2023 Compliance & Ethics Benchmarking Report

The Compliance & Ethics Forum for Life Insurers

Full Report

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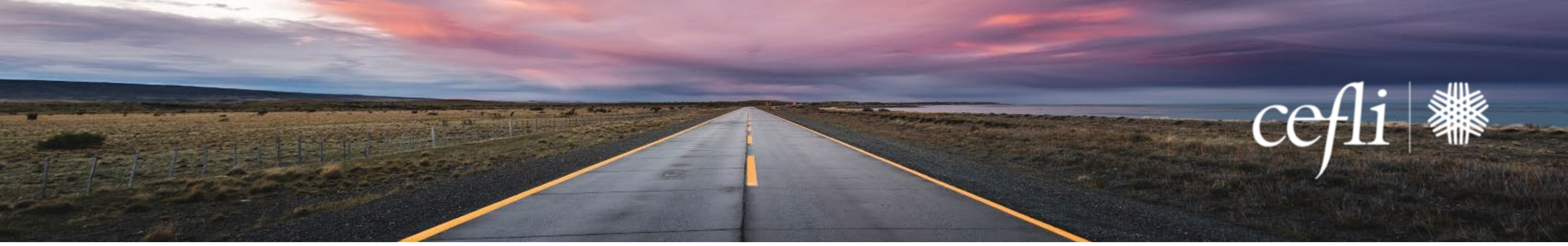

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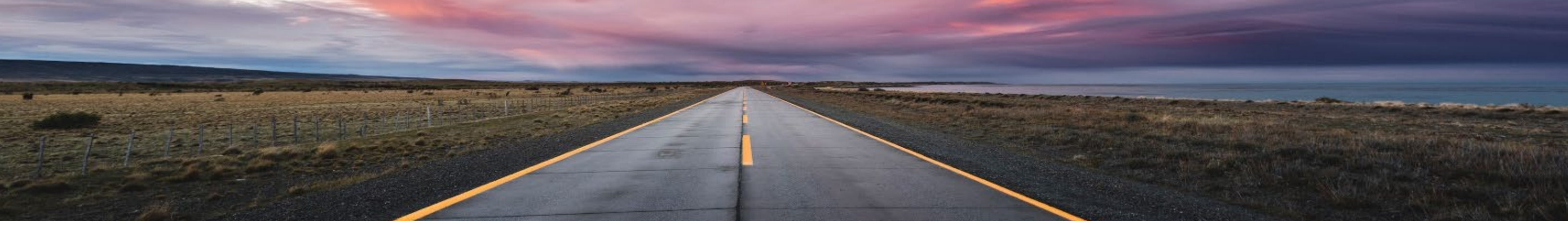


Executive Summary

CEFLI's annual Compliance and Ethics Benchmarking Survey (Survey) serves to gauge the current state of Compliance and Ethics practices in the life insurance industry. By comparing Survey responses over several years, we can identify trends in industry practices as companies continue to adapt to new challenges facing our industry.

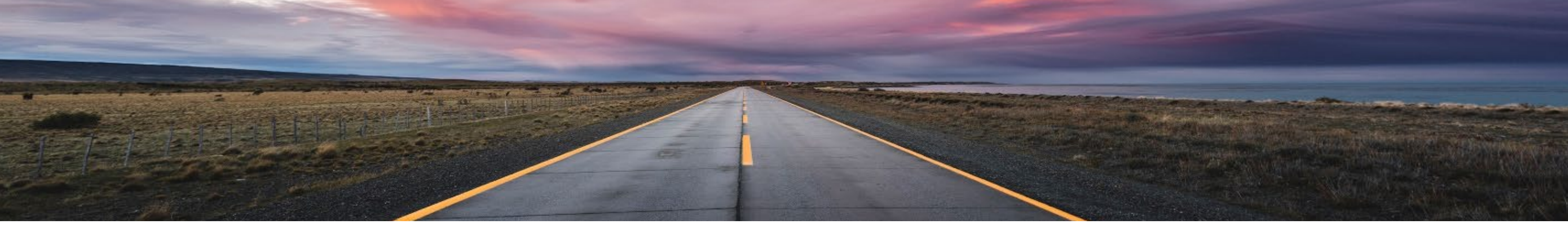
This year's Survey was sent to CEFLI Member companies and non-CEFLI Member companies. A total of 50 completed surveys were received from CEFLI Member companies and from non-Member companies representing a balanced mix of small, medium, and large companies.

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

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

<u>Compliance and Legal Department Organizational Structures</u>:

- Life insurance companies report two distinct organizational structures for their Compliance and Legal Departments with approximately half of life insurance companies maintaining combined Compliance and Legal Department and approximately half of life insurance companies maintaining separate Compliance and Legal Departments. This year's Survey data confirmed this trend which has been consistent over the past several years.
- With respect to maintaining separate Ethics Departments, this year's Survey data indicated fewer companies are maintaining separate Ethics Departments than in past years. The practice of maintaining a separate Ethics Department was instituted almost exclusively at large companies. However, this year's Survey data suggests a changing trend toward incorporating the functions of a distinct Ethics Department within the Compliance Department for operational and organizational efficiency.
- Overall, this year's Survey results revealed that 60% of Chief Compliance Officers report to the company's General Counsel which confirms that this reporting relationship is the predominant organizational structure for Chief Compliance Officers in our industry.



- Over one half (44%) of respondent companies indicated their Chief Compliance Officer has a dotted line reporting relationship to the Company's Board of Directors, to a Committee of the Board or to both.

Ethics/Business Conduct Programs:

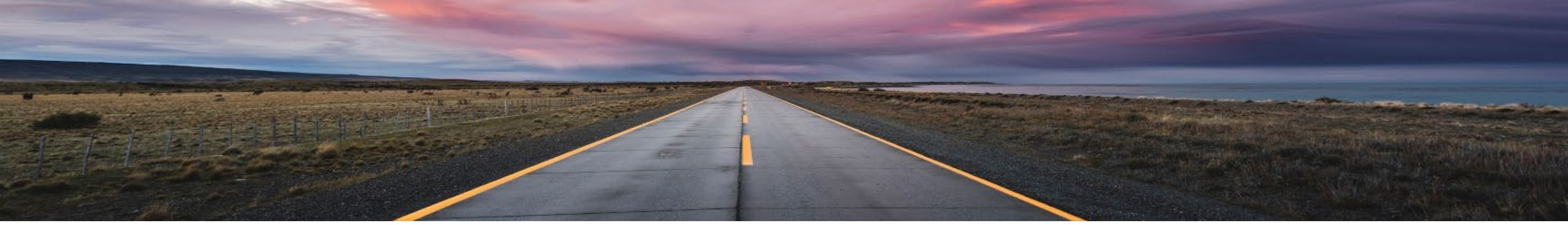
- Virtually all Survey respondent companies indicated their organizations maintain a written Code of Ethics or Business Conduct program. However, this year's Survey results indicated a strong preference towards Compliance owning responsibility for a life insurance company's Ethics program (versus a shared responsibility between Legal, Compliance and Human Resources Departments in past Surveys).

Staffing and Budgets:

- Most companies, regardless of company size, retained the same number of staff in 2023 versus 2022.
- Overall, 33% of companies plan to add Compliance staff in 2024. 65% of Survey respondent companies plan to retain their current staffing levels in 2024 and only 2% of Survey respondent companies indicated they plan to reduce their staff in 2024.
- Only a few large and medium size companies identified individuals (1-2) whose responsibilities were devoted exclusively to Ethics.
- Most companies (57%) indicated their Compliance and Ethics budget had not changed in 2023. Yet, it was interesting to note that a significant number of Survey respondent companies (33%) indicated their 2023 Compliance and Ethics budget is greater than their budget in 2022.

Chief Compliance Officers:

- Overall, 90% of Survey respondent companies have a Chief Compliance Officer or equivalent position.
- Overall, a minority of Survey respondent companies (41%) use the term "Chief Compliance Officer" to identify an individual who may have specific responsibility for product line or business unit. These individuals are also known as Business Unit Chief Compliance Officers or BUCOs. Accordingly, most Survey respondent companies (59%) in our industry do not identify individuals to serve as BUCOs.
- This year's Survey indicated a slight decline in the percentage (74%) of Survey respondent companies that reported having a formal succession plan for replacing a departed Chief Compliance Officer.



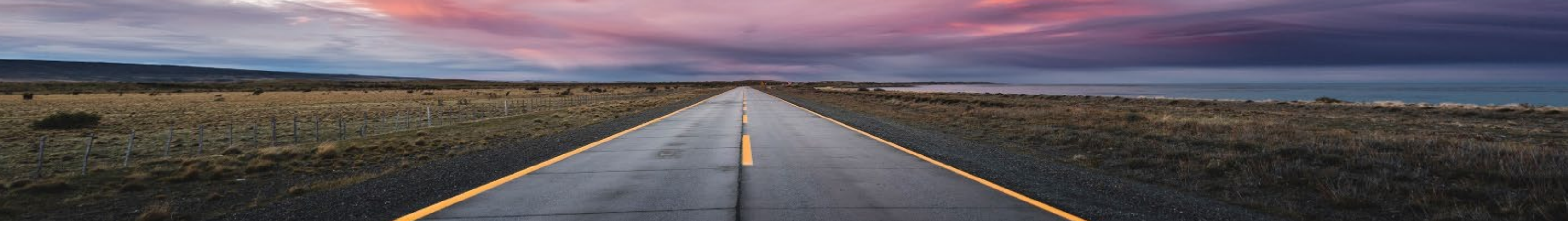
- When asked how they identify future Chief Compliance Officer candidates, 51% of Survey respondent companies indicated that their current Chief Compliance Officer plays a key role in identifying future Chief Compliance Officer candidates.
- Companies rated compliance experience, business experience and management experience (in priority order) as "very important" qualifications for a CCO candidate. Approximately three quarters of Survey respondent companies (74%) indicated they do not require an individual to hold a law degree to serve as their company's Chief Compliance Officer.

Education and Training:

- 56% of Survey respondent companies reported they utilize external resources to supplement their own internal Compliance education and training. Only 14% of Survey respondent companies indicated they rely upon external resources exclusively for training purposes.
- 30% of Survey respondent companies indicated that their training is conducted exclusively on an internal basis.
- The external training resources identified as "very important" included: access to online compliance resources including a library of on-demand recorded webinars; a Forum for company Chief Compliance Officers to network and discuss compliance challenges; monthly WebEx meetings to discuss current compliance issues; live webinars; quarterly online meetings dedicated to specific topics such as advertising and social media reviews and multi-day training for new Compliance professionals.
- This year's Survey results identified that a growing percentage of Survey respondent companies indicated that the company training budgets are greater than they have been in past years. This may reflect a greater willingness to allow staff to attend in-person training events given the abatement of the COVID-19 pandemic.

Market Regulation Activity:

- Most companies reported their experience with market analysis, targeted market conduct examinations, and with comprehensive market conduct examinations is about the same as the prior year.
- Though most Survey respondent companies indicated their overall regulatory activity has remained the same on a year-to-year basis.
- With respect to market analysis, Survey respondents representing large companies

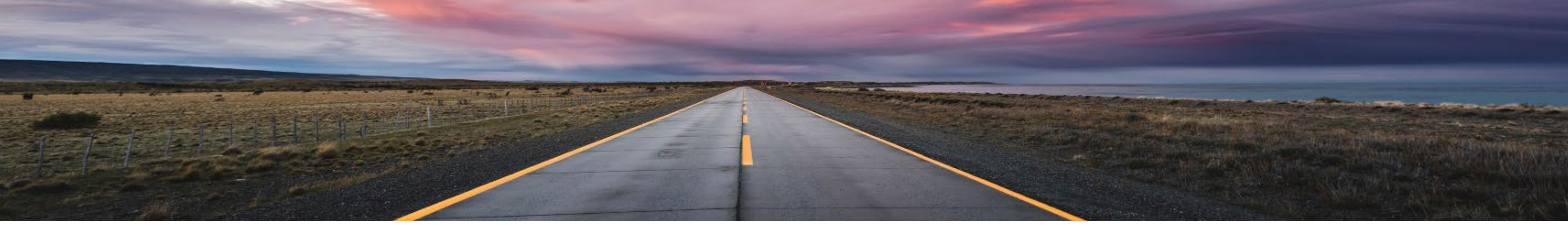


indicated a decrease in market analysis activity whereas respondents representing medium and small size companies reported a notable increase in market analysis activities.

- With respect to targeted state market conduct examinations, Survey respondent companies of all sizes indicated they have experienced a decrease in targeted state market conduct examination activity.
- With respect to comprehensive state market conduct examinations, 12% of Survey respondents representing large companies, 24% of Survey respondents representing medium size companies and 59% of Survey respondents representing small size companies indicated they have not had any comprehensive state market conduct examinations in recent years.
- 100% of Survey respondents representing small companies, 82% of Survey respondents representing medium companies and 38% of Survey respondents representing large companies indicated they have 0-3 examinations still considered to be “open.”
- The Survey data revealed that while most companies (82%) are managing 0-3 “active” examinations at any time, several Survey respondents representing large companies reported that they managed 4-9 “active” examinations.
- Survey results revealed that state market conduct examinations generally remain open for an average of 0-24 months.
- Market conduct examinations typically cost $200,000 - $249,999 for small size companies, $250,000 - $299,999 for medium size companies and $300,000 - $499,999 for large companies.

Compliance and ERM:

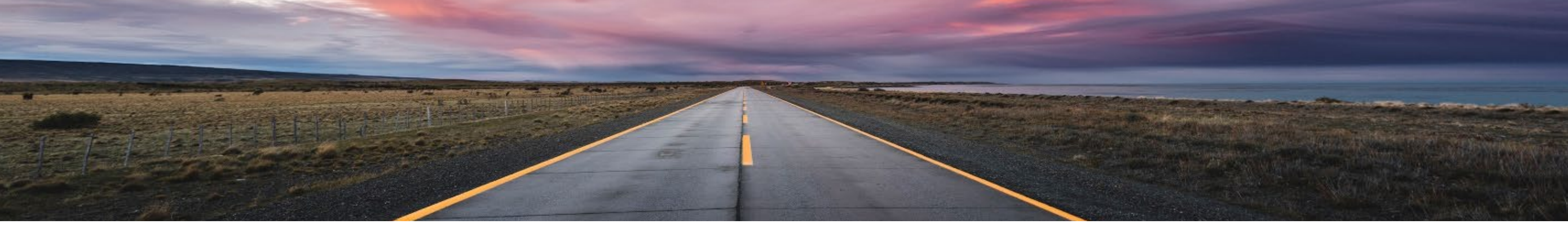
- This year’s Survey results confirmed a continued commitment to having Compliance involved in the company’s ERM processes. Overall, 82% of Survey respondent companies indicated that compliance plays an active, ongoing role in the company’s ERM processes.
- When factoring for company size, 94% of large size Survey respondent companies, 82% of medium size Survey respondent companies and 71% of small size Survey respondent companies indicated Compliance plays an active and ongoing role with their company's ERM processes.



