarking their Compliance and Ethics strategies to others in the life insurance industry and that they benefit from a greater understanding of current Compliance trends. Recent research has shown that 75% of CCOs finds the data derived from the Survey to be of “Material Value” or “Significant Value.” Accordingly, CEFLI will continue to monitor for new Compliance and Ethics developments in the years ahead.

\* \* \* \* \*

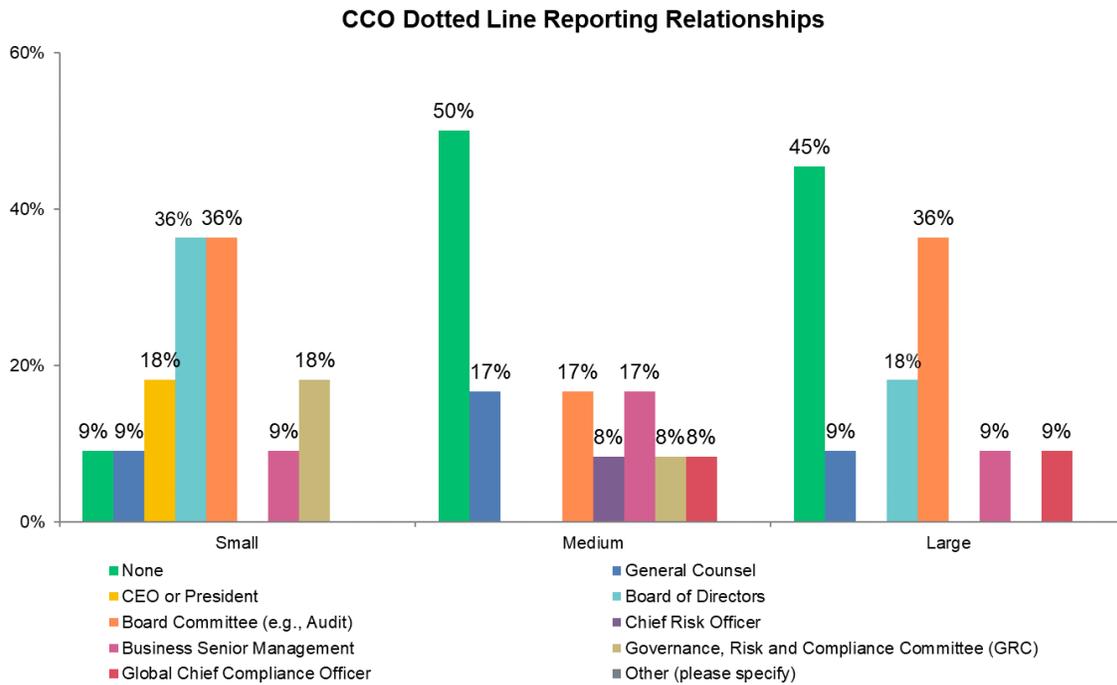
## Thank You!

CEFLI would like to thank the compliance and ethics professionals from CEFLI Member Companies and from non-Member Companies who responded to the 2020 Compliance and Ethics Benchmarking Survey. We hope Survey respondents find the industry benchmarking information to be of value as they gauge their company’s experience to that of their industry peers.

CEFLI also would like to thank its Member Companies and Affiliate Members for their financial support of the 2020 CEFLI Compliance and Ethics Benchmarking Survey.

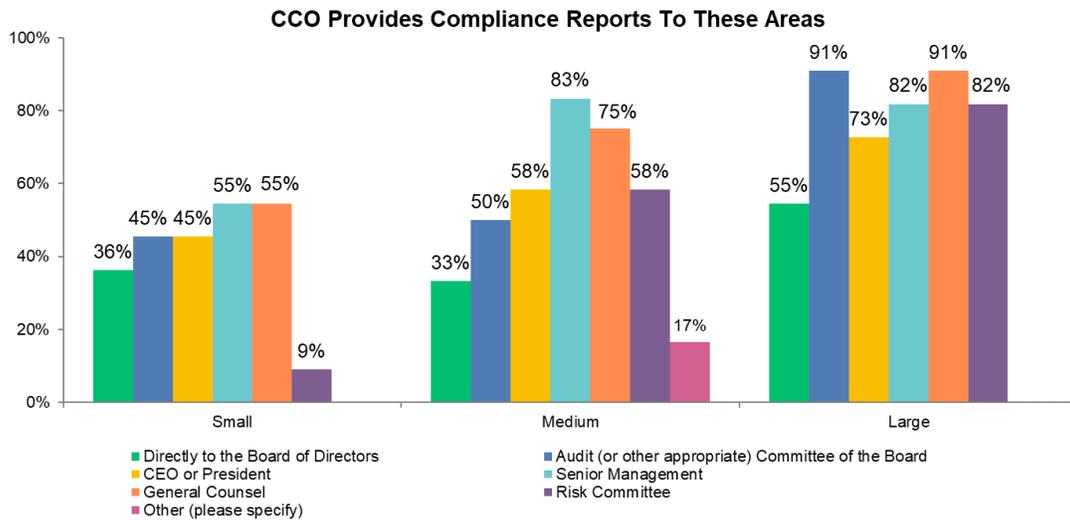
# Appendix A: Dotted Line Reporting Relationships

The chart below summarizes the types of CCO Dotted Line Reporting Relationships according to company size.



# Appendix B: Compliance Reports

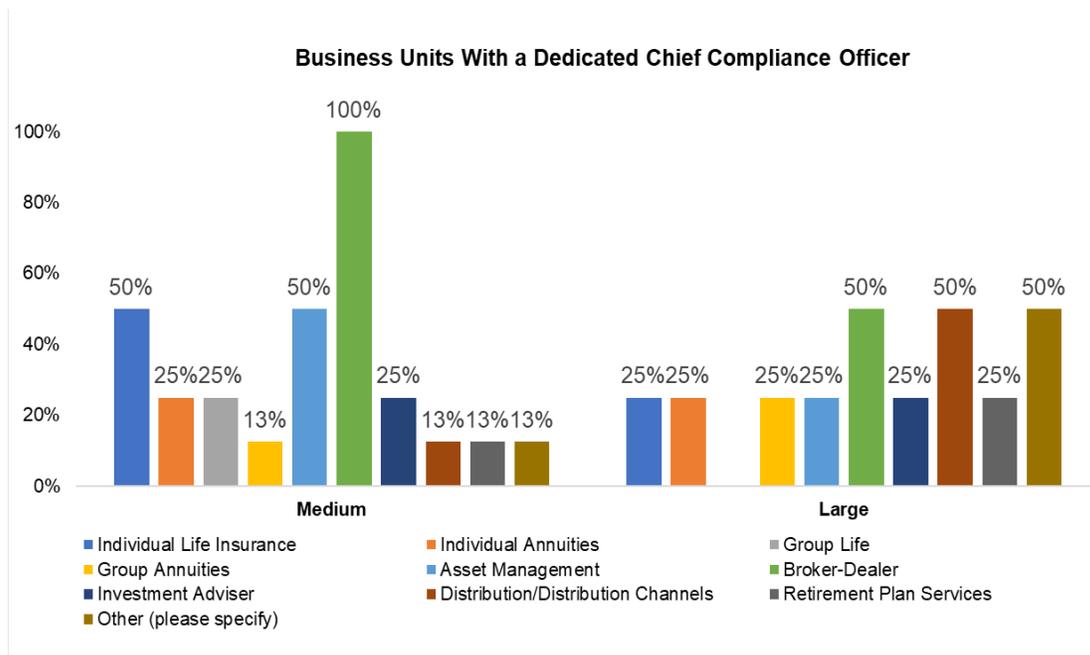
The chart below summarizes to whom CCOs provide Compliance Reports according to company size.



# Appendix C:

## Business Unit Chief Compliance Officers (BUCOs)

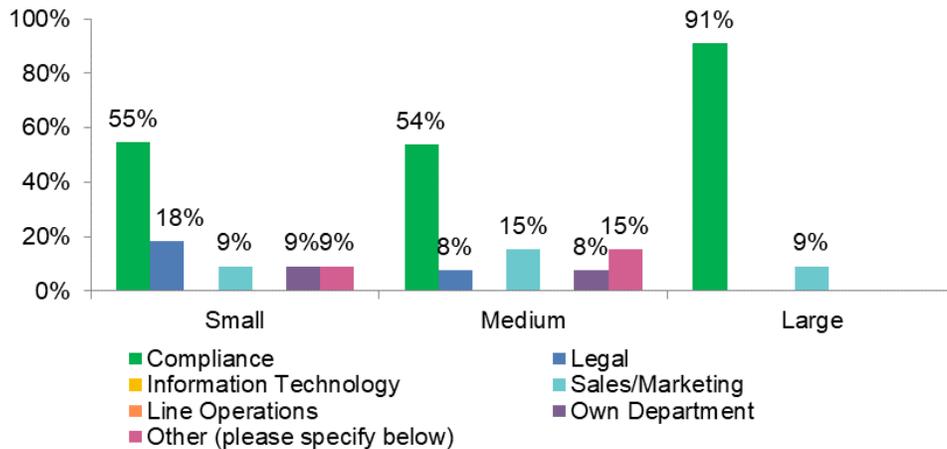
The chart below summarizes which Business Units may have dedicated Chief Compliance Officers whom CCOs provide Compliance Reports according to company size.



