



Compliance to power performance

2016 Insurance Ethics and Compliance Survey

Executive summary

As demands on the compliance function continue to increase in an era of enhanced regulatory scrutiny, data from the 2016 Deloitte Insurance Ethics and Compliance Survey demonstrate a correlation between financial performance metrics and the maturity level of insurance compliance and ethics programs.¹

The challenge for both compliance personnel and other members of the C-suite may be how to successfully transform the function to address the increasing requirements and differing skill sets needed to not just react to, but to anticipate changes in the business, consumer, and political environments and enable insurers to minimize the reputational and operational risks that can follow compliance failures and position the company for sustainable growth.

Fortunately, there are signifiers of a high maturity compliance function that provide guideposts for companies seeking to move their compliance functions from "good" to "great", and the data provide evidence that, for these companies, both quantitative and qualitative rewards may await.



The new story of compliance: Powering performance

Today's "great" compliance function is increasingly considered to be an asset to insurers, where investment in the function is associated with increased top and bottom lines, as well as lowered danger of reputational and other risks. It is not just an overhead cost driven by regulatory demand as those more distant from its evolution may assume.

Few would deny that the compliance function in financial services institutions, including insurers, has evolved in the recent past. It would probably be just as difficult to deny that the extent of evolution varies between firms.

The truth enumerated in a seminal October 2008 letter from the Board of the Governors of the Federal Reserve System (Fed) on

compliance in the banking sector—later extended to include the savings and loan holding companies (SLHCs) regulated by the Fed, including those owned by insurers—is probably just as valid today for the insurance industry:

"In recent years, banking organizations have greatly expanded the scope, complexity, and global nature of their business activities...A firmwide compliance function that plays a key role in managing and overseeing compliance risk while promoting a strong culture of compliance across the organization is particularly important for large, complex organizations that have a number of separate business lines and legal entities that must comply with a wide range of applicable rules and standards..."²

"While firmwide compliance risk management programs and oversight at the largest supervised banking organizations have generally improved, the level of progress at individual banking organizations varies and opportunity for improvement remains. The Fed strongly encourages large banking organizations with complex compliance profiles to ensure that the necessary resources are dedicated to fully implementing effective firmwide compliance risk management programs and oversight in a timely manner."³

The timing of the Fed letter is almost self-explanatory. It followed a number of failures within the financial services sector during 2007 and 2008. These failures were attributed in part to "lax" regulatory oversight⁴ and were estimated in a Dallas Federal Reserve working paper to have cost the economy a minimum of \$6 trillion to \$14 trillion.⁵

Given that cost, it would seem reasonable to assume a resulting increase in political pressures and regulatory burdens on financial services institutions and on regulators. That did happen. Indeed, from the enactment of the Dodd-Frank Act, through the Solvency Modernization Initiative of the National Association of Insurance Commissioners (NAIC), and the institutionalization of international macroprudential insurance regulation by the International Association of Insurance Commissioners (IAIS) along with the Department of Labor's (DOL) recent Fiduciary Standards Rule, the regulatory landscape today is vastly different than 10 years ago.

Consequent demands on the compliance function have dramatically increased. No regulator wants to miss the signs that portend another crisis, and given the reputational damage to the financial sector after the last downturn, neither should any member of industry.

In that context, there should seem no need for the Fed to encourage organizations to "ensure that the necessary resources are dedicated to fully implementing effective

firmwide compliance risk management programs and oversight.”⁶ However compliance and ethics programs have often suffered from a misperception of their value, resulting in compliance being sometimes looked at purely as a cost center dedicated to satisfying ever more demanding regulators with little real value added to the larger organization.

This is clearly not true. A quick glance through the business pages of the newspapers just in the recent past demonstrates unequivocally the importance of effective compliance and ethics programs. Across financial services and in numerous industries, severe reputational damage and destruction of shareholder value can be attributed to ineffective compliance.

The problem for the compliance function is that it is never easy to prove a negative. Compliance functions have often been predicated on avoiding fines and penalties from regulators. It is exceedingly difficult—especially in the US insurance industry where in addition to the 56 regulatory jurisdictions in the NAIC, there is a cast of other regulators including the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and the DOL—for any reasonable assumption to be made about the value of the fines and penalties avoided. Consequently, it is difficult to impute a return on the investment made in the compliance function, and thus to justify that investment, especially in a period of scarce resources.

This may be as obvious an example of insurance as the rest of what is called the McNamara Fallacy. This is named after the former US Secretary of Defense in the Vietnam era, Robert McNamara, who assessed American effectiveness in the Vietnam War through what could be counted, such as the number of bombs dropped. McNamara believed in the effectiveness of quantitative measurements above all else. Eventually, many of the American people rejected such a quantitative-based assessment as truly representative of progress in the war.

The McNamara Fallacy as attributed to Charles Handy goes, “The first step is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard that which can’t be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume that what can’t be measured easily really isn’t important. This is blindness. The fourth step is to say that what can’t be easily measured really doesn’t exist. This is suicide.”⁷

There is much in business that cannot be measured, which is especially true when it comes to compliance. How, for example, does one measure the value of a compliance and ethics program that is highly regarded by regulators? Does it mean faster speed to market for products? Does it mean more leeway in designing new products?

What about the effect of that compliance and ethics program on consumers? How much does it contribute to the customer perception of trust and integrity when a consumer approaches a company with a deep belief that its values are aligned with her own? How attractive is it to a potential customer that each employee with whom he interacts exhibits a similar commitment to ethical behavior?

Former Deloitte LLP Board Chair Sharon Allen said, “Ethics, or the price of right, is essentially priceless. Once a reputation is lost, no amount of money can buy it back.”⁸ Given the effect on stock value of headlines about ethical lapses, that seems to be common sense, even though much of the effect of an effective compliance and ethics program may not be easily measured and should not be given an arbitrary quantitative value. But it does exist, and it is important. Companies who have recently reported compliance or ethics failures have learned the hard way that these type of issues can have extreme effects on market capitalization.

Compliance: Measuring the benefits

We begin by measuring that which can be easily measured. As explained in figure 1, the Deloitte Center for Financial Services conducted a survey of senior executives from 15 of the largest US life and property and casualty (P&C) insurance companies in the summer of 2016.

The goal of this study—the 2016 Deloitte Insurance Ethics and Compliance Survey—was to understand how certain insurers are reacting to changes in the compliance function in the recent past as the demands of both the regulators and the

marketplace have grown, and how spend on a compliance function affects results. The results of the survey may not be fully representative of the larger industry