Top Compliance Challenges:

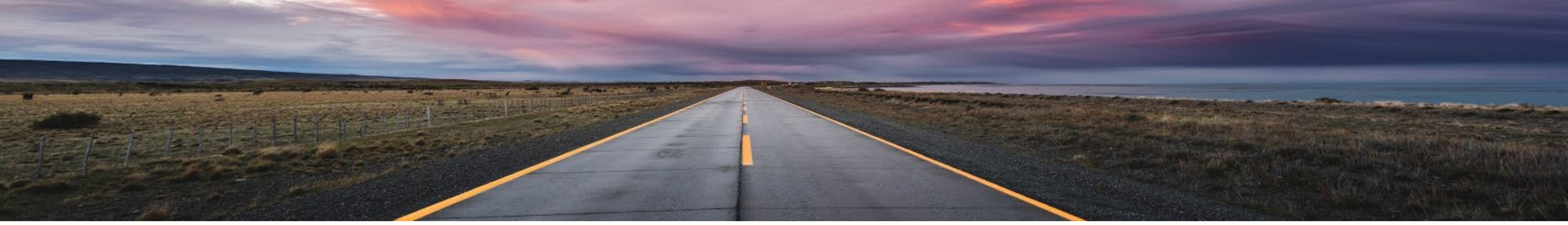
- With regard to overall compliance challenges, Survey respondents were asked to share their top challenges of 2023. The top challenges identified included:
  - Privacy.
  - New Product/Innovation Initiatives.
  - Data Governance/Records Management/Records Retention.
  - Cybersecurity.
  - The Rate of Regulatory Change (i.e., New or Revised Rules, Regulations and Directives).
  - Fraud Prevention, Reporting and Investigation.
  - Compliance Oversight of Operations or Corporate Functions.
  - Compliance Oversight of Sales Activities.
  - State DOI, SEC Revelation Best Interest and/or DOL Fiduciary Rule Standards Implementation Efforts.
  - Technology and Innovation Strategies (including Electronic Signatures/Policy Delivery.
- Looking ahead to 2024, Survey Respondents indicated they anticipate the top Compliance challenges may include:
  - Artificial Intelligence.
  - Privacy.
  - Cybersecurity.
  - State DOI, SEC Regulation Best Interest and/or DOL Fiduciary Rule Standards Implementation Efforts.
  - Technology and Innovation Strategies (including Electronic Signatures/Policy Delivery).
  - The Rate of Regulatory Change (i.e., New or Revised Rules, Regulations and Directives).
  - Accelerated Underwriting Initiatives.
  - Data Governance/Records Management/Records Retention.
  - Environmental, Social & Governance (ESG).
  - Fraud Prevention, Reporting and Investigations.

We hope readers of the 2023 CEFLI Compliance and Ethics Benchmarking Survey Report find the information to be useful when benchmarking their Compliance and Ethics programs versus



others in the life insurance industry and can benefit from a greater understanding of current Compliance and Ethics trends and practices so they can enhance, as appropriate, their current Compliance and Ethics programs.

Recent research has shown that 80% of CCOs find the data derived from the Survey to be of “Material Value” or “Significant Value.”

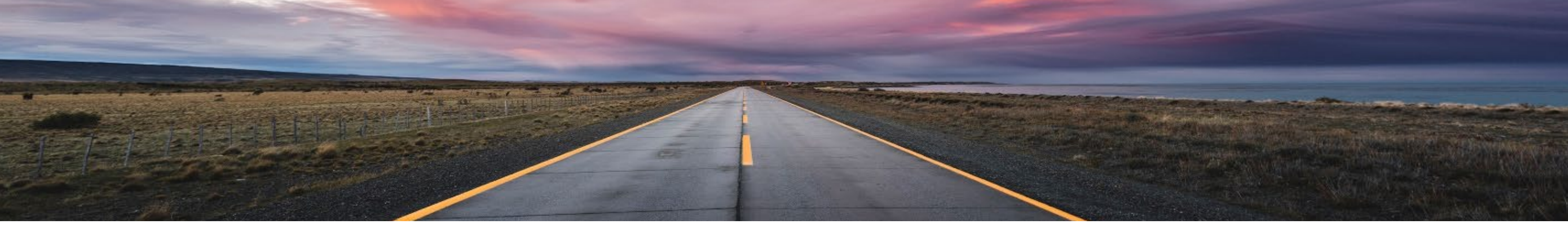


Introduction

CEFLI is pleased to report the results of its 2023 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 invited Compliance and Ethics professionals from CEFLI Member Companies to participate in the 2023 Compliance & Ethics Benchmarking Survey. CEFLI has conducted its Compliance & Ethics Benchmarking Survey over the past several years to allow CEFLI to evaluate the current state of Compliance and Ethics in the life insurance industry and to assist CEFLI in identifying emerging trends impacting life insurance companies and their Compliance and Ethics staff.

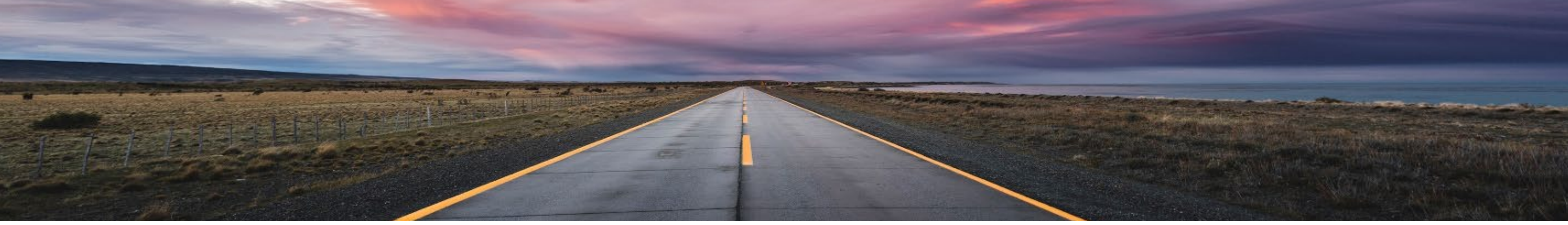
This report summarizes the key findings of the 2023 Compliance & Ethics Benchmarking Survey.



Purpose

The purpose of the 2023 Compliance & Ethics Benchmarking Survey (the "Survey") is to determine the current state of Compliance and Ethics functions within the life insurance industry. To gauge current practices, the Survey asked a broad set of objective questions related to a wide range of topics including organizational structure, staffing, budgeting, compensation, and roles and responsibilities of Compliance and Ethics professionals. The Survey also sought to identify significant Compliance and Ethics issues facing our industry to allow respondents to provide feedback concerning current practices that exist within their respective organizations.

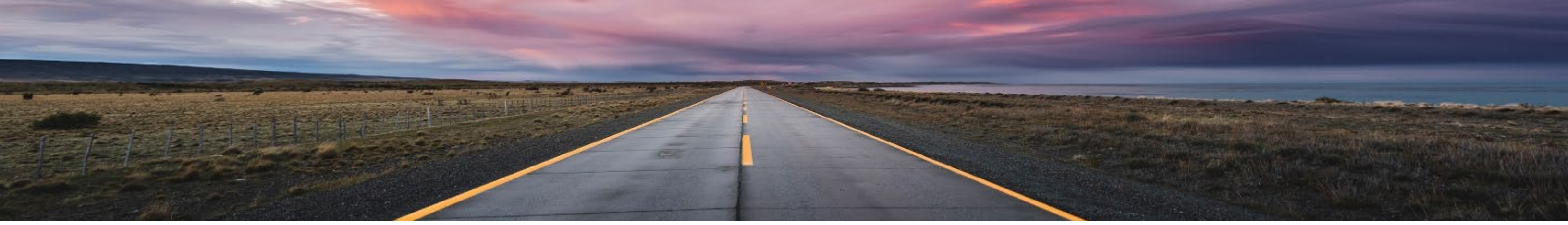
By comparing the results of this year's Survey to past annual Survey results, CEFLI can use the key highlights of this year's Survey to establish a benchmark to evaluate trends pertaining to the important role that Compliance and Ethics professionals play within the life insurance industry.



Methodology

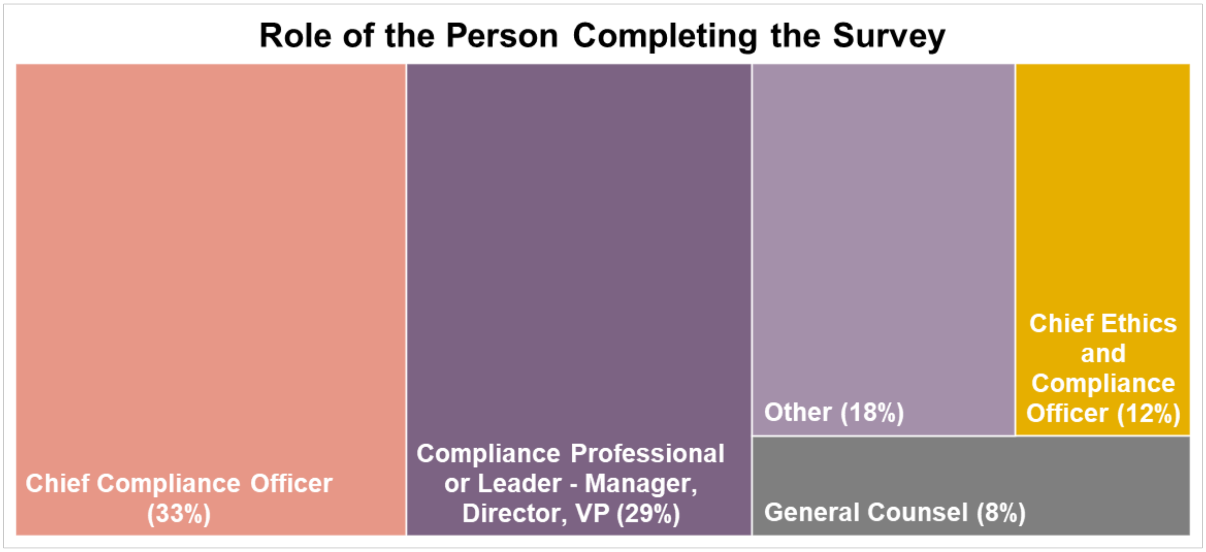
To conduct the 2023 Compliance & Ethics Benchmarking Survey, CEFLI solicited responses from CEFLI Member Companies. In response to our request, 50 life insurance companies representing a wide range of company sizes, product mix and distribution systems completed the Survey.

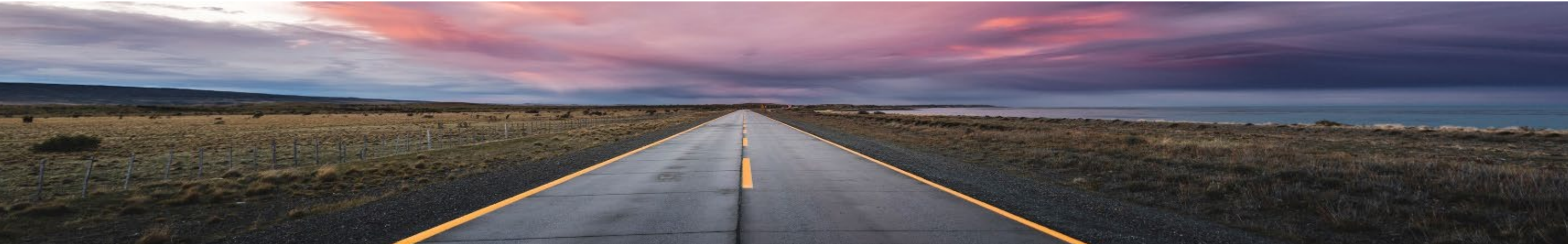
With respect to company size, CEFLI received 32% of its responses from large companies (>10,000 employees), 33% of its responses from medium companies (500-10,000 employees) and 35% of its responses from small companies (<500 employees).



Role of Survey Respondents

When asked to identify their role within their organization, 33% of Survey respondents indicated they were a Chief Compliance Officer. 29% of respondents indicated they serve as a Compliance Professional or Leader (Manager, Director, VP) and 12% indicated they serve as a Chief Ethics and Compliance Officer. The remaining Survey respondents indicated they serve as General Counsel (8%) or serve in another role (18%) such as analyst, counsel or business unit compliance officer (BUCO) at their life insurance companies.





Organizational Structure

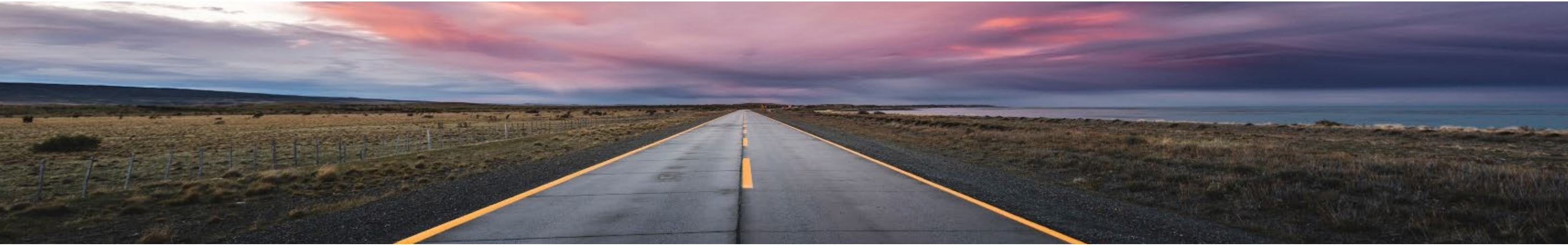
Legal and Compliance

Survey respondents were asked to indicate the organizational structure that best describes their company's Legal and Compliance Departments. This year's Survey results are similar to results received in past Surveys.