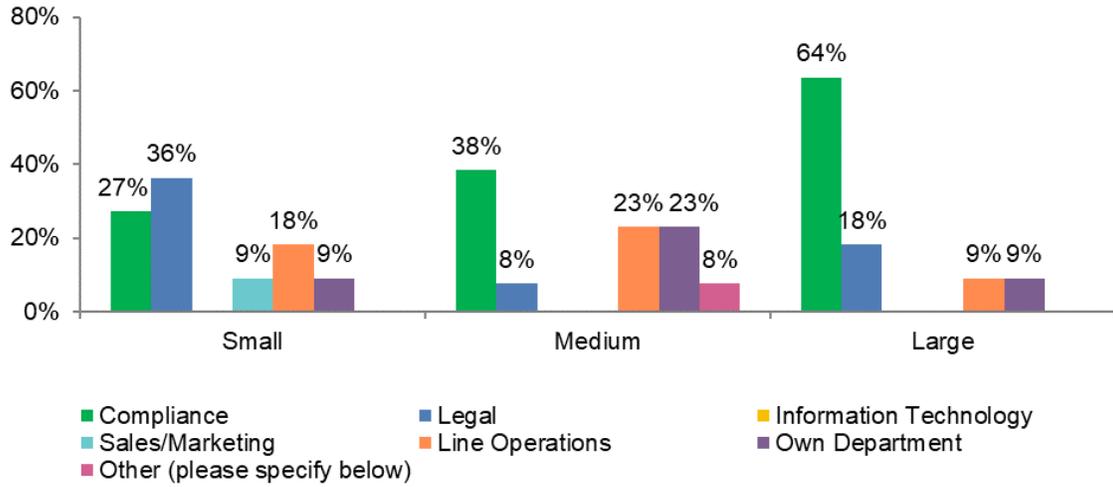
# Appendix D: Location of Compliance Functions

The charts below summaries where various Compliance Functions reside within life insurance companies according to company size.

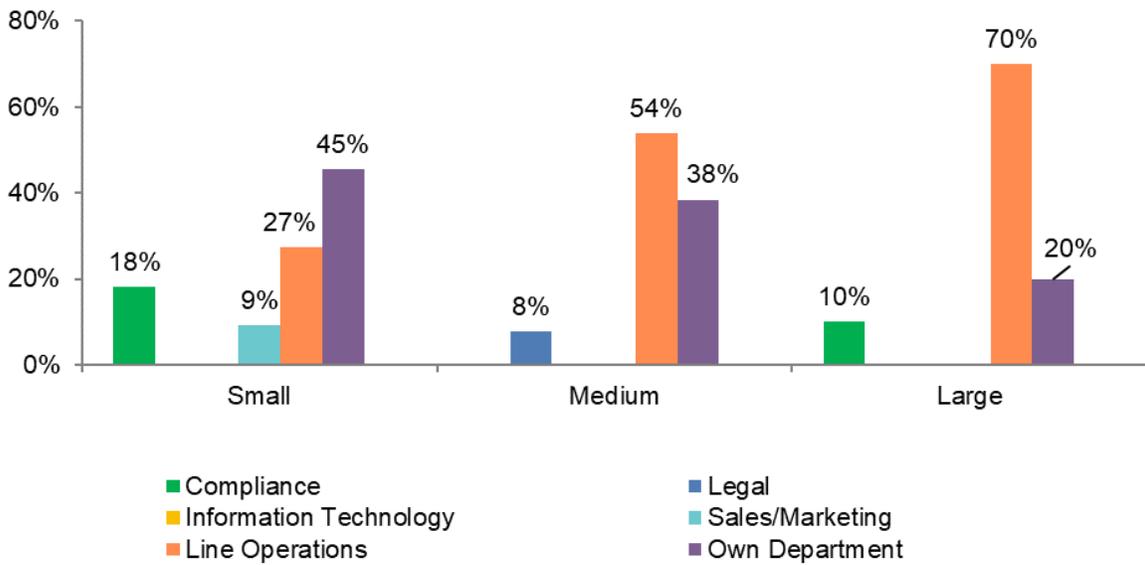
**Advertising Review**



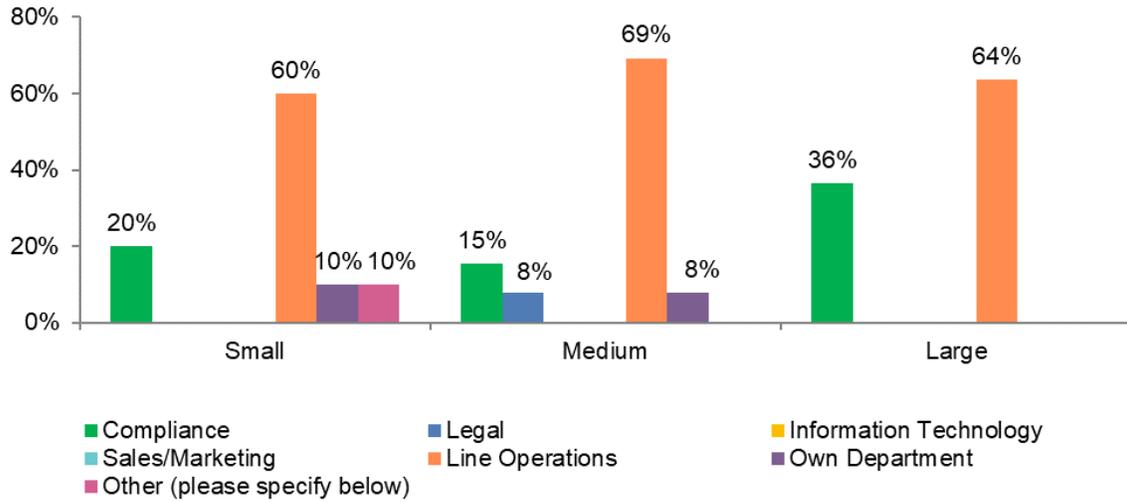
### Complaint Handling



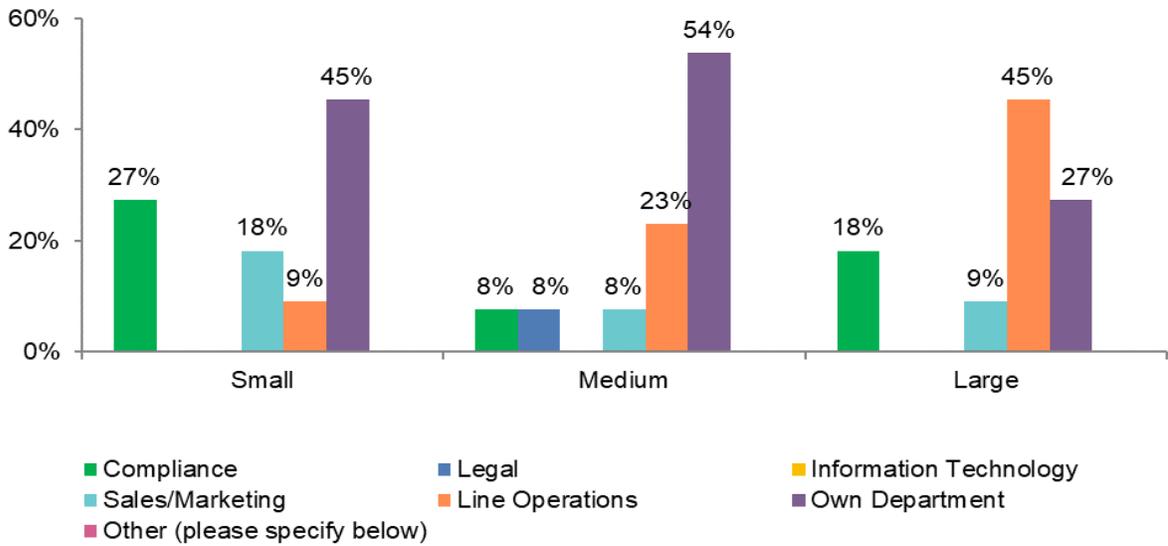
### Customer Service



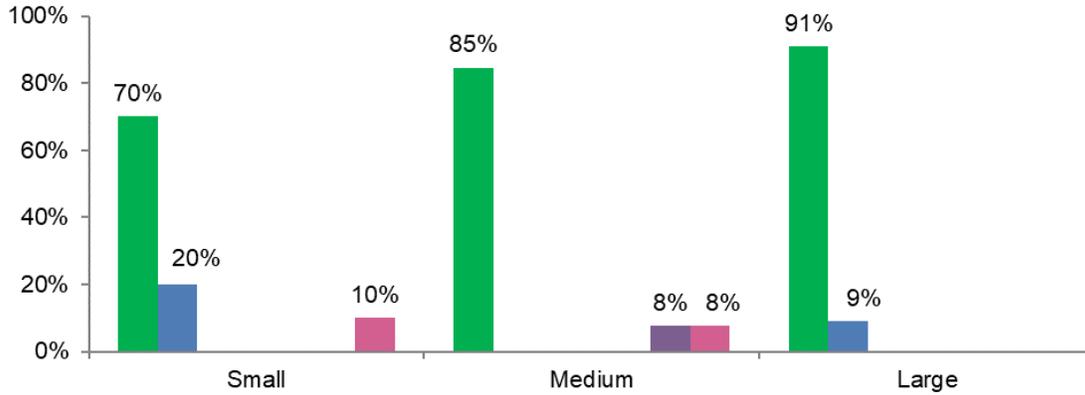
### Replacements



### Producer Licensing and Appointment

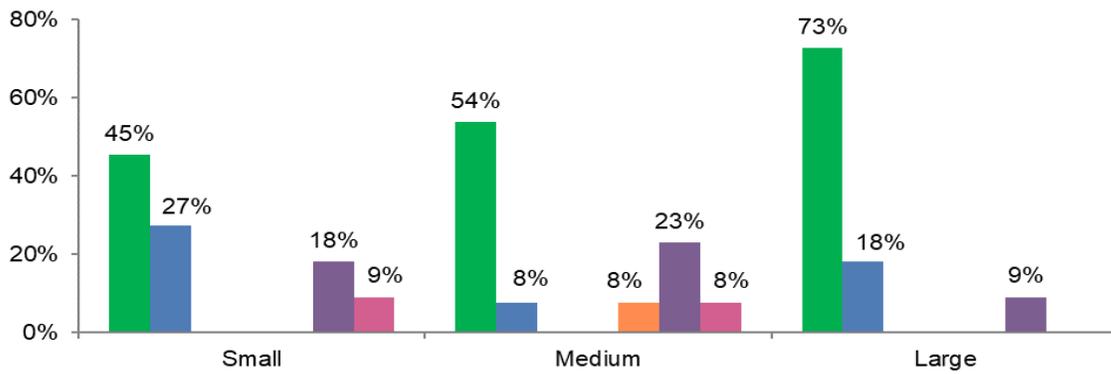


**AML**



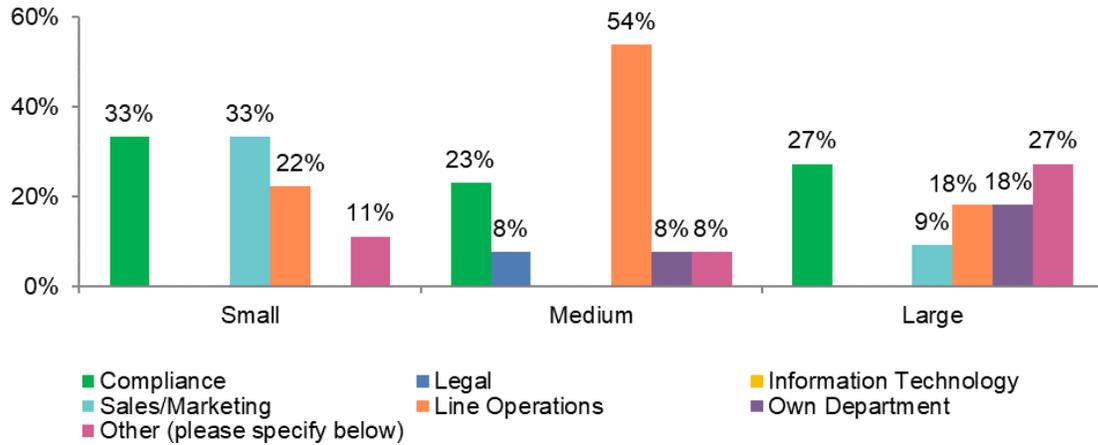
- Compliance
- Legal
- Information Technology
- Sales/Marketing
- Line Operations
- Own Department
- Other (please specify below)

**SIU/Antifraud**

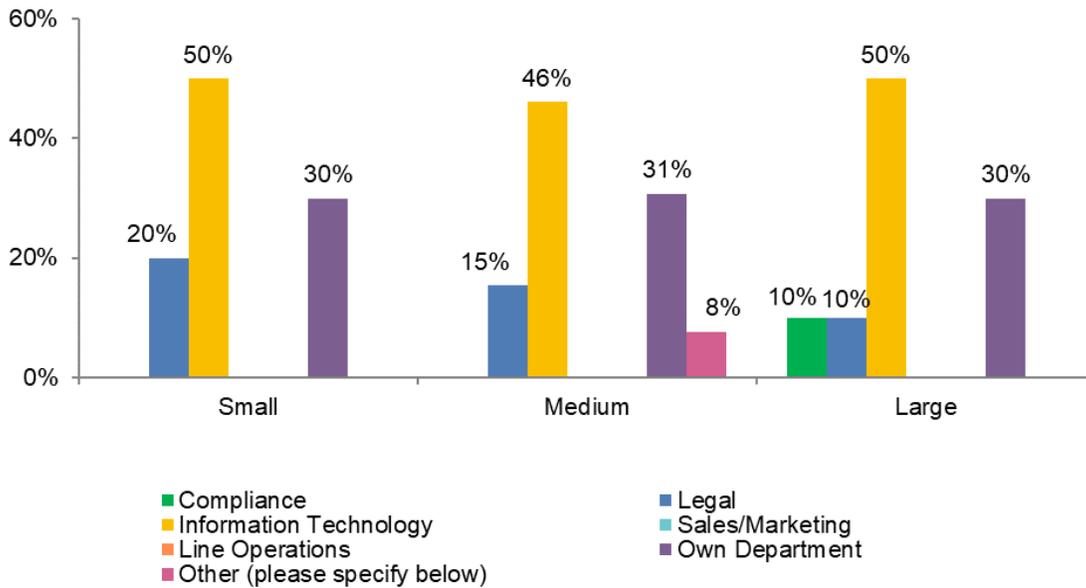


- Compliance
- Legal
- Information Technology
- Sales/Marketing
- Line Operations
- Own Department
- Other (please specify below)