Approximately half of life insurance companies within our industry maintain combined Legal and Compliance Departments, and approximately half of life insurance companies within our industry maintain separate Legal and Compliance Departments. While the specific results have varied modestly from year-to-year, the overall trend remains the same.

When analyzed according to company size, most large companies maintain separate Legal and Compliance Departments whereas medium and small size companies are generally split evenly between maintaining a combined Legal and Compliance Department and maintaining a separate Legal and Compliance Department.

Companies that maintain separate Legal and Compliance Departments provided various rationales for their selected organizational structures. Several respondent companies indicated that, while Legal and Compliance work effectively together, the roles and responsibilities of compliance professionals and legal professionals differ, and the organizational separation allows for integrity of each function. Several respondent companies also indicated that, though their Legal and Compliance Departments may be separate, both report to the General Counsel and work very closely together. Still other respondent companies indicated that they maintain separate Legal and Compliance Departments to avoid potential conflicts of interest, to maintain segregation of duties and to preserve attorney-client privilege.



With respect to those companies that maintain combined Legal and Compliance

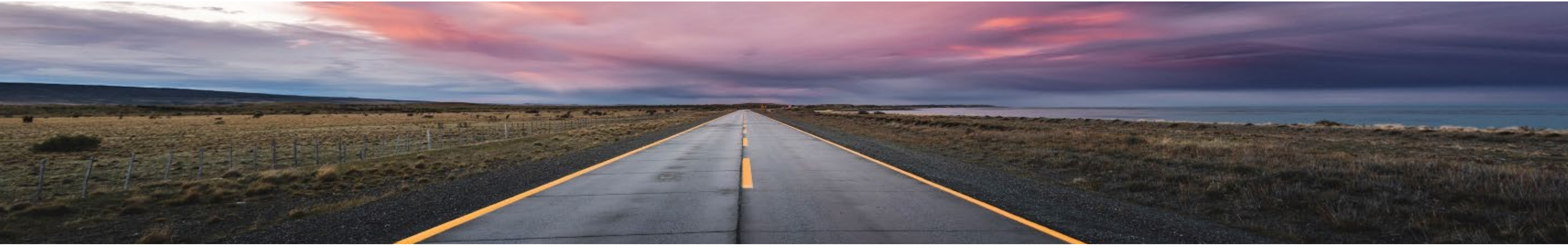
Departments, several respondent companies indicated that their Chief Compliance Officer resides within the Legal Department, and, in other instances, a few respondent companies indicated that the role of Chief Compliance Officer and General Counsel is held by the same individual. In addition, other respondent companies indicated that many matters related to Legal and Compliance are shared; and, therefore, the combined organizational structure enhances collaboration and improves lines of communication between Legal and Compliance. Still other respondent companies indicated they have combined these functions due to a smaller company size.

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 separate within a life insurance company's organizational structure.

Over the past several years, Survey data indicated a growing trend toward establishing separate Ethics Department. This trend (toward establishing a separate Ethics Department) was practiced exclusively by large size companies.

However, the data from this year's Survey showed that fewer companies overall now maintain a separate Ethics Department. According to several Survey respondents, responsibility for Ethics matters resides within the Compliance or Legal Department (rather than having a separate Ethics Department). (A few companies indicated that their Ethics function resides within Human Resources.)

The most common rationale underlying this trend suggests that Ethics is inextricably linked to Compliance (or Legal) and it informs the analysis of all advice to assist the company in its commitment to operating according to high ethical values. Other similar views suggested that embedding Ethics in one department (Compliance or Legal) is the best strategy to support a comprehensive Compliance and Ethics program which allows the program to provide guidance for organizational standards at all levels and offers better opportunities for monitoring the effectiveness of the overall Compliance and Ethics program.



Reporting Relationships and Compliance Reports

Direct Reporting Relationships

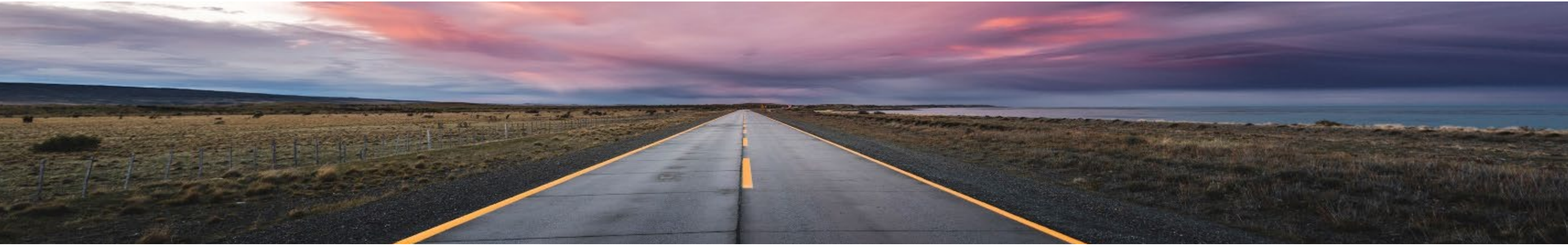
The Survey sought to determine current practices with respect to reporting relationships for life insurance company Chief Compliance Officers. **Survey results indicated that 60% of Chief Compliance Officers at companies of all sizes report to the company's General Counsel.** This year's Survey confirmed once again that this reporting relationship is the predominant organizational structure for Chief Compliance Officers in our industry.

To the extent that a Chief Compliance Officer did not report to the company's General Counsel, the most common alternative Survey responses indicated that the Chief Compliance Officer reported directly to the CEO or President. Relatively few alternative responses indicated that their company's Chief Compliance Officer reports to the Chief Risk Officer, Senior Vice President of Operations or Chair of the company's Audit Committee.

Dotted Line Reporting Relationships

In many instances, a company's Chief Compliance Officer may have a primary direct reporting relationship as well as dotted line reporting relationships. To the extent that dotted line reporting relationships may exist, the Survey sought to identify the nature of such relationships.

The dominant response to this question on this year's Survey indicated that many companies do not maintain a dotted line reporting relationship for their Chief Compliance Officer. To the extent Survey respondents indicated that their Chief Compliance Officer has a dotted line reporting relationship, the Chief Compliance Officer most commonly had a dotted line reporting relationship to the Company's Board of Directors, to a Committee of the Board or to both. Analyzed according to company size, the Survey found that Chief Compliance Officers at 56% of large companies, 59% of medium companies and 18% of small companies maintain dotted line reporting relationships to the company's Board of Directors, to a



Committee of the Board or to both.

It also may be important to note that many respondent company Chief Compliance Officers (48%) have no dotted line reporting relationships.

The trend identified over the past several Surveys suggests that dotted line reporting relationships are becoming less common for Chief Compliance Officers in our industry. While many Chief Compliance Officers will provide reports to the company's Board of Directors or a Committee of the Board, it is becoming less common for the Chief Compliance Officer to have a dotted line reporting relationship to the Board or a Committee of the Board.

We will continue to monitor this issue to confirm whether this trend will continue in future years.

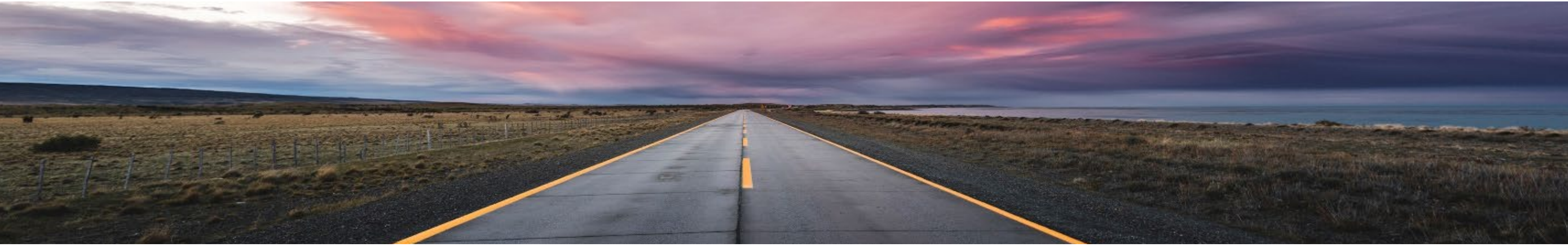
Compliance Reports

In past surveys, it was not uncommon for Chief Compliance Officers to have a dotted line reporting relationship to the CEO or President or General Counsel. Data from recent Surveys indicates that establishing a dotted line reporting relationship between Chief Compliance Officers and the CEO or President or General Counsel is a practice utilized by only a small minority of companies participating in the Surveys.

Chief Compliance Officers are often 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 different recipients of these reports within their organization, Survey respondents indicated that such information is shared with the company's Audit (or other appropriate) Committee of the Board of Directors (62%), CEO or President (60%) Senior Management (56%), General Counsel (56%), Board of Directors (48%), and Risk Committee (42%).

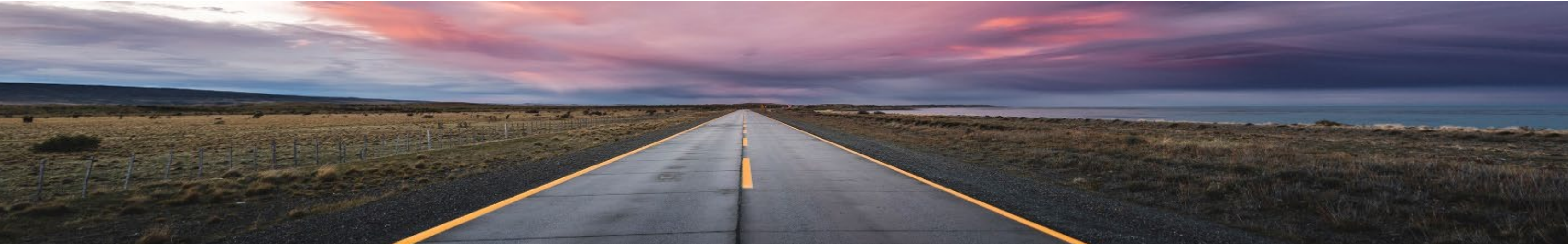
When asked what is typically contained in the reports made by the organization's CCO, the Survey results indicated the following issues were most frequently reported, in order of prominence:



- Required Reports (e.g., AML, annuity suitability).
- Regulatory Actions (e.g., orders, fines, penalties, etc.).
- Regulatory Inquiries and Investigations.
- Emerging Issues, Concerns, and Trends.
- Regulatory Examinations and Data Calls.
- Complaint Activity.
- Compliance Oversight or Risk Assessment Activities and Outcomes.
- Company Policy and Compliance Violations.
- Compliance-Related Training.
- Compliance Metrics.
- Initiatives to Promote Compliance Within the Organization.
- Investigation/SIU Activity.

Regulators are increasingly asking for various types of reports and attestations to confirm a company's compliance with legal and regulatory requirements. Therefore, it is not surprising to see that required reports are the most common reports generated by Chief Compliance Officers.

It is also interesting to note that reports containing information pertaining to regulatory actions, regulatory inquiries and investigations comprise the content of many reports developed by Chief Compliance Officers; especially, given the interest among Boards of Directors and/or Committees of Boards as well as senior management concerning any regulatory actions that could adversely impact the company's operations.

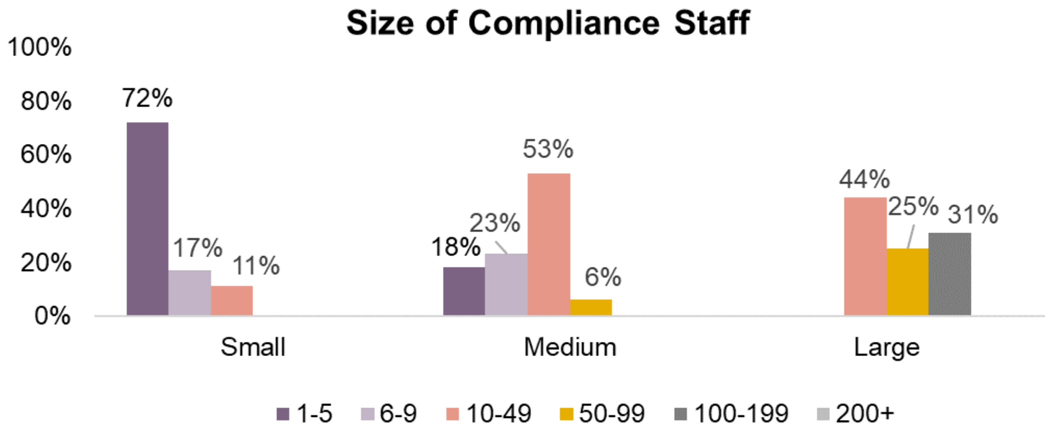


Staffing and Budgets

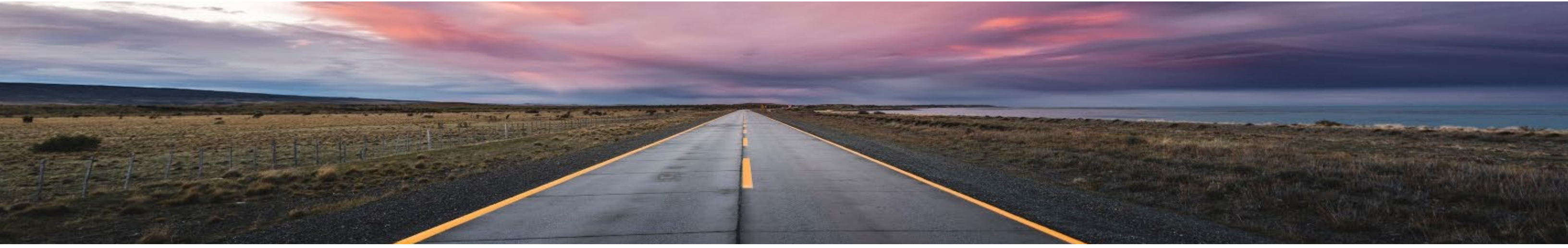
Compliance Staffing

The Survey sought to determine the number of staff at various size companies whose primary role is related to Compliance or may have a reporting relationship, direct or dotted line, to Compliance. While Survey results indicated a wide range in the size of Compliance staff across respondent life insurance companies, as a general rule, the larger the company, the larger the staff.