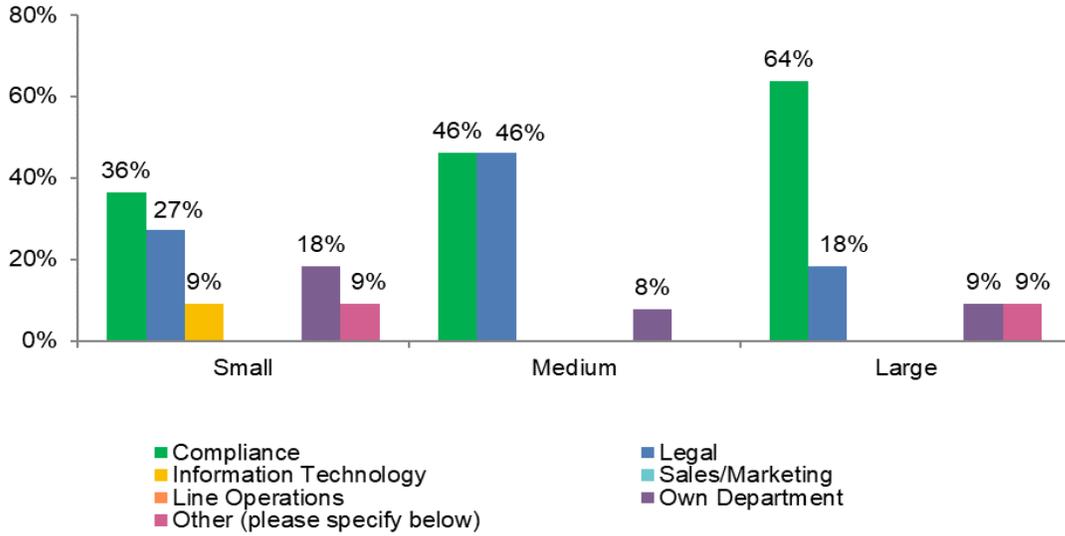
### Suitability/Best Interest Reviews



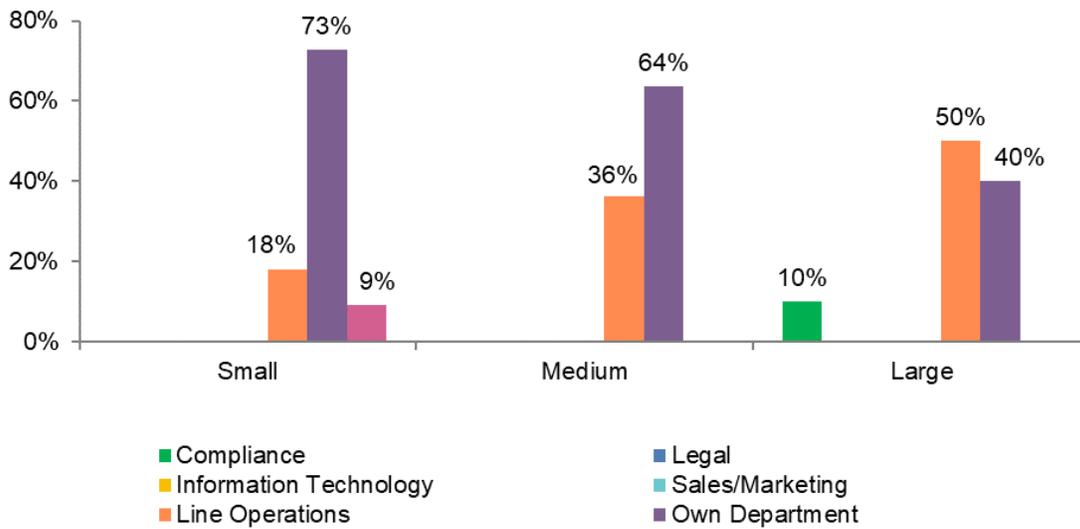
### Cybersecurity



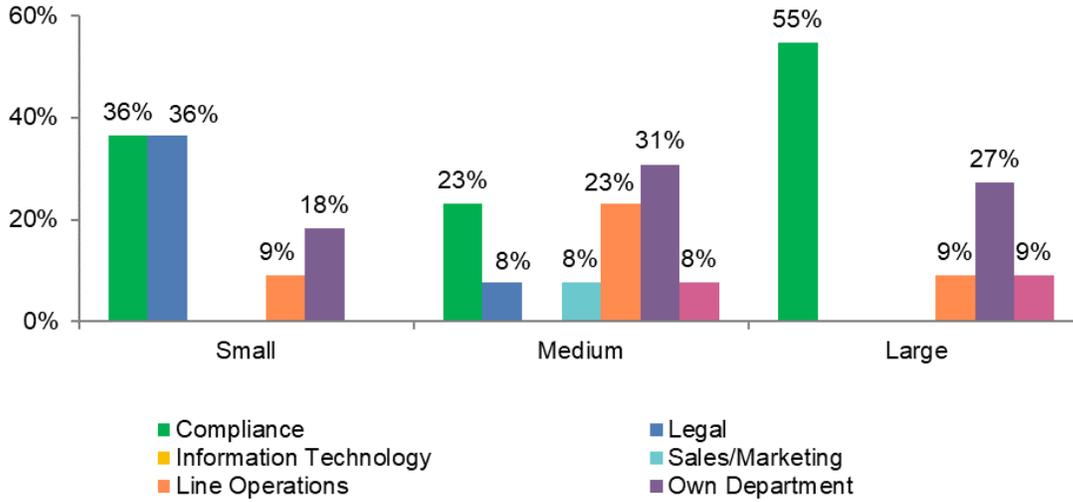
### Privacy



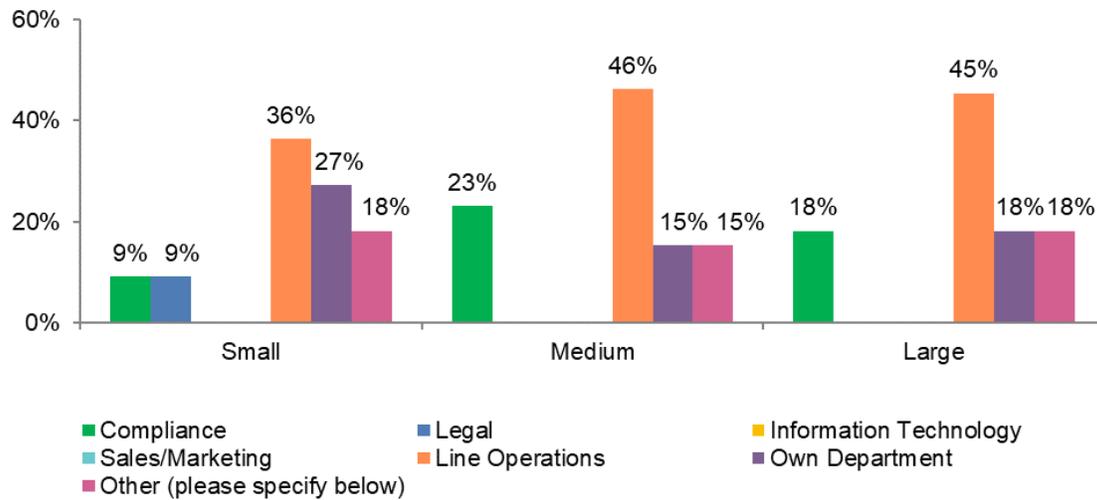
### Claims



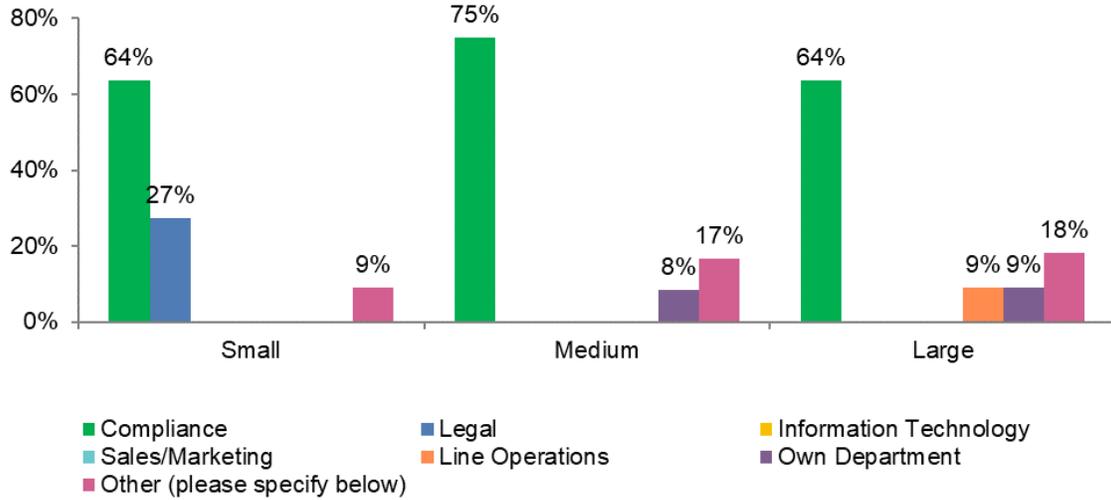
### Form Filing



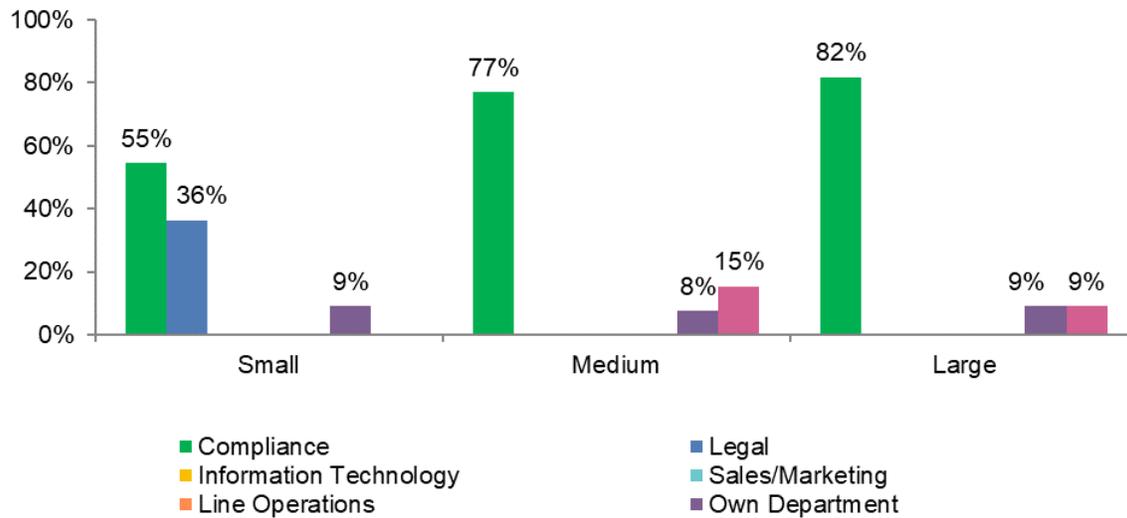
### Unclaimed Property



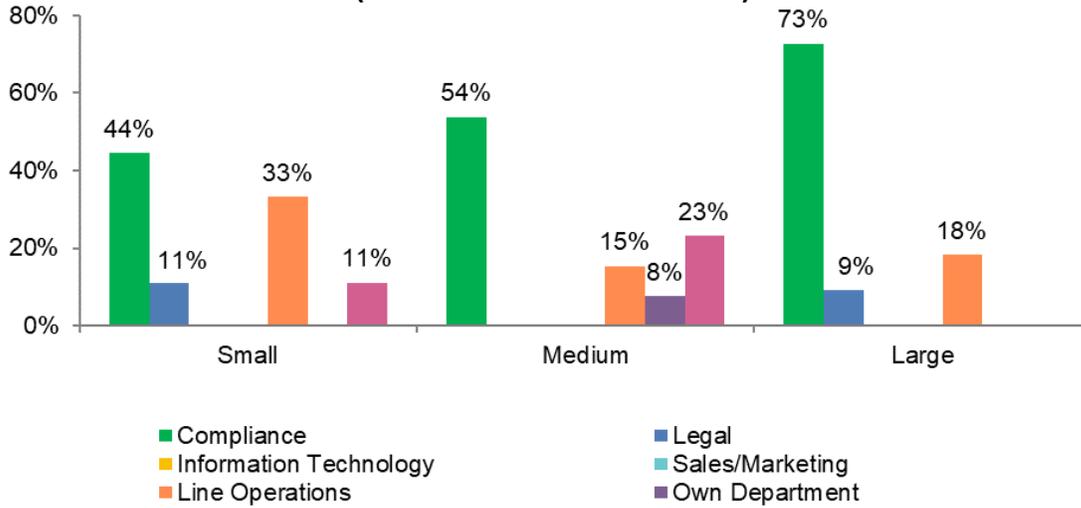
### Regulatory Reporting



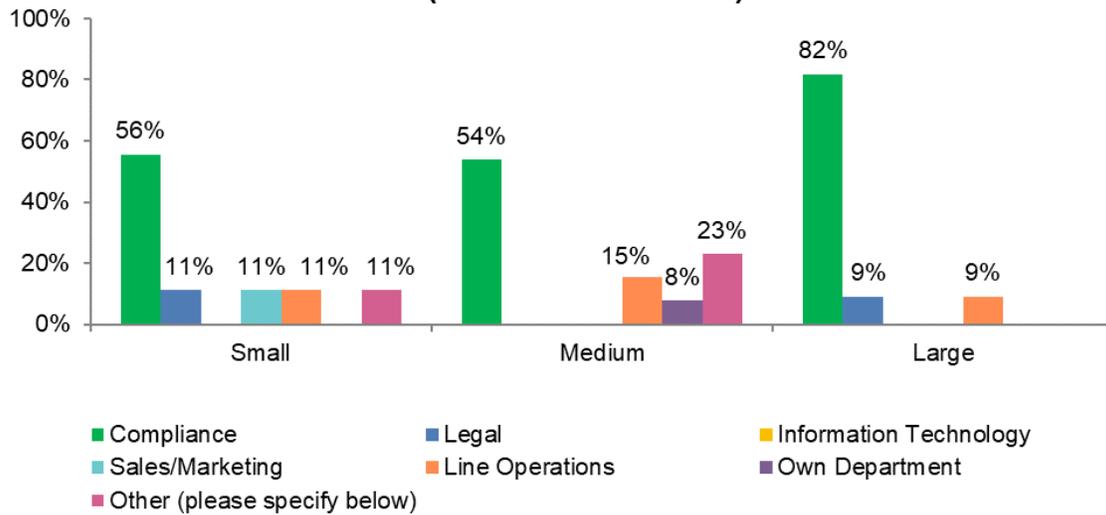
### Regulatory Exams



**Vulnerable Adult  
(non-financial concerns)**

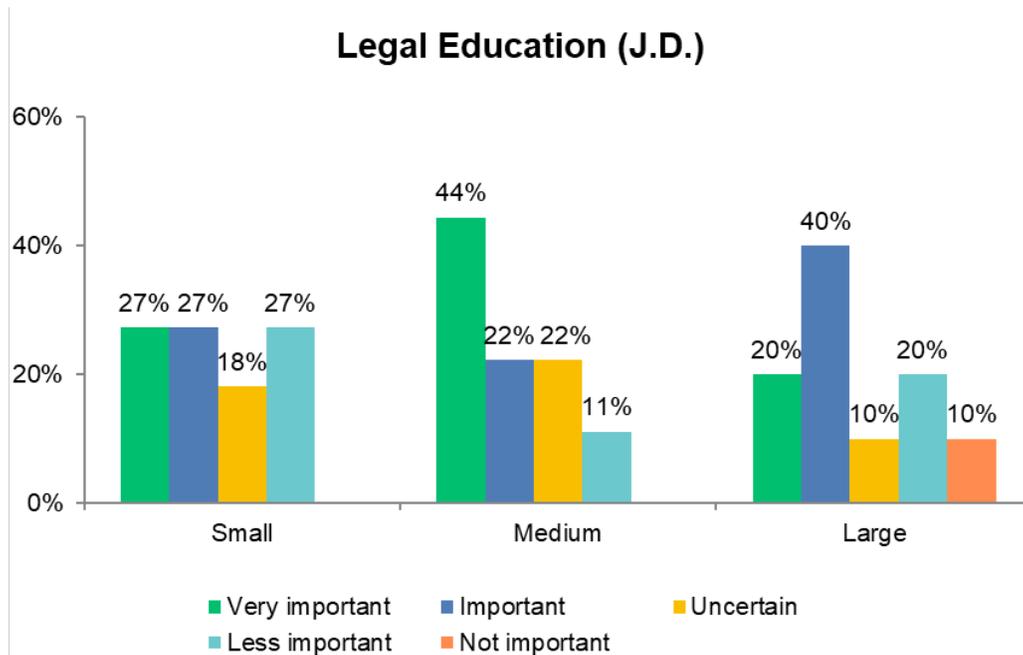


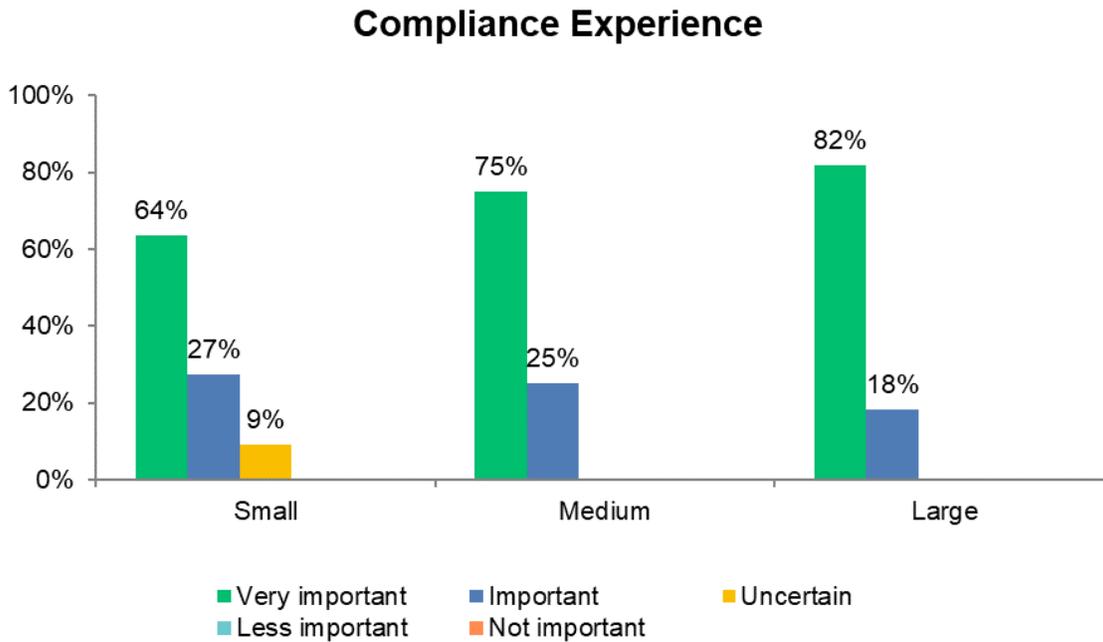
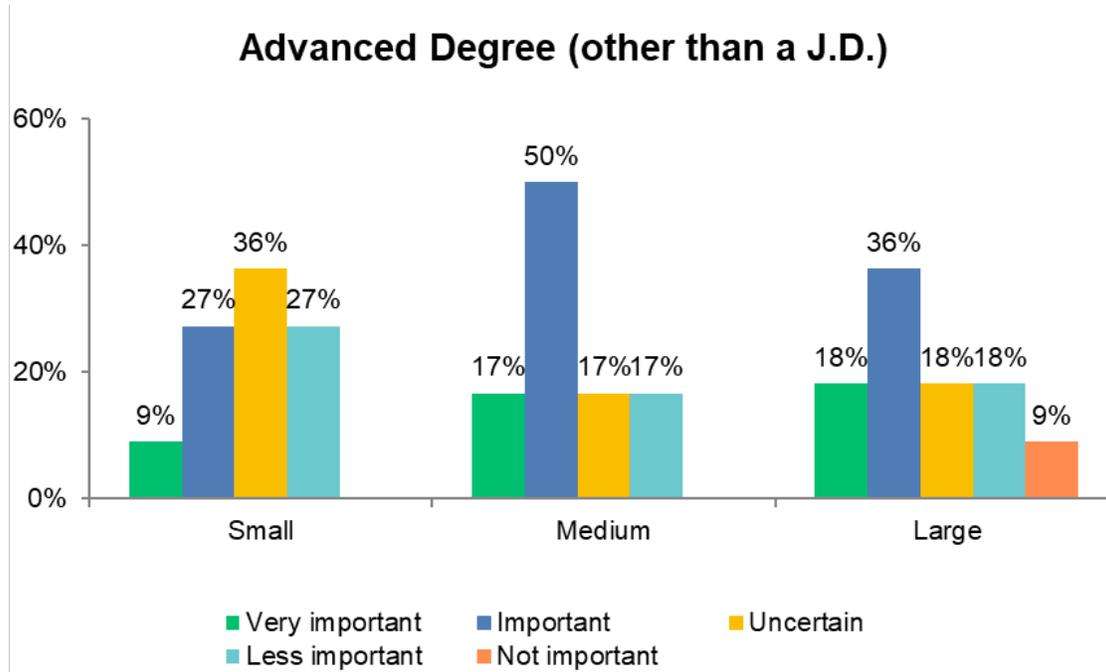
**Senior Financial Exploitation  
(financial concerns)**



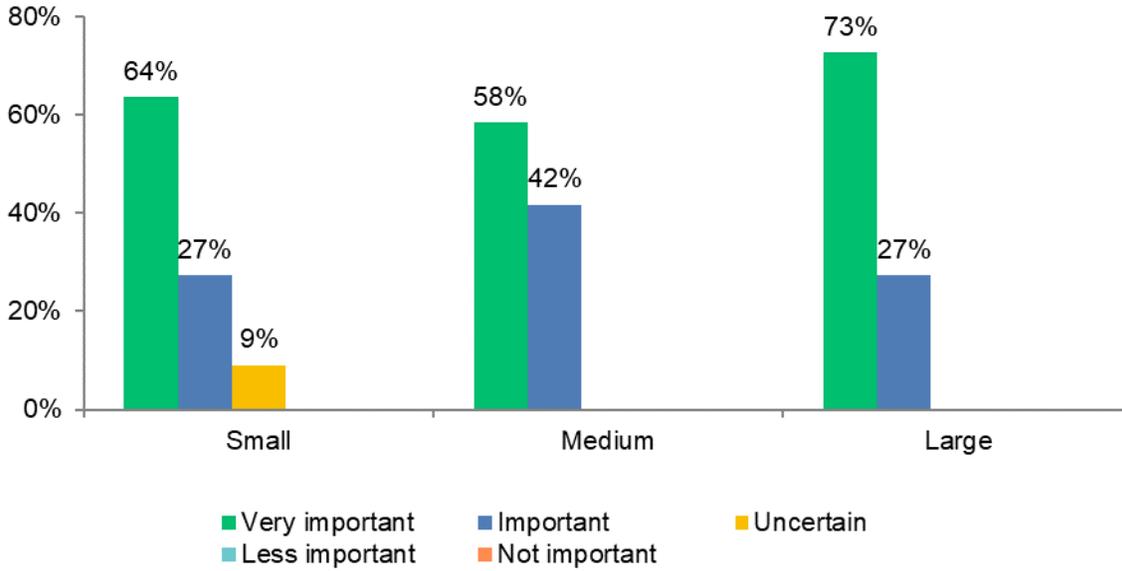
# Appendix E: CCO Qualification Preferences

The following pages provide a graphical depiction offering detailed insight regarding the types of qualifications associated with CCO candidates, by company size.