The graph below provides comparative data to indicate the number of Compliance staff at Survey respondent companies of various sizes.



When asked how many staff report directly to the CCO, all medium and small size Survey respondent companies indicated less than 10 individuals report directly to the CCO. While many large companies (56%) also indicated less than 10 individuals report directly to the CCO, other large company Survey respondents (31%) indicated that 30 or more individuals report directly to the CCO. This data confirms the different sizes of Compliance Departments at large companies which may be tailored to meet the unique needs of each company.



Ethics Staffing

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

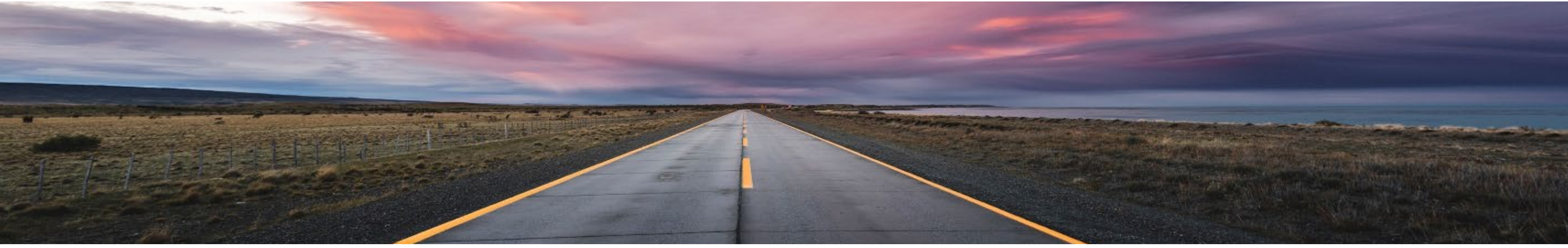
This year's Survey results indicated that only a few large and medium size companies have 1-2 individuals whose duties are devoted exclusively to Ethics within their respective organizations. This data confirms the trend of moving away from establishing separate Ethics Departments and consolidating responsibilities for Ethics-related issues within the Compliance Department (or other departments) within life insurance companies. It also was suggested that, since "ethics is everyone's responsibility" at many life insurance companies, there may be less of a need to have individuals whose duties are devoted exclusively to Ethics.

Comparative Staffing Analysis 2023 v. 2022

The Survey sought to determine the extent to which respondent life insurance companies made changes to their Compliance and Ethics staff size in 2023 versus 2022.

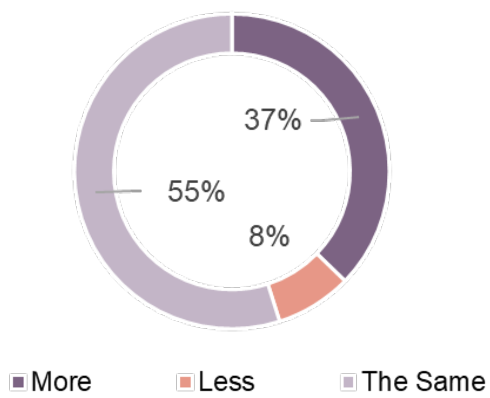
The majority of Survey respondent companies (55%) indicated that the number of Compliance staff remain unchanged between 2023 when compared to 2022. This data may confirm the challenges faced by all companies in recruiting Compliance personnel during the COVID pandemic and expense containment measures instituted at many companies.

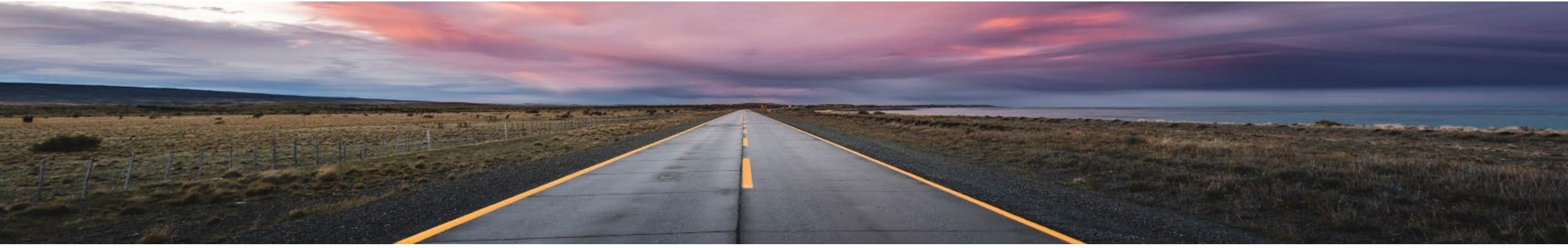
Though the overall data indicated that most companies maintained a similar size Compliance staff between 2023 and 2022, it may be significant to note that a majority of medium size companies (53%) and a meaningful number of large size companies (38%) indicated they have more Compliance staff in 2023 versus 2022.



Companies will continue to evaluate the size of their Compliance staff requirements by balancing the challenges of an increasingly complex legal and regulatory operating environment and an economic environment that may exert downward pressure on operating expenses.

Change in Compliance Stafff
2023 Compared to 2022



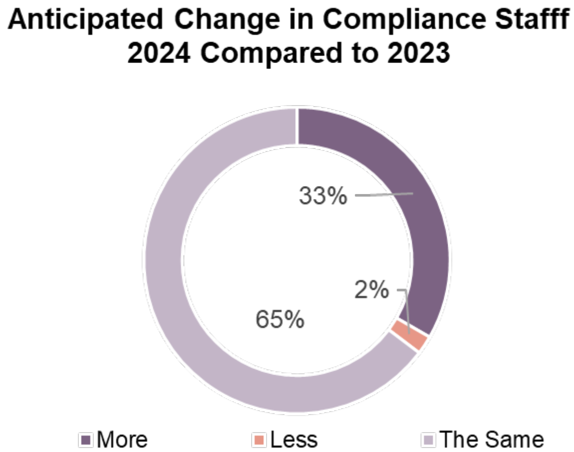


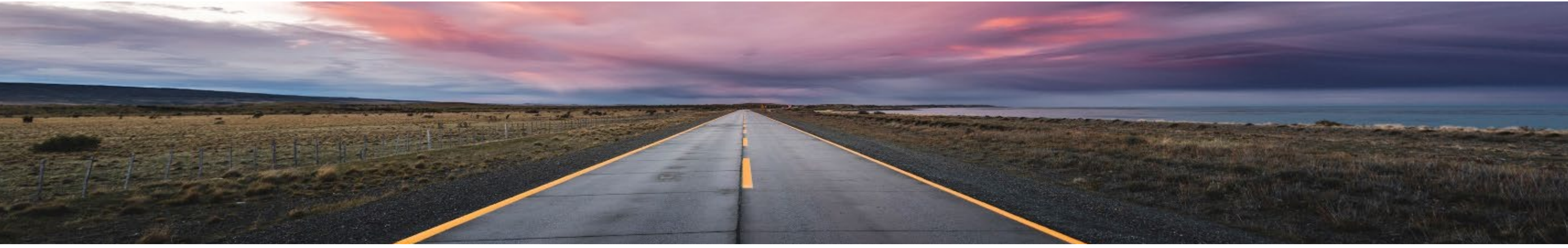
Future Staffing Projections 2024 v. 2023

The Survey also sought to identify projected changes in Compliance and Ethics staffing in 2024**.** 65% of Survey respondent companies indicated they will likely retain current staffing levels in 2024. However, 33% of Survey respondent companies indicated they will likely add Compliance staff in 2024.

When analyzed according to company size, 38% of large size companies, 36% of medium size companies and 28% of small size companies indicated it is likely they will add to Compliance staff in 2024.

The chart below summarizes the Survey results, by company size.



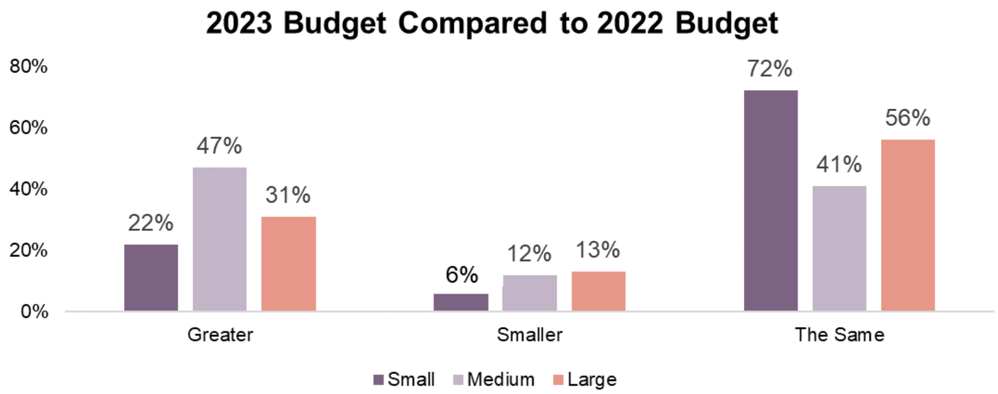


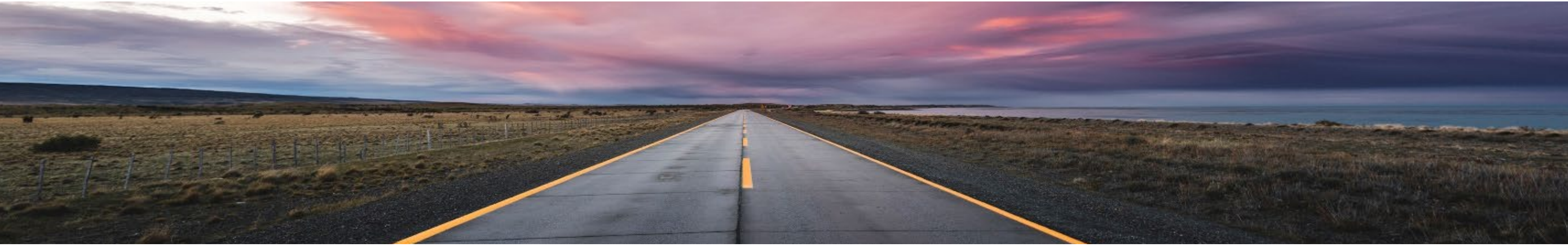
Comparative Budgeting Analysis 2023 v. 2022

The Survey also gathered data regarding 2023 budgets for Compliance Departments compared to 2022 budgets.

57% of Survey respondent companies indicated their Compliance Department budget for 2023 is approximately the same as their 2022 budget. However, 33% of Survey respondent companies indicated that they have a greater Compliance Department budget in 2023 versus 2022.

When this data was analyzed according to company size, 31% of large size companies, 47% of medium size companies and 22% of small size companies indicated they experienced an increase in their Compliance Department budget in 2023 versus 2022.



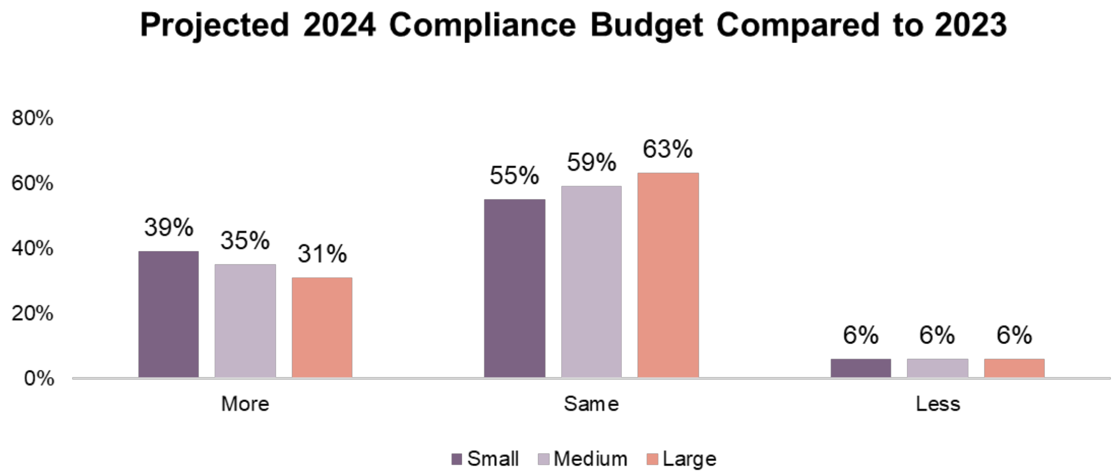


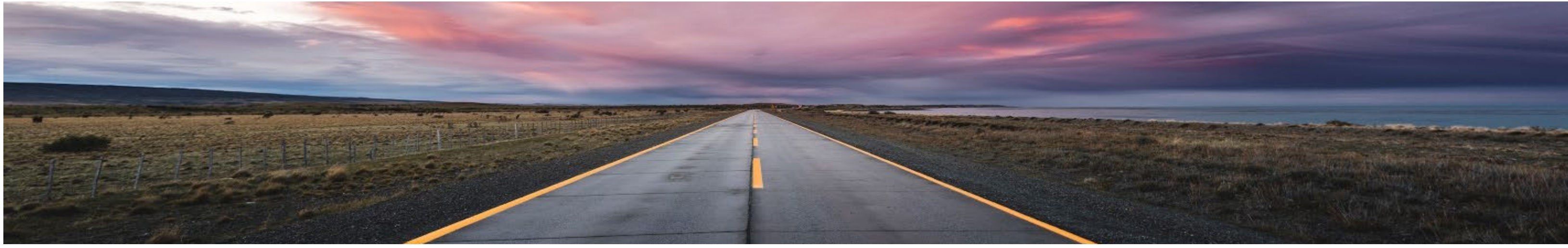
Future Budgeting Projections 2024 v. 2023

Survey respondents were asked to project their anticipated Compliance Department budgets for 2024 when compared to their budgets for 2023.

Overall, 59% of Survey respondent companies projected their 2024 budget would remain the same as their 2023 budget. Yet, 36% of Survey respondent companies indicated they anticipate a Compliance Department budget increase in 2024.

The graph below indicates the analysis of data regarding anticipated changes in 2024 Compliance Department budgets according to company size.





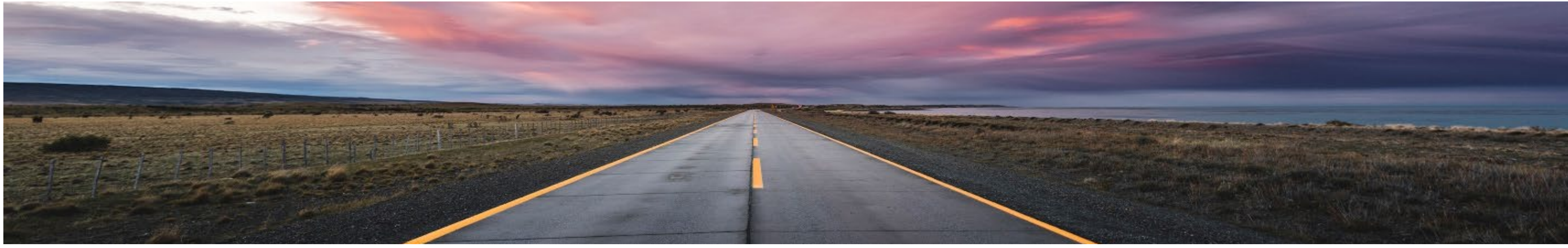
Senior Position Titles and Compensation

The use of the term “Chief Compliance Officer” has evolved at life insurance companies over the past several years. The term “Chief Compliance Officer” may be used to describe individuals who have enterprise-wide Compliance and Ethics responsibilities and may also be used to describe individuals who have solely product line or business unit responsibilities. And while some life insurance companies have designated an individual to serve as their “Chief Ethics Officer,” other companies have chosen to combine these roles into a “Chief Ethics and Compliance Officer.”

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

Chief Compliance Officer

The Survey asked respondents to indicate whether their organization has a Chief Compliance Officer. **Overall, 90% of Survey respondent companies indicated that they have a Chief Compliance Officer or someone in an equivalent position with a different title. Broken down by company size, 100% of large size companies, 88% of medium size companies, and 83% of small size companies have a Chief Compliance Officer or equivalent position.**



Chief Ethics and Compliance Officer

29% of all Survey respondent companies indicated they have elected to identify an individual to serve as their "Chief Ethics and Compliance Officer." The majority (63%) of those Survey respondent companies that indicated they have a "Chief Ethics and Compliance Officer" represented large size companies.

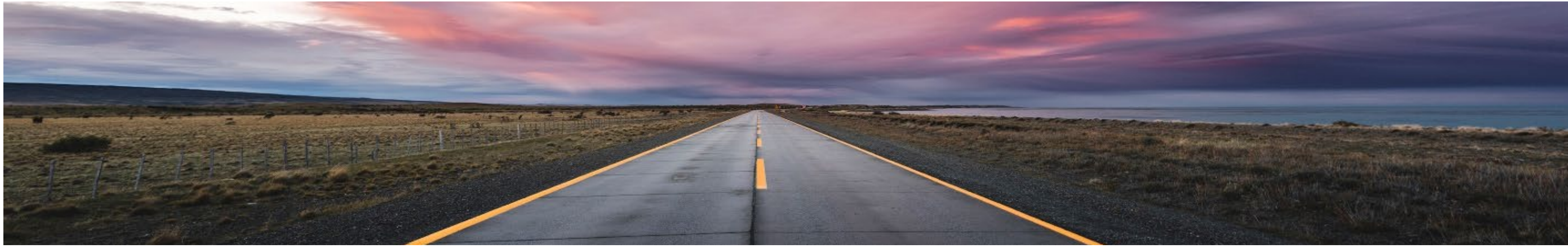
The Survey asked why companies may have chosen to name an individual to serve as their company's combined "Chief Ethics and Compliance Officer." A variety of reasons were offered for combining these responsibilities into a singular role. Several Survey respondent companies indicated that they view Ethics and Compliance as being intertwined and, therefore, it is more efficient and effective to have both issues under the purview of a single leader. In other cases, it was reported that the CCO is responsible for the company's Code of Ethics and Ethics training and, therefore, it was deemed appropriate to have the CCO's title changed to "Chief Ethics and Compliance Officer" to reflect these responsibilities.

Compensation - CCOs & CECOs

The Survey gathered data concerning the compensation of Chief Compliance Officers and Chief Ethics and Compliance Officers at life insurance companies. Specifically, the Survey question *excluded any potential bonuses or additional compensation* since these forms of compensation may not be guaranteed and tend to vary by company.

Compensation data for Chief Compliance Officers at life insurance companies can range from less than $175,000 to $400,000 or more dependent upon company size and scope of responsibility. While practices vary widely across the industry, it may be significant to note that 44% of Survey respondents representing large companies indicated their compensation fell within the $300,000-$500,000 range.

With respect to the compensation of Chief Ethics and Compliance Officers, 54% of Survey respondents from large size companies indicated a range of compensation from $300,000 to $500,000 and 75% of Survey respondents from medium size companies indicated a range of compensation from $250,000 to $300,000. The data suggests that the



compensation amounts for Chief Compliance Officers as well as Chief Ethics and Compliance Officers may be treated similarly at many large size companies.

CCOs in Business Units (BUCOs)

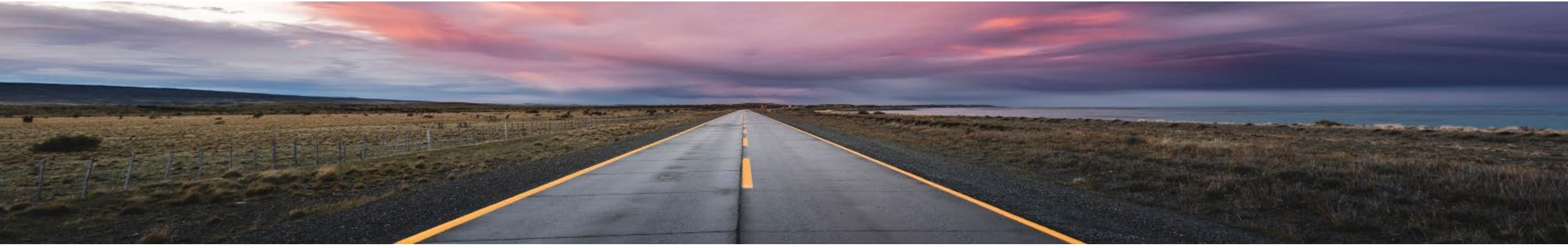
Many life insurance companies use the term “Chief Compliance Officer” to also refer to individuals who may have specific responsibilities serving as a Chief Compliance Officer for a product line or business unit. These individuals often are identified through the acronym “BUCOs” which stands for Business Unit Chief Compliance Officer. Therefore, the Survey sought to determine the extent to which this practice may be prevalent within the life insurance industry.

Overall, a minority of Survey respondent companies (41%) use the term “Chief Compliance Officer” to identify an individual who may have specific responsibility for a product line or business unit. Accordingly, most Survey respondent companies (59%) in our industry do not identify an individual to serve as a Business Unit Chief Compliance Officer (BUCO).

To the extent a company has named individuals to serve as BUCOs, Survey respondents indicated that these individuals reside predominantly within the Compliance Department (71%) versus being located within business units (29%).

Moreover, when asked to identify which product lines or business units may have a designated BUCO, the most common responses listed in priority order were as follows:

- Broker-dealer.
- Individual Life Insurance.
- Registered Separate Accounts.
- Individual Annuities.
- Investment Adviser.
- Asset Management.
- Group Life.



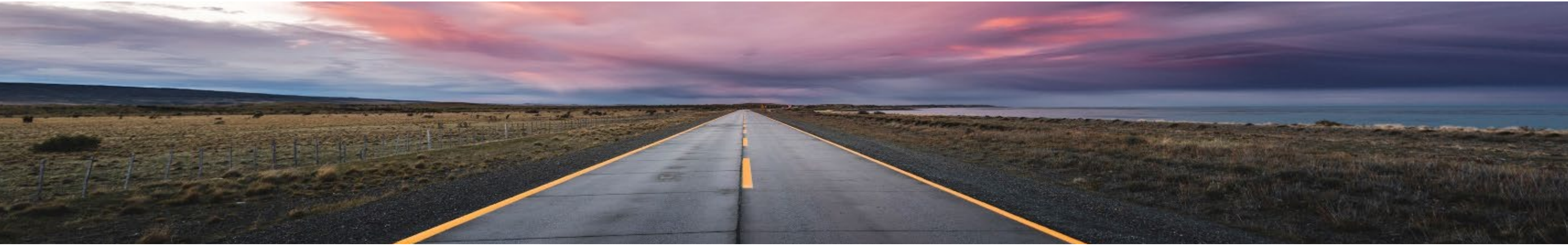
Compliance Functions

The Survey sought to determine where certain Compliance-related functions resided within company organization structures. The chart below denotes the range of responses received.

Function	Compliance	Legal	Sales & Marketing	Own Department	Line Operations	IT	Other
Advertising Review	70%	6%	16%	2%	2%		4%
Complaint Handling	68%	12%		6%	10%		4%
Replacements	24%	2%		2%	66%		6%
Licensing & Appointments	16%		8%	30%	42%		4%
AML	82%	6%			6%		6%
SIU/ Antifraud	60%	18%		10%	4%	2%	6%
Suitability/ Best Interest	32%	0%	2%	4%	48%		14%
Privacy	58%	32%		4%	2%		4%
Form Filing	48%	16%		10%	16%		10%
Oversight of Sales Practices	56%	8%	2%	10%	18%		6%
Oversight of Corp. Functions	56%	8%	2%	10%	18%		6%
Regulatory Exams & Data Calls	84%	10%		2%			4%
Vulnerable Adult & Fin Exploitation	72%	16%			8%		4%

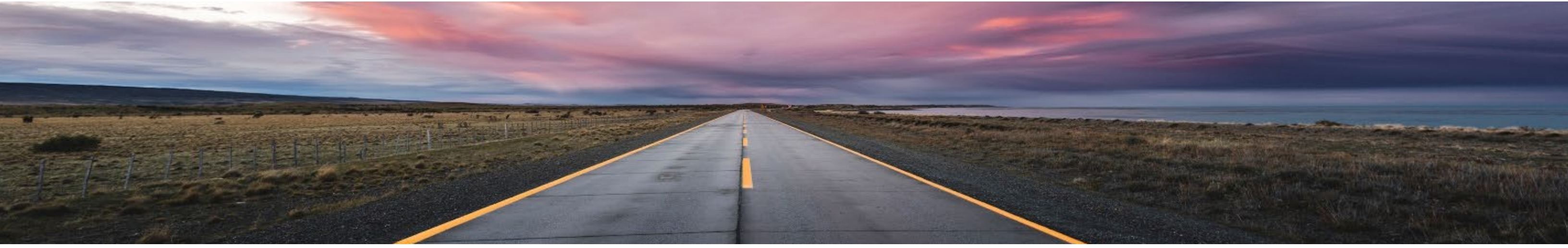
The data suggests that certain “core functions” reside primarily within the Compliance Department at many life insurance companies. These “core functions” include:

- Regulatory Exams & Data Calls.
- AML.
- Advertising Review.
- Complaint Handling.
- SIU/Antifraud.
- Privacy.
- Oversight of Operations or Corporate Functions.
- Oversight of Sales Practices.



It is interesting to note that a very high percentage of survey Respondent companies (72%) indicated that Vulnerable Adult and Financial Exploitation Concerns also reside within the Compliance Department at many life insurance companies. This data supports the relatively recent trend toward many life insurance companies dedicating resources to address Vulnerable Adult and Financial Exploitation Concerns in a manner that would suggest that these issues have become a “core function” for Compliance Departments at many life insurance companies.

The data also confirmed that several functions that may have been historically associated with the Compliance Department are now predominantly “owned” by other functional areas. For example, issues such as replacements, producer licensing and appointment and Suitability/Best Interest reviews are most commonly conducted within Operations (rather than Compliance).



Succession Planning and CCO Qualifications

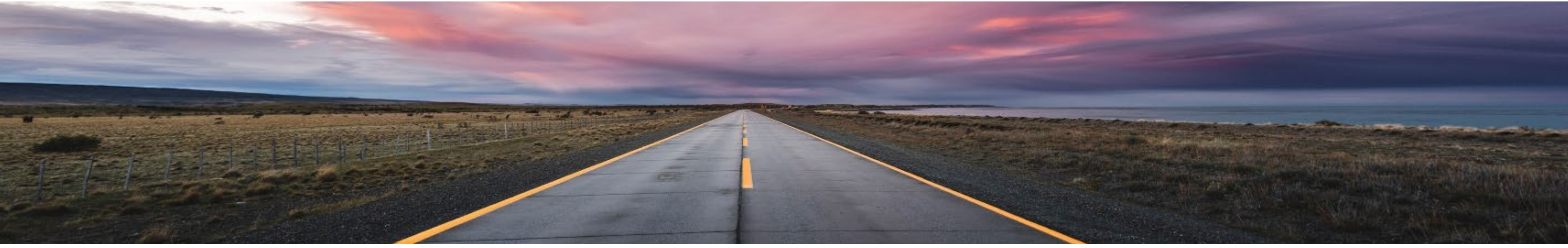
Succession Planning

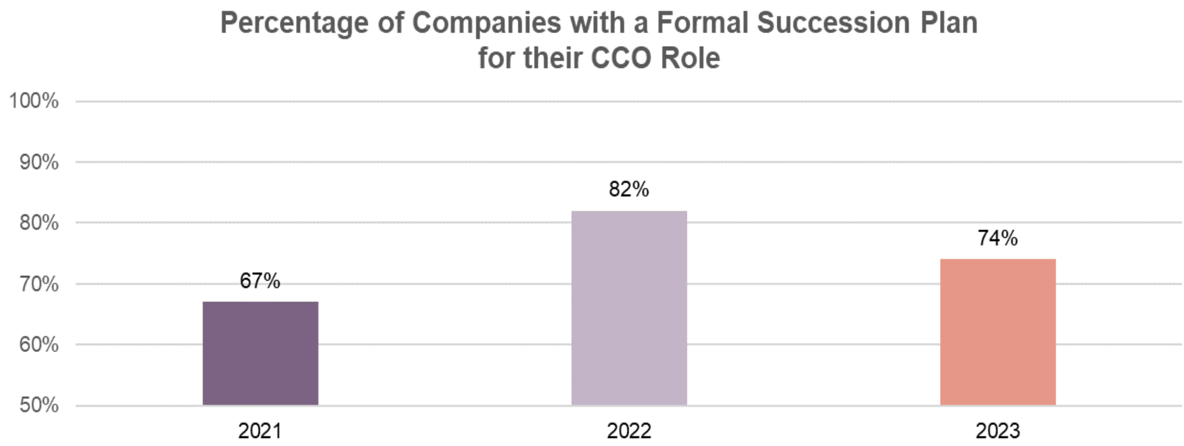
Succession planning is a challenge faced by all organizations attempting to establish continuity of leadership. These challenges also require Compliance Departments to consider the implications of changes in leadership roles within Compliance. The Survey sought to determine the extent to which companies have developed a formal succession plan in the event their current Chief Compliance Officer leaves the organization.