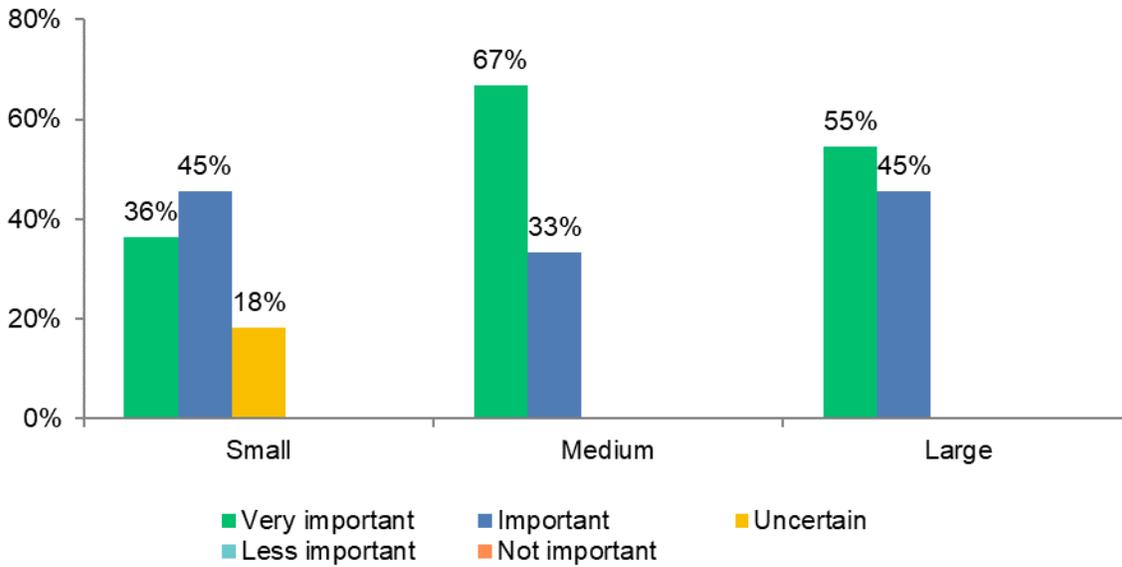




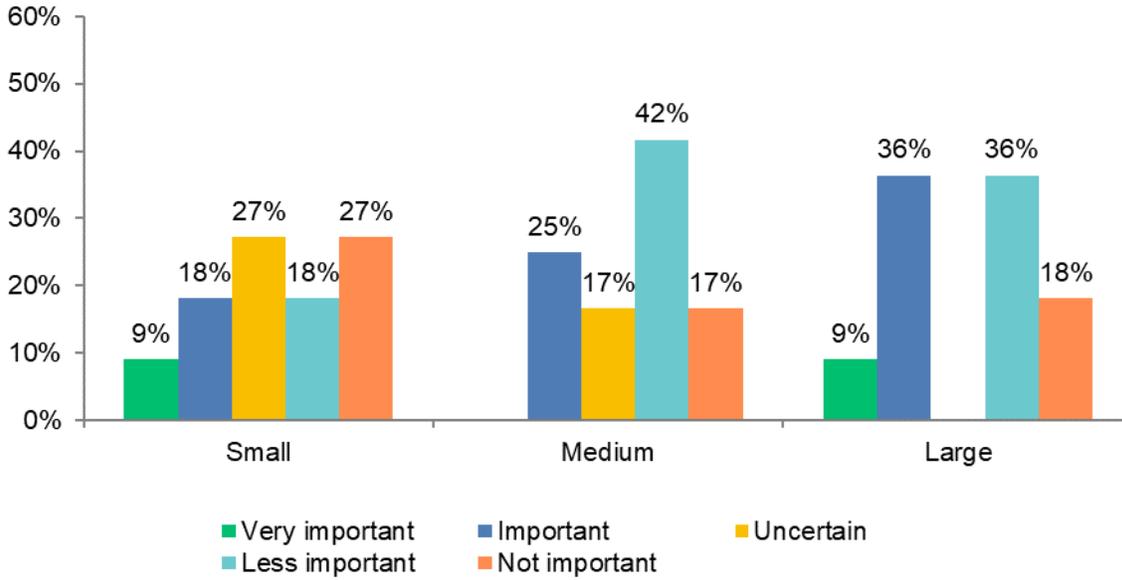
### Business Experience



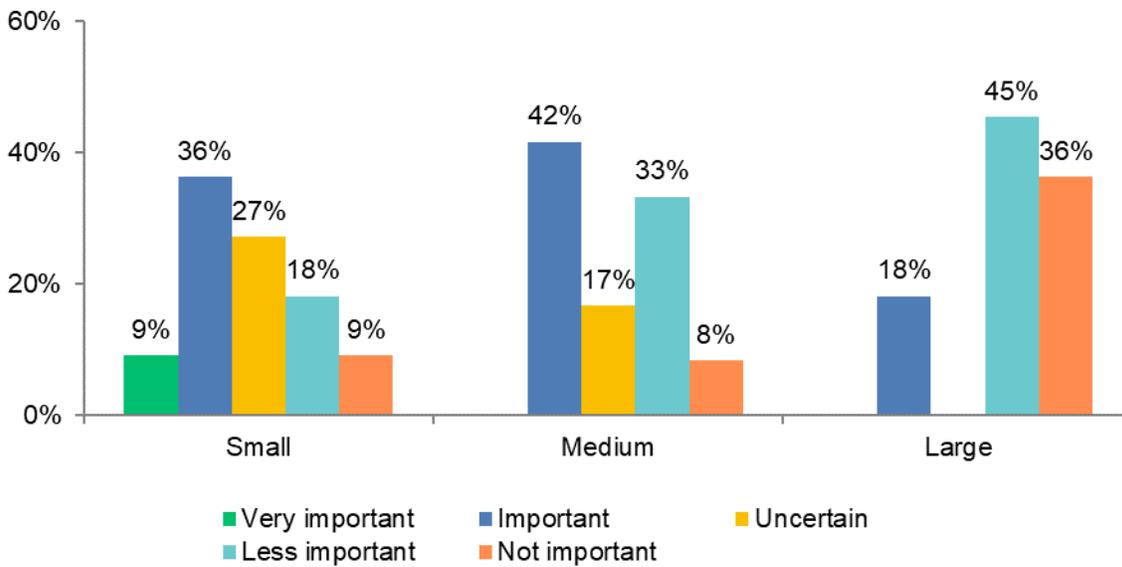
### Management Experience



### Insurance Sales Experience



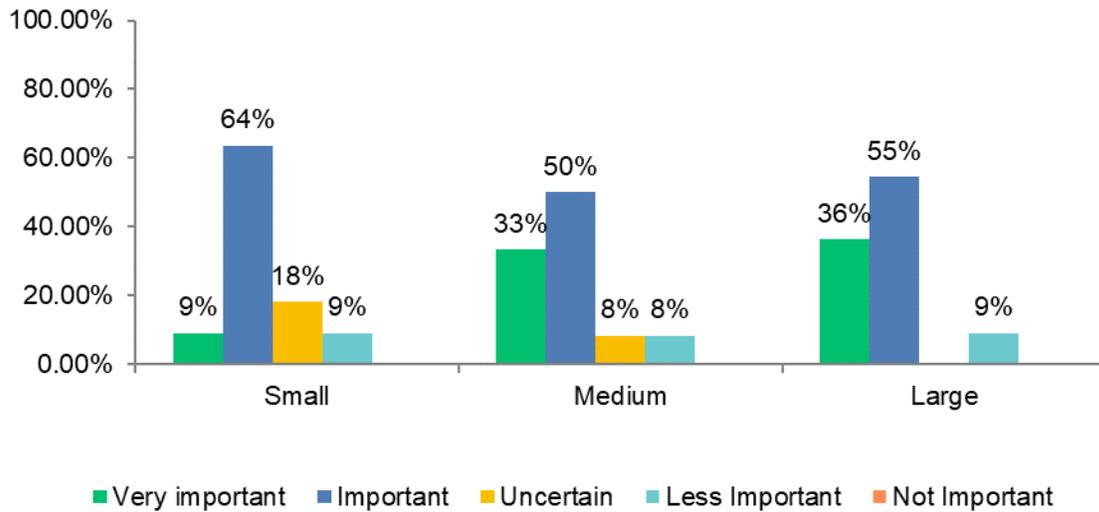
### Audit Experience



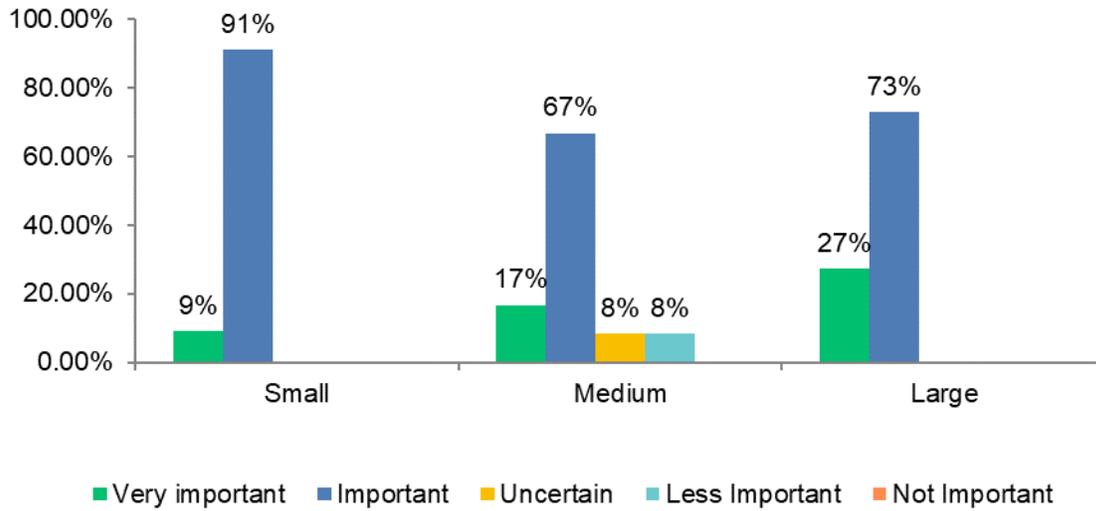
# Appendix F: External Compliance Training

The following pages provide a graphical depiction regarding the types of external resources of value for compliance training purposes.

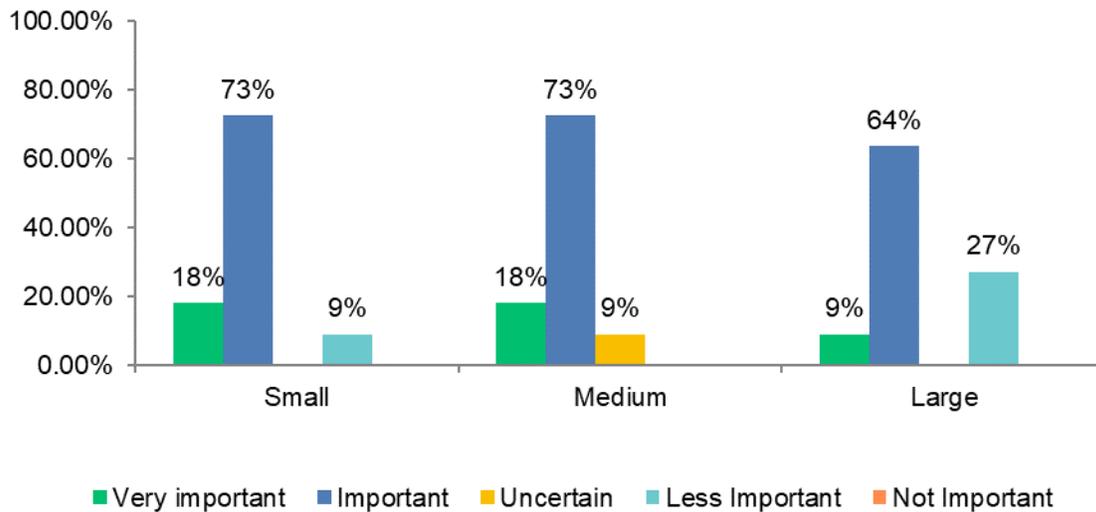
**Live Webinars on Life Insurance  
Industry Compliance Issues**