Many Compliance Departments across our industry should be commended for their efforts to establish formal succession plans to replace their current Chief Compliance Officer. Over the past several years, Survey results indicated a growing number of companies had developed a formal succession plan for replacing a departed Chief Compliance Officer.

The results from this year's Survey, however, indicated fewer respondent companies (on a percentage basis) have a formal succession plan to replace their current Chief Compliance Officer.

After seeing a rise from 67% of respondent companies in 2021 to 82% of respondent companies in 2022 indicating they had a formal succession plan in place, this year's Survey data indicated a slight decline to 74%.





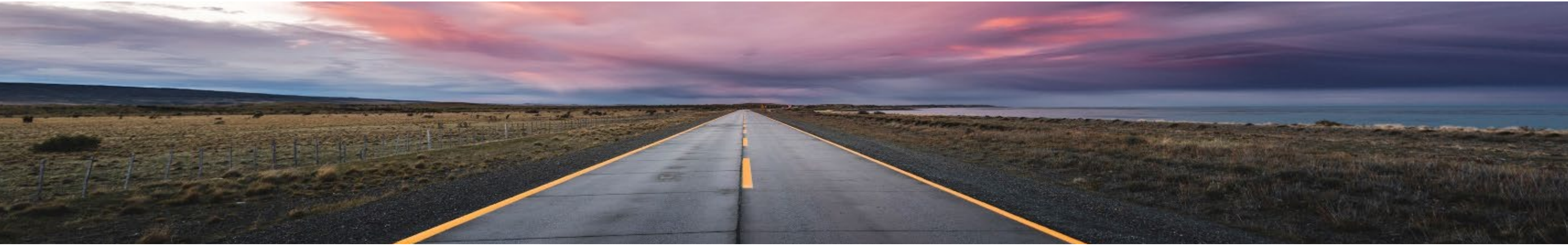
The Survey did not inquire about why companies chose not to develop a formal succession plan. However, the fact that a majority of respondent companies indicated that they have established a formal succession plan for their current Chief Compliance Officer suggests that many companies derive benefits from establishing a formal succession plan process in the event they may need to transition promptly to new leadership within the Compliance Department.

Survey responses varied materially by company size. In summary, 94% of Survey respondents representing large size companies, 65% of survey respondents representing medium size companies and 65% of Survey respondents representing small size companies indicated they have established a succession plan to address the possible departure of their Chief Compliance Officer.

Identification of CCO Candidates

The Survey also 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 (51%), their General Counsel (22%) or their Senior Compliance Management (5%). Other strategies included consultation with a team of senior leaders from Legal and Human Resources to conduct succession planning meetings to evaluate succession candidates and readiness for all key roles.

To develop their potential to serve as a Chief Compliance Officer, 81% of Survey



respondent companies indicated that Chief Compliance Officer candidates participate in Legal/Compliance industry conferences. This has been the predominant method reported in past Surveys as well.

Other ways Survey respondents indicated they have candidates develop their potential to serve as a Chief Compliance Officer included participating in life insurance industry leadership conferences; participating in internal leadership development programs within companies; participating in external leadership development conferences (i.e., non-life insurance industry-specific conferences); and participating in company Compliance rotational assignments to broaden their understanding of the Compliance function.

Education & Experience - CCOs

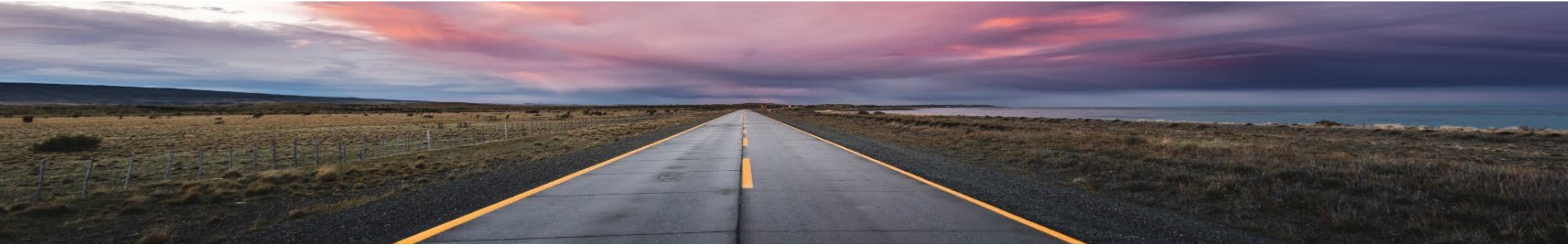
Over the years, CEFLI has fielded questions from several life insurers concerning whether companies have preferred educational and/or experience qualifications for individuals seeking to become a Chief Compliance Officer. Specifically, the Survey sought to confirm, once again, whether having a legal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

While most companies indicated their company considers a legal education to be very important or important, approximately three quarters of Survey respondent companies (74%) indicated that they do not require an individual to hold a law degree to serve as a Chief Compliance Officer. (This data supports a common perspective that has been widely held for the past several years.)

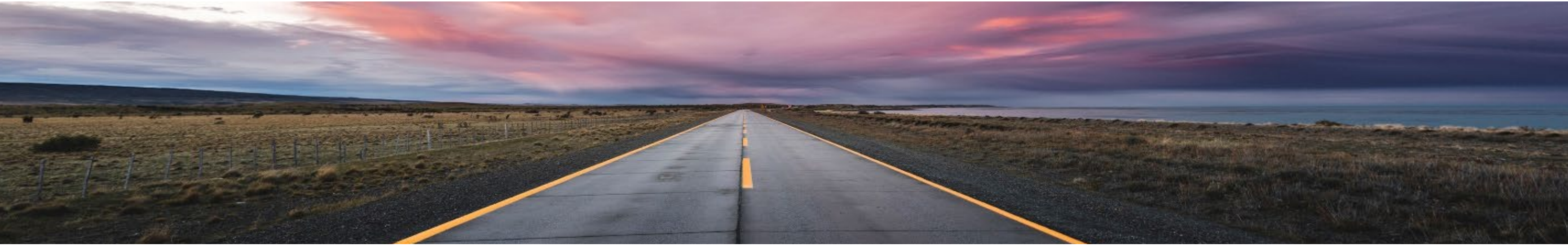
Survey responses revealed the following top qualifications as “very important”:

- Compliance experience.
- Business experience.
- Management experience.

Interestingly, 76% of Survey respondents indicated that a having a candidate with Compliance experience was very important and 48% of Survey respondents indicated that having a candidate with business experience was very important, whereas 42% of Survey respondents indicated that having management experience was very important. This data may support the view that companies place greater value on having



Compliance experience for potential CCO candidates and may be willing to provide training opportunities for candidates who possess appropriate Compliance experience but may lack relevant business and management experience.



Ethics/Business Conduct Programs

Consistent with past years' Survey results, this year's Survey gathered information about Ethics and Business Conduct programs within the life insurance industry.

Virtually all Survey respondent companies indicated their organizations maintain a written Code of Ethics or Business Conduct program. (This finding is consistent with Survey results from past years.)

The Survey also inquired about which area in life insurance companies is responsible for Ethics programs. This year's Survey results indicated a strong preference toward Compliance owning responsibility for life insurance company Ethics programs. 62% of Survey respondent companies indicated that their Compliance Department (or Compliance and Ethics Department) owns responsibility for their company's Ethics program.

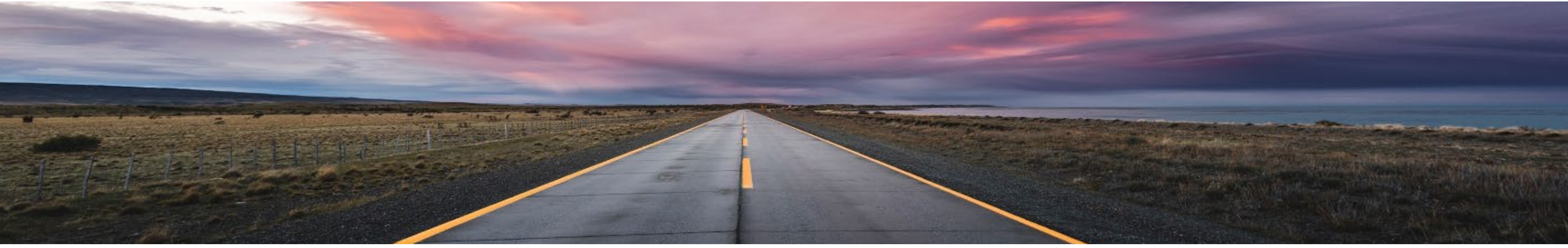
This data also confirms a growing trend toward shifting responsibility for Ethics programs away from Legal and Human Resources Departments at many life insurance companies. Moreover, given the decline in maintaining separate Ethics Departments at life insurance companies (in lieu of a combined Compliance and Ethics Department), no Survey respondent company indicated that their Ethics Department maintains responsibility for their company's Ethics program.

Elements of Ethics Programs

To the extent a Survey respondent's company maintains an Ethics program, the Survey data suggest that the elements of those programs are highly consistent across the industry. All companies maintaining an Ethics program include a Code of Ethics or Conduct as part of their program and rely upon similar elements as part of the company's Ethics program.

Elements of Ethics programs within life insurance companies in priority order include:

- Training.



- Ethics hotlines.
- Investigations.
- Annual attestations.
- Anonymous Reporting.
- Communications.

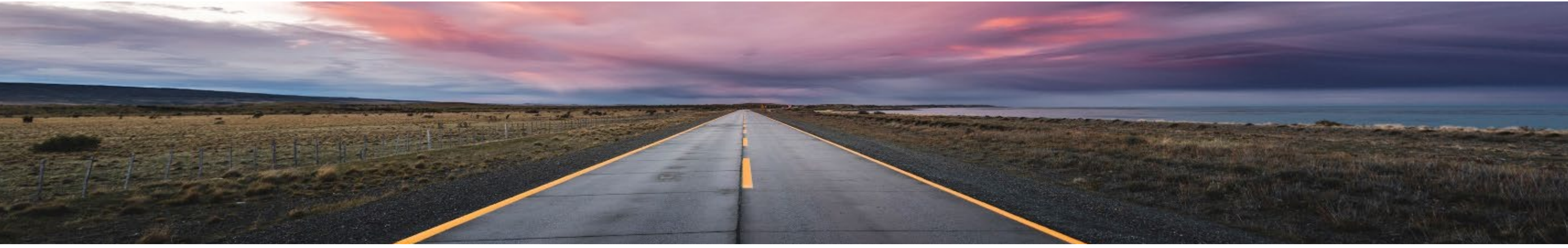
The Survey results also revealed that some companies now require an annual Conflicts of Interest Questionnaire to be completed. Perhaps, this may represent a growing change in practice designed to accommodate the Conflict of Interest provisions of SEC's Regulation Best Interest.

Hotlines

Most life insurance companies have instituted "hotlines" for reporting ethical violations as part of their Ethics programs. Most Survey respondent companies (70%) use external third-party vendors to provide this service. The finding signals that companies value the use of an external, independent resource for the handling of Ethics cases. However, it may be significant to note that an increasing number of Survey respondent companies (30%) have developed these Ethics "hotlines" internally.

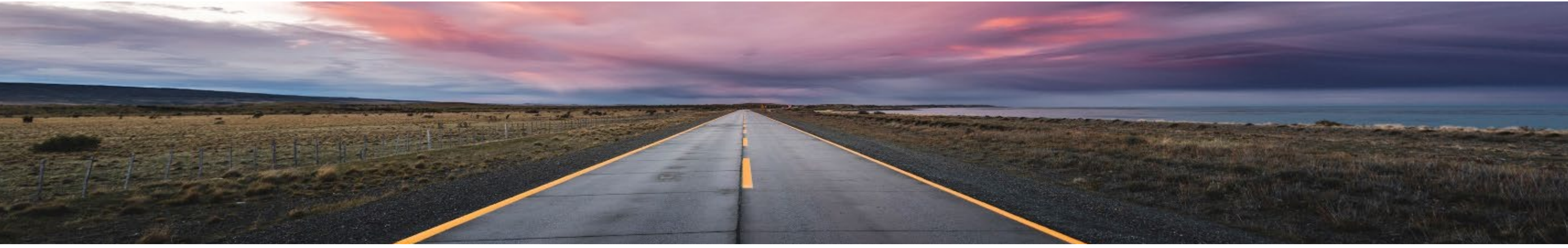
The external third-party vendors referenced in the Survey responses included: EthicsPoint, (the most prominent response), Navex Global, Compliance Line, ETHIX360, Lighthouse/Syntrio, Clearview Connects, and InTouch. Analyzed according to company size; generally, the larger the company, the greater the reliance on an external vendor.

These results signal the wide availability of external vendor solutions to provide resources for employees to report issues anonymously to a company's Ethics hotline.



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, in order of prominence, included: new hire training, company intranet, email updates and announcements, executive speeches and messages and Ethics content embedded in regular business communications. Other techniques identified to promote awareness of ethics within life insurance companies included: Requiring staff to undergo annual Ethics training and instituting an Ethics-themed week or month to raise awareness of Ethics within their organizations.



Education and Training

Once again, this year's Survey included questions designed to gauge the education and training practices of the life insurance industry. The feedback assists CEFLI in providing relevant education and training opportunities to Compliance and Ethics professionals at CEFLI Member Companies.

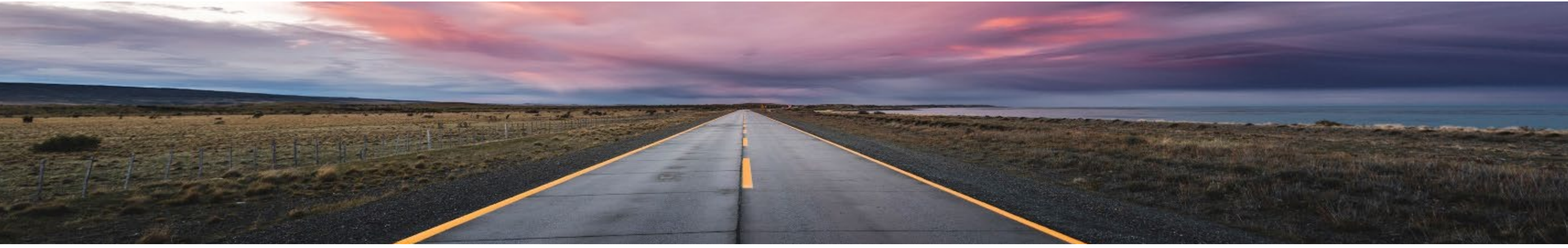
Overall, this year's Survey confirmed that 86% of respondent companies maintain their own Compliance-specific training programs. The life insurance industry is to be commended for instituting these types of Compliance-specific training programs throughout the industry. (It may be interesting to note that this data point has grown by almost 20 percentage points over the past several years.)

Internal v. External Training

The Survey attempted to gauge the extent to which Compliance education and training efforts rely upon external resources to supplement internal training or rely upon external resources exclusively for training purposes.

This year's Survey indicated that 56% of respondent companies utilize external resources to supplement their own internal Compliance education and training whereas only 14% of Survey respondent companies indicated they rely upon external resources exclusively for training purposes. (30% of Survey respondent companies indicated that their training is conducted exclusively on an internal basis.)

Given that a significant percentage of respondent companies indicated that they use external resources to supplement their own training programs suggests that many companies are tailoring their training programs (with the support of external resources) to customize their training efforts to address the unique needs of their company's product mix, distribution systems and Compliance challenges.



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 the following external training activities, in priority order, as being “very important:

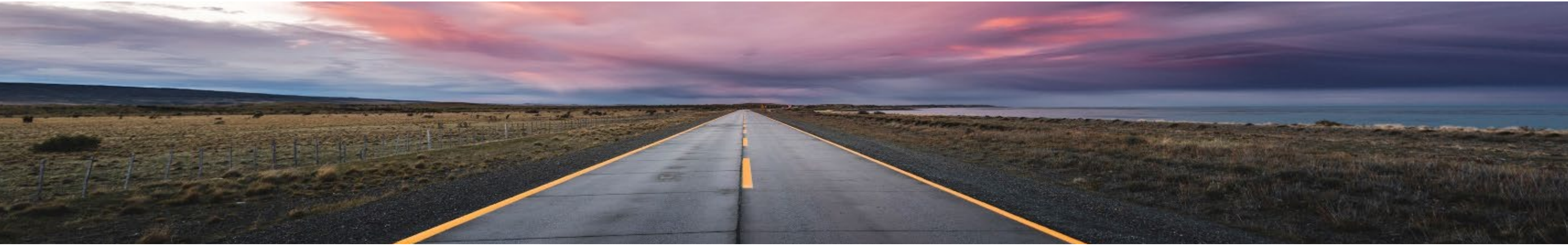
- Access to online Compliance resources including a library of on-demand recorded webinars.
- A Forum for company Chief Compliance Officers to network and discuss Compliance challenges.
- Monthly WebEx meetings to discuss current Compliance issues.
- Live webinars.
- Quarterly online meetings dedicated to specific topics such as advertising and social media reviews.
- Multi-day training for new Compliance professionals.

All CEFLI Member Company representatives are reminded that access to these education and training opportunities is available via your company’s CEFLI membership.

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 data confirmed that 94% of all Survey respondent companies reported that engaging their business partners in Compliance education and training efforts is “Important” or “Very Important.”**

Efforts to engage business partners in Compliance education and training can serve as another way to establish strong working relationships with business partners which is an essential element of being effective as a Compliance professional in our industry. It also speaks to the growing collaborative role between Compliance and business partners as Compliance is increasingly recognized as a value-added contributor to the achievement of



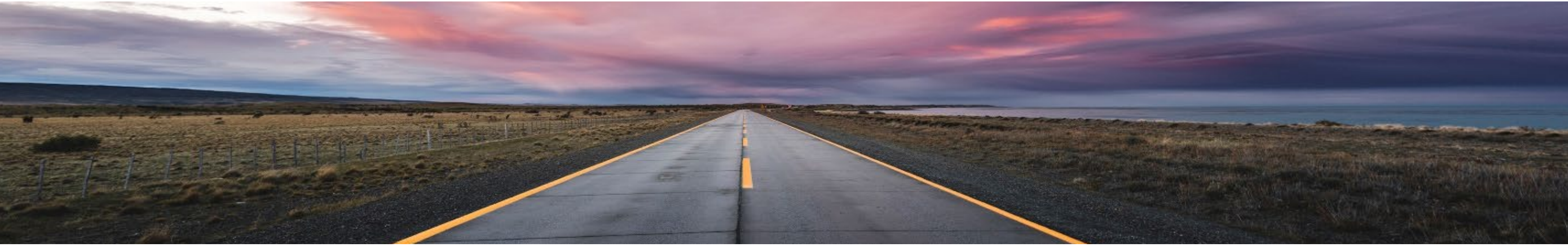
organizational goals.

Training Budgets & Conference Travel

Survey respondents were asked about the percentage of their organization's total Compliance budget devoted exclusively to education and training. **Though 36% of Survey respondent companies indicated that 1-9% of their overall Compliance budget is devoted exclusively to education and training, 20% of Survey respondent companies indicated that 50% or more of their Compliance budget is devoted exclusively to education and training.** 18% of Survey respondent companies indicated they spend approximately 10-14% of their Compliance budget on education and training. 10% of Survey respondent companies spend 15-25% of their Compliance budget on education and training.

This year's Survey results indicate that education and training activities comprise growing components of overall Compliance budgets. This indicates a reversal of the trend over the past two years which reflected a decrease in training and education budgets over the past two years. This increased emphasis on education and training as part of Compliance budgets may be due to several factors including the end of the pandemic (thereby allowing individuals to participate in more in-person training opportunities) as well as the growing complexity of new laws and regulations introduced over the past several years including the SEC's Regulation Best Interest and state adoptions of the 2020 revisions to the NAIC Suitability in Annuity Transactions Model Regulation.

The Survey also sought to determine the amount of Compliance education and training budgets devoted exclusively to industry conferences and event attendance. **Overall, 64% of Survey respondent companies indicated that up to 24% of their overall Compliance budget devoted education and training is devoted to industry conference and event attendance. In comparison, over a third allocate between 25-50% of their Compliance education and training budget to industry conferences and event attendance.**

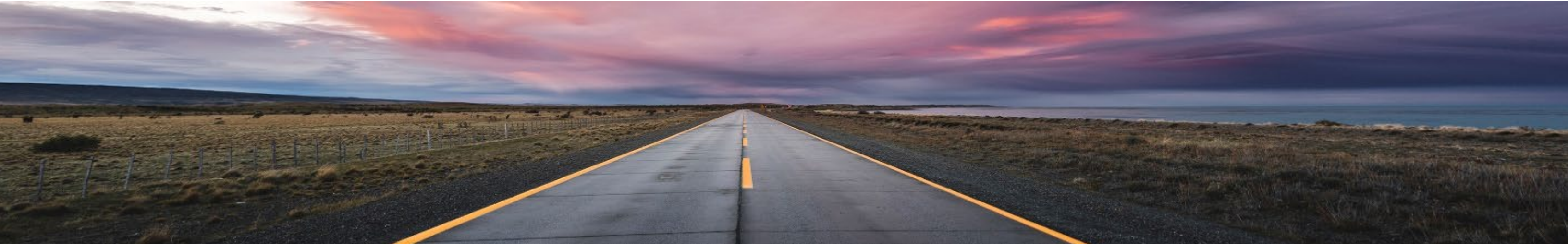


Compliance & Enterprise Risk Management (ERM)

Survey respondents were asked to indicate the extent to which Compliance is part of their company's ERM program. **This year's Survey results confirmed a continued commitment to having Compliance involved in the company's ERM processes. Overall, 82% (up from 76% in 2022) of Survey respondent companies indicated that Compliance plays an active and ongoing role in the company's ERM processes.**

94% (down from 100% in 2022) of Survey respondents from large size companies indicated Compliance plays an active and ongoing role with their company's ERM processes. 82% (up from 69% in 2022) of Survey respondents from medium size companies and 71% (up from 55% in 2022) of Survey respondents from small size companies also indicated Compliance plays an active and ongoing role with their company's ERM processes.

The Survey results reflect significant movement toward increased collaboration between Compliance and Risk Management and recognition of the value of having an enterprise (vs. entity) approach to Compliance.



Market Regulation

Overall Trends

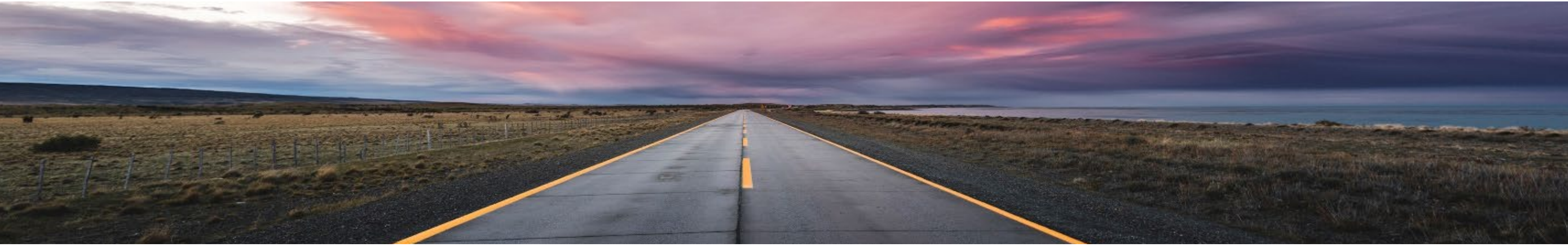
The Survey requested information pertaining to companies' experiences with market regulation activity. Market Regulation activity for this purpose includes market analysis (e.g., data calls, interrogatories, etc.); targeted market conduct examinations; and comprehensive market conduct examinations.

At the outset it may be important to note that this year's Survey introduced a new question choice to allow companies to indicate that they had not experienced the various categories of market regulation activities in recent years. This new data was incorporated into our analysis of this year's Survey responses relative to market regulation activities.

With respect to market analysis, most Survey respondent companies indicated that market analysis activity remained the same on a year-to-year basis. However, several Survey respondent companies representing large companies indicated a decrease in market analysis activity on a year-to-year basis. Alternatively, there was a notable year-to-year increase in market analysis activity reported by Survey respondent companies representing medium and small size companies.

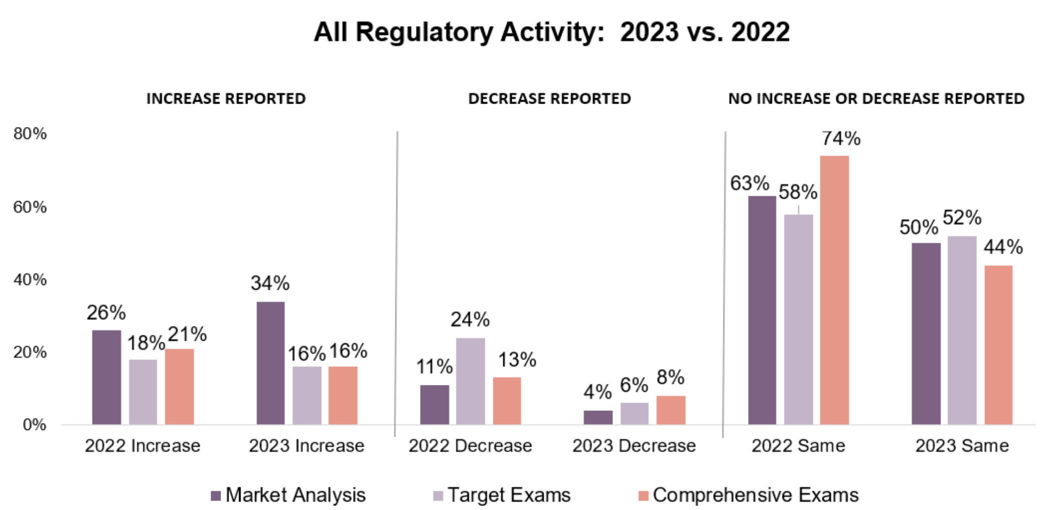
This data may support the view that, as state insurance departments continue to suffer from limited resources, market analysis may prove to be a time and cost-efficient way for regulators to conduct regulatory activities without a direct intervention (i.e., on-site targeted or comprehensive examination) at a life insurance company. Moreover, state insurance department examiners may be shifting their attention to relying primarily upon market analysis as a means to regulate medium and small size companies in lieu of other market regulation activities for large companies. Nevertheless, it was interesting to note that 35% of small companies indicated they have not had any market analysis requests in recent years which could be due to limited resources experienced by many state insurance departments.