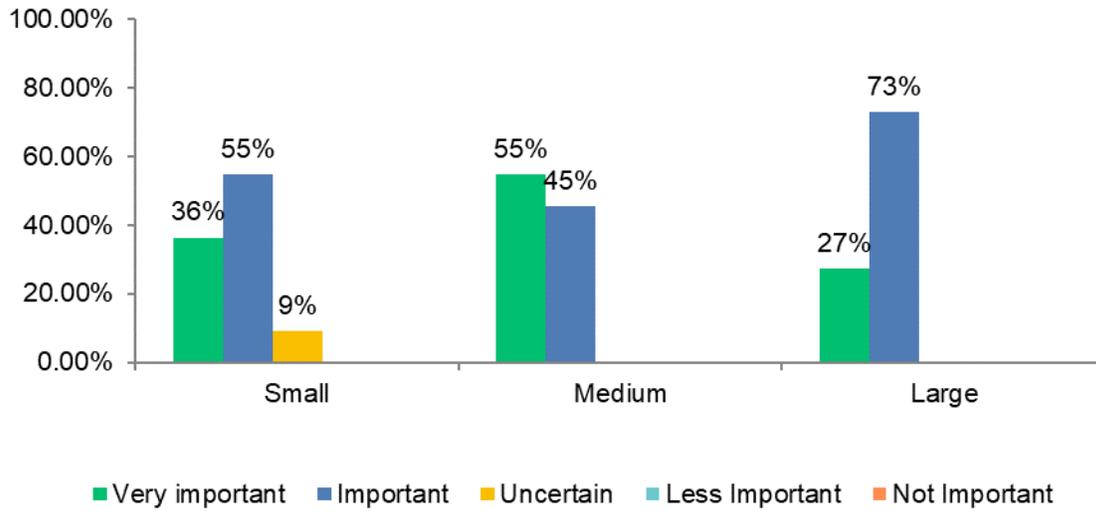
**Prerecorded/On-Demand Webinars on Life Insurance Industry Compliance Issues**



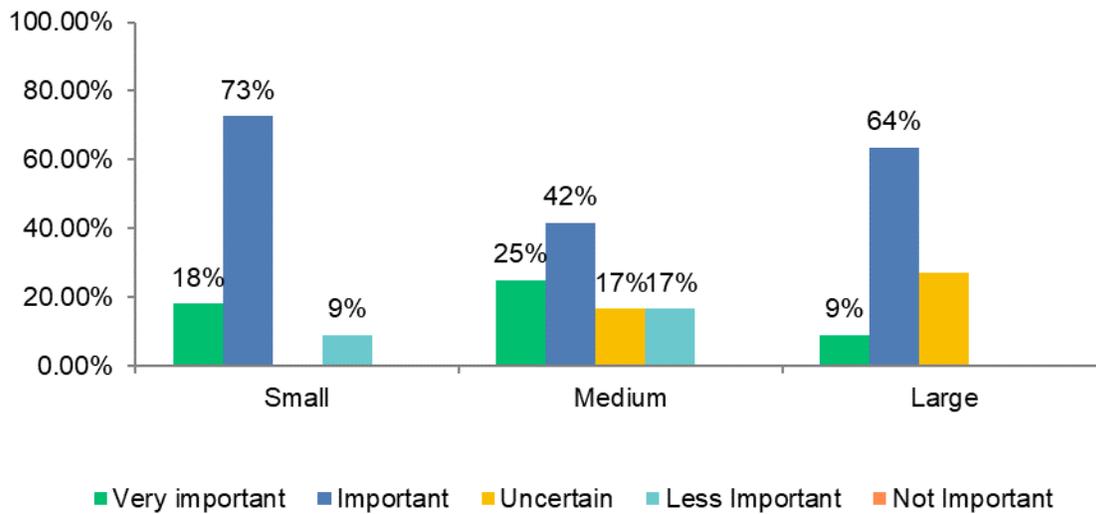
**Compliance Specific Leadership Training Conferences**



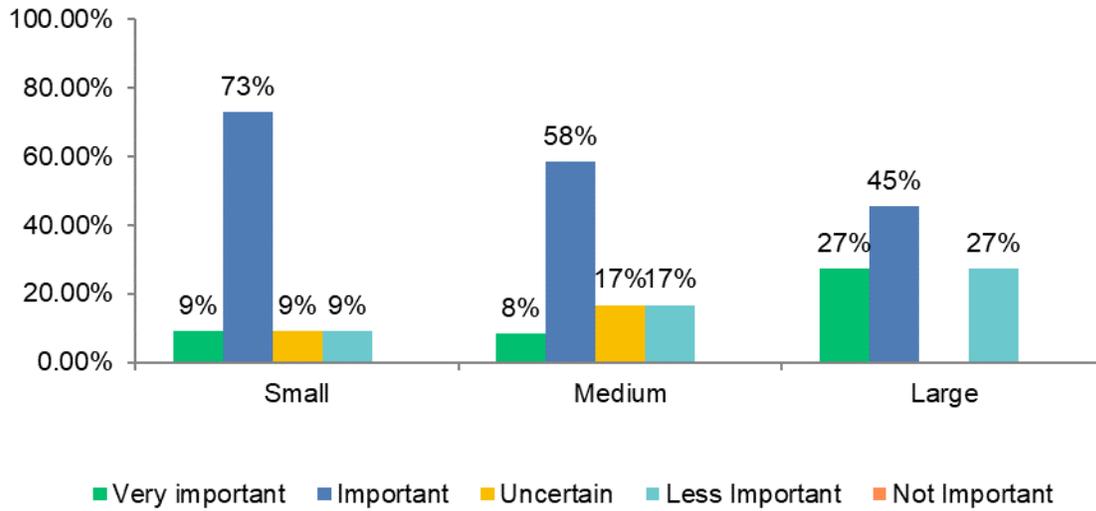
### Conference Calls to Discuss Leading Practices



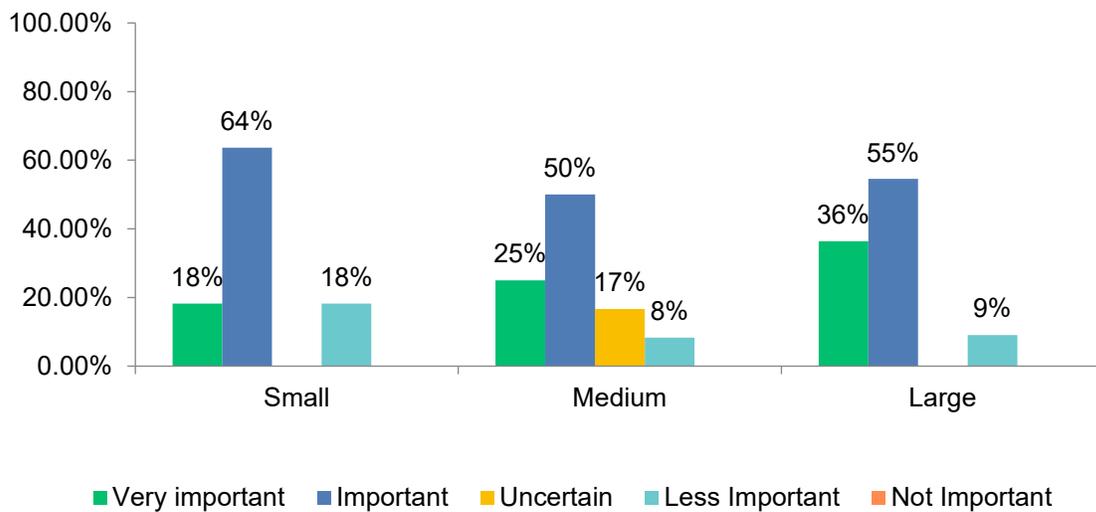
### Industry Quick Polls on Compliance Topics



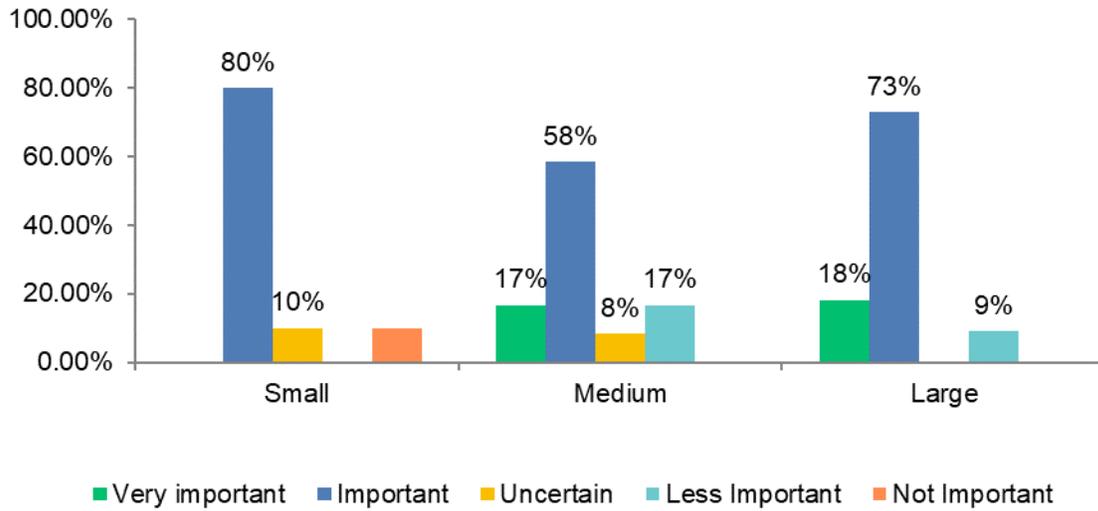
**Single Day In-Person Forums to Discuss Hot Compliance Topics**



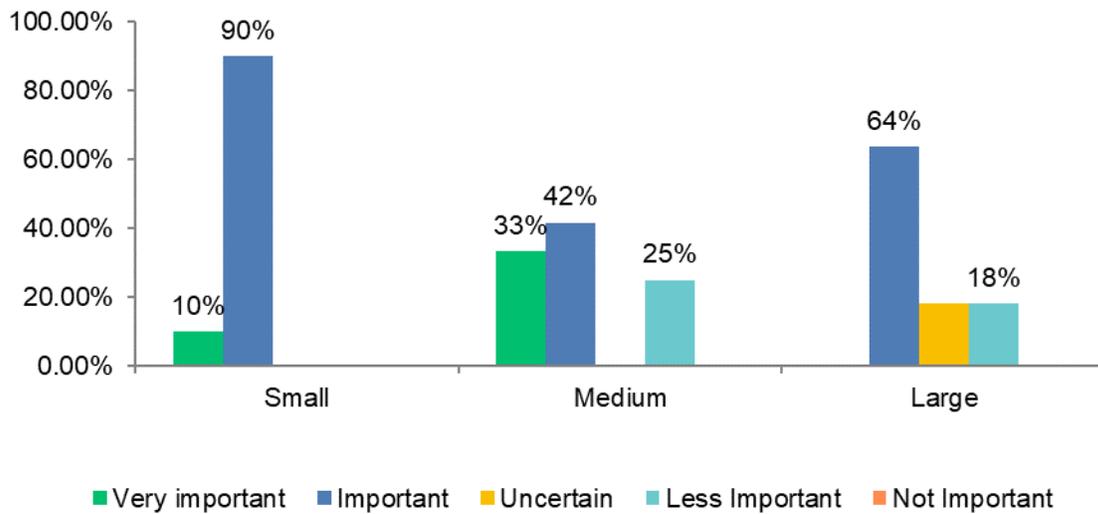
**Multi-Day Conferences with Regulators, Industry Experts and Company Representatives**



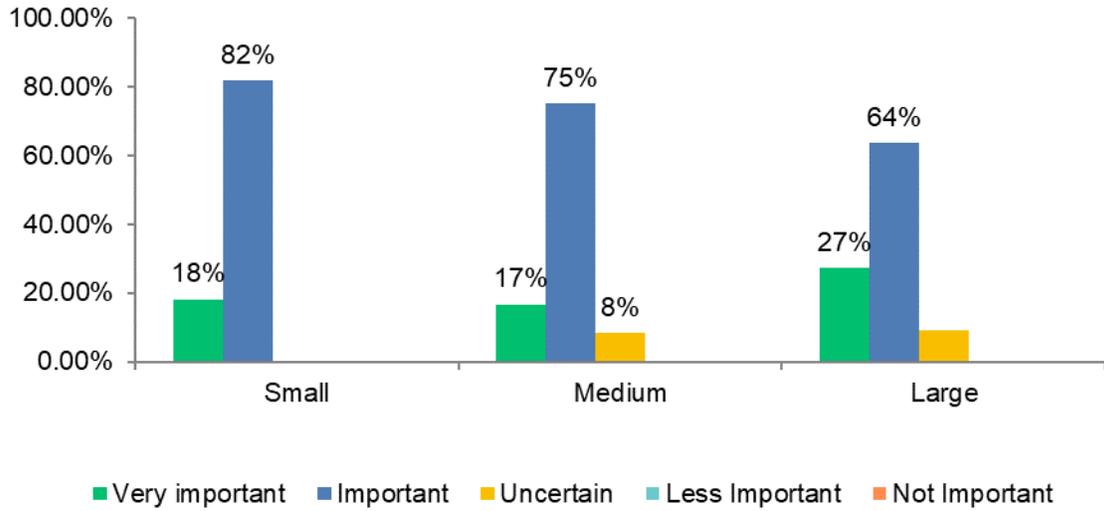
### Multi-Day Training Events for Individuals New to Compliance



### Compliance Education Courses for Self-Study



**Online Compliance Resources (e.g. Websites)**



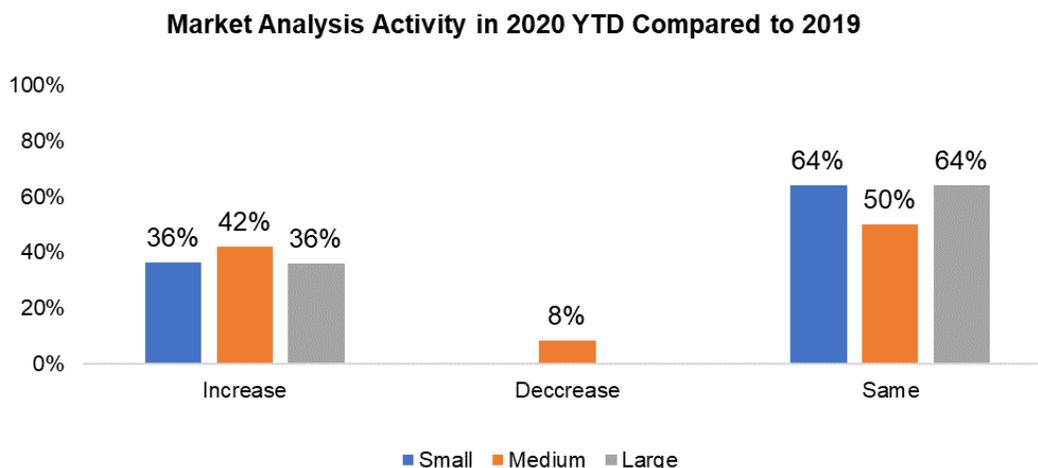
# Appendix G:

## Market Analysis, Targeted Exams, and Comprehensive Exams

### Market Analysis – 2020 v. 2019:

When analyzing market analysis activity, the 2020 data, by company size, revealed the following:

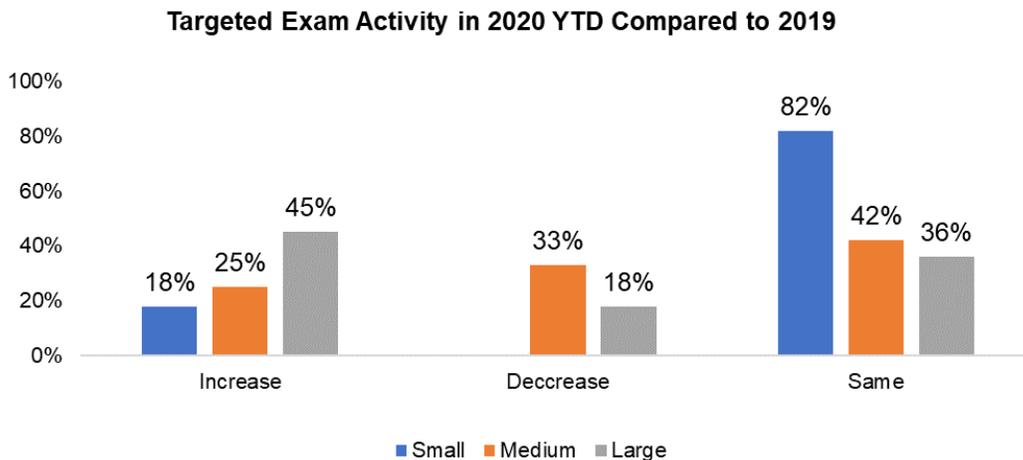
- Medium companies were slightly more likely to report an increase in market analysis activity (42%), than small (36%) and large (36%) companies.
- No small or large companies reported a decrease in market analysis activity and only 8% of medium companies reported a decrease.
- Most companies reported their experience thus far in 2020 has been about the same as their experience in 2019.



## Targeted Examinations – 2020 v. 2019:

When analyzing targeted examination activity, the 2020 data, by company size, revealed the following:

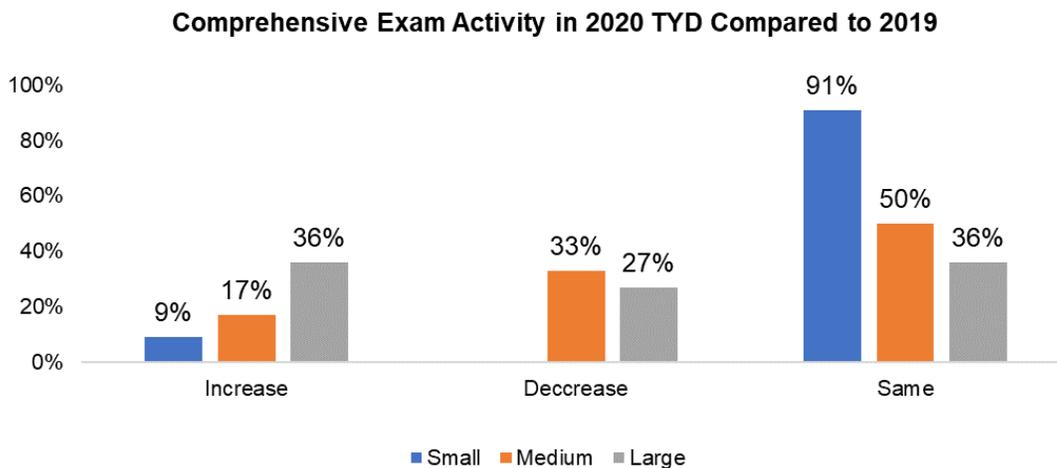
- Large companies were more likely to report an increase in targeted market conduct examination activity (45%), than small (18%) and medium (25%) companies.
- No small companies reported a decrease in such activity, while a third (33%) of medium and almost a fifth (18%) of large companies reported a decrease.
- Most (82%) small companies reported their experience thus far in 2020 has been about the same as 2019, while only some medium (42%) and large (36%) companies indicated their experience has remained the same.



## Comprehensive Examinations – 2020 v. 2019:

When analyzing comprehensive examination activity, the 2020 data, by company size, revealed the following:

- Large companies were more likely to report an increase in comprehensive market conduct examination activity (36%), than small (9%) and medium (17%) companies.
- No small companies reported a decrease in such activity, while a third (33%) of medium and over a quarter (27%) of large companies reported a decrease.
- Most small companies (91%) reported their experience thus far in 2020 has been about the same as 2019, while only half (50%) of medium and about a third (36%) of large companies indicated their experience has remained the same.



# THE FORUM THAT CONNECTS.

Questions or comments regarding this report  
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