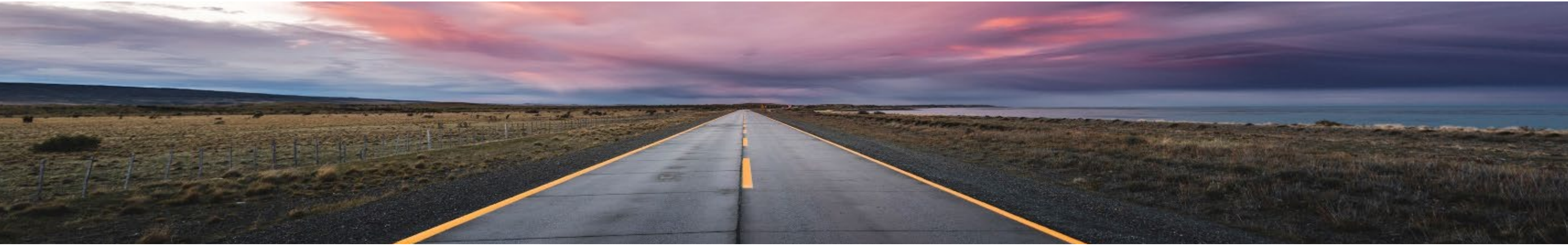
With respect to targeted state market conduct examinations, most Survey respondent companies also indicated that targeted state market conduct examination activity remained



the same on a year-to-year basis. However, an increased number of Survey respondent companies of all sizes indicated they have experienced a decrease in targeted state market conduct examination activity on a year-to-year basis. This data may confirm the view that regulators are seeking more time and cost-efficient methods (i.e., market analysis) to conduct regulatory activities. While no Survey respondent companies representing large companies indicated they had not experienced targeted market conduct examination activity on a year-to-year basis (or, stated differently, all Survey respondent companies representing large companies experienced a targeted market conduct examination on a year-to-year basis), 24% of Survey respondents representing medium size companies and 54% of Survey respondents representing small companies indicated they had not experienced any targeted market conduct examination activity on a year-to-year basis.

With respect to comprehensive state market conduct examinations, most Survey respondent companies also indicated that their comprehensive state market conduct examinations remained the same on a year-to-year basis. While it is recognized that comprehensive state market conduct examinations involve significant resources from a regulatory as well as a company perspective, recent Survey data suggests that life insurance companies continue to remain subject to comprehensive state market conduct examinations by state regulatory authorities (though it has become a less prevalent method to conduct state insurance department regulatory activities). 12% of Survey respondents representing large size companies, 24% of Survey respondents representing medium size companies and 59% of Survey respondents representing small size companies indicated they have not had any comprehensive state market conduct examinations in recent years.





Number of "Open" Examinations

This year's Survey also sought to gauge the number of "open" market examinations Survey respondent companies had incurred in the preceding 12 months. (An "open" exam means the final examination report has not been issued.)

The Survey data revealed that 100% of Survey respondents representing small companies, 82% of Survey respondents representing medium companies and 38% of Survey respondents representing large companies managed 0-3 open examinations in the preceding 12 months. Several Survey respondents representing large companies reported that they managed 4-9 examinations.

One medium company managed 13+ open examinations in the preceding 12 months.

Number of "Active" Examinations

This year's Survey also sought to determine the number of "active" state market conduct examinations companies have experienced over the past 12 months. (An "active" exam means there are continued or ongoing regulatory requests for data or other information.)

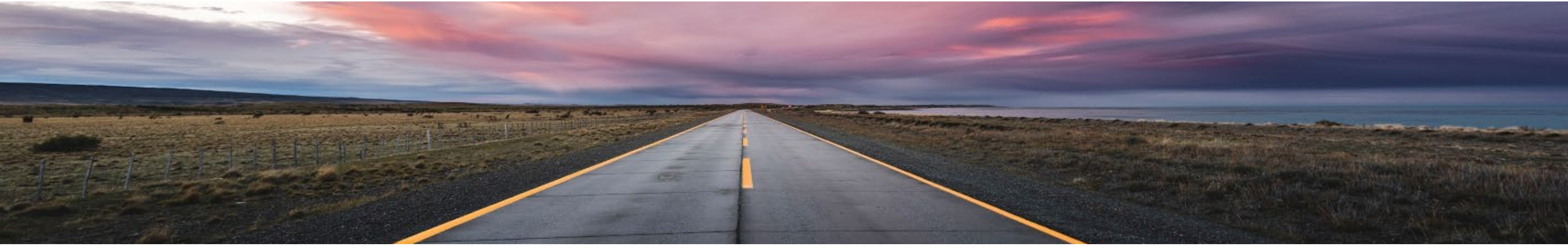
The Survey data revealed that 100% small companies, 88% of medium companies and 56% of large companies responding to the Survey had 0-3 active examinations in the preceding 12 months. Several Survey respondents representing large companies reported they are managing managed 4-12 active examinations.

One Survey respondent representing a medium company reported managing 13+ active examinations in the preceding 12 months.

Duration of Examinations

The Survey also sought to determine the duration of time between when an exam commenced and when it was "closed" (i.e., the final examination report was issued).

Survey results revealed that state market conduct examinations generally remain open for an average of 0-24 months. However, three Survey respondent companies



indicated their market conduct examinations remained “open” for 25-36 months. Additionally, one Survey respondent representing a large company reported its examinations remained “open” for an average of 49-60 months.

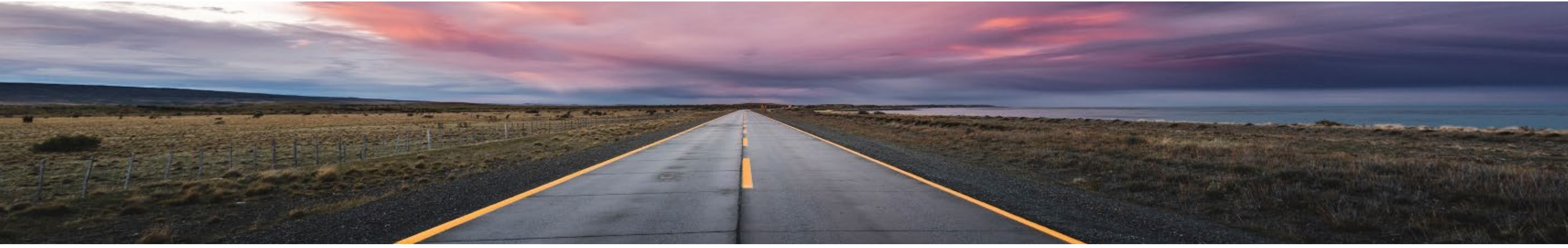
This year, the Survey offered a “Not applicable” (defined as *no market conduct examinations in recent years*) response option. 20% of Survey respondents indicated they have had no market conduct examinations in recent years.

External Cost of Examinations

This year’s Survey also sought to evaluate the external cost associated with state market conduct examinations in the preceding 12 months.

Survey results revealed that state market conduct examinations typically cost $200,000 - $249,999 for small size companies, $250,000 - $299,999 for medium size companies and $300,000 - $499,999 for large size companies.

Since the values above reflect only the *regulatory examination* expenses (i.e., examiner travel expenses, per diems, hourly rates billed for the examiners and department staff involved with examinations, etc.), it is recognized that companies also incur internal (i.e., staff time and other opportunity costs, etc.) and other external (i.e., outside counsel, fines, etc.) costs associated with managing market conduct examinations when determining the total annual cost associated with managing market conduct examinations.



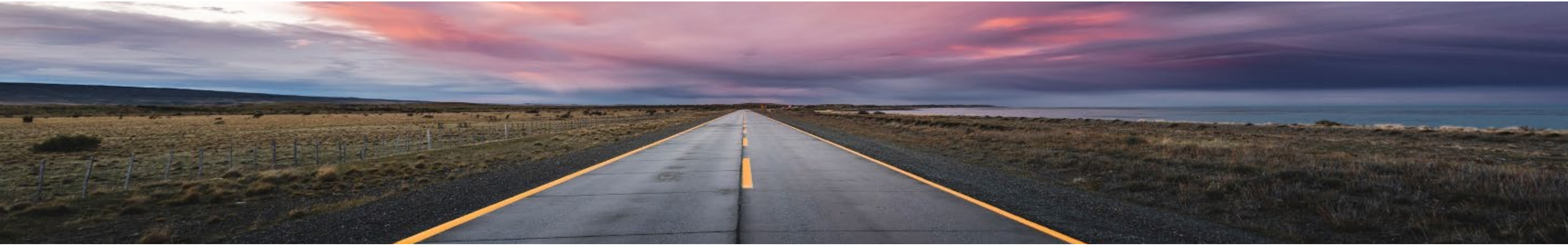
2023 Challenges

Top Challenges - All Companies

This year’s Survey once again asked respondents to evaluate the Compliance issues that consumed significant Compliance resources year-to-date. The results in priority order were as follows:

- Privacy (the #1 challenge noted in 2022).
- New Product/Innovation Initiatives.
- Data Governance/ Records Mangement/ Record Retention.
- Cybersecurity.
- The Rate of Regulatory Change (i.e., New or Revised Rules, Regulations, and Directives).
- Fraud Prevention, Reporting, and Investigation.
- Compliance Oversight of Operations or Corporate Functions.
- Compliance Oversight of Sales Activities.
- State DOI, SEC Regulation Best Interest, and/or DOL Fiduciary Rule Standards Implementation Efforts.
- Technology and Innovation Strategies (including Electronic Signatures/Policy Delivery).

Not surprisingly, Privacy and Cybersecurity continue to be top challenges for the life insurance industry, along with product innovation and managing regulatory change.



2024 Challenges

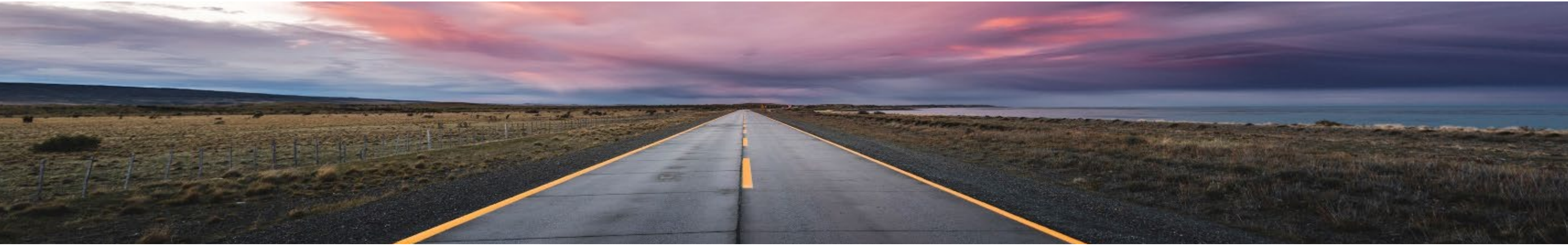
Top Challenges - All Companies

This year's Survey also asked Survey respondents to again predict what the most significant Compliance challenges may be for life insurance companies in the next year (as of May 2023). The results in priority order were as follows:

- Artificial Intelligence (a new survey option this year).
- Privacy (the #2 challenge noted for 2023).
- Cybersecurity (the #1 challenge noted for 2023).
- State DOI, SEC Regulation Best Interest, and/or DOL Fiduciary Rule Standards Implementation Efforts.
- Technology and Innovation Strategies (including Electronic Signatures/Policy Delivery).
- The Rate of Regulatory Change (i.e., New or Revised Rules, Regulations, and Directives).
- Accelerated Underwriting Initiatives.
- Data Governance/ Records Management/Record Retention.
- Environmental, Social & Governance (ESG).
- Fraud Prevention, Reporting &Investigations.

The data reveals specific contemporary challenges facing the life insurance industry including artificial intelligence and privacy matters.

As the life insurance industry increasingly relies on technology, Compliance professionals may need to enhance their technology skills and grow their knowledge as they support the analysis and implementation of compliant technology solutions and related controls.



Value of the Survey Data

Finally, this year's Survey also asked respondents to assess the value of CEFLI's 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 4.1**.

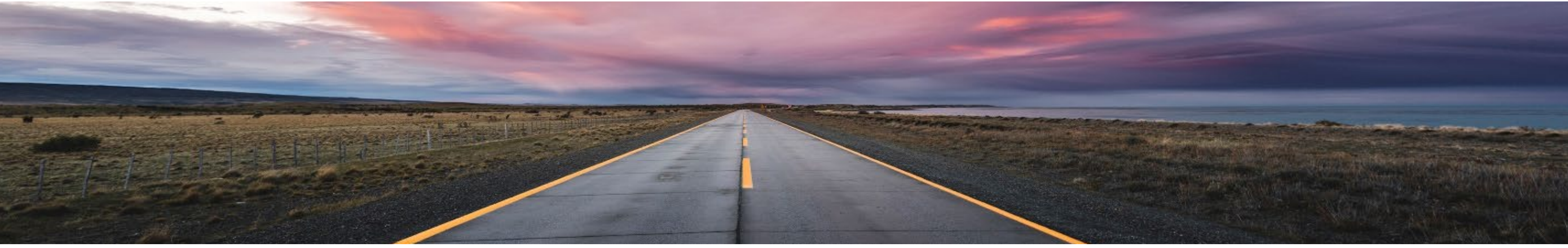
A total of 80% of Survey respondents indicated the data from the Survey provides "Material Value" or "Significant Value" to the company's CCO.

The Survey Provides Material or Significant Value to the CCO

80%

Affirmative Response

In summary, Survey respondents confirmed that CEFLI's Annual Compliance and Ethics Benchmarking Survey is a valuable resource to company CCOs as they seek to manage company risk, identify future areas of Compliance focus, conduct budgeting activities, and as they work to develop the knowledge and skill set of their Compliance staff and their current and future Compliance leaders.



Summary

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

As noted in the report, the research shows that 80% of CCOs find the data derived from the Survey to be of “Material Value” or “Significant Value.” Accordingly, we hope readers of the 2023 CEFLI Compliance and Ethics Benchmarking Survey Report leverage the information contained within the Report when benchmarking their Compliance and Ethics strategies to others in the life insurance industry.

CEFLI Members can access a copy of this Benchmarking Report, along with past Compliance & Ethics Benchmarking Reports, on this page of CEFLI.org. Your CEFLI logon and password are required to access the content.

CEFLI expresses its sincere thanks to the companies who participated in this year’s Benchmarking Survey. Their active engagement in the Survey process makes it possible for CEFLI to offer benchmarking information to our Members.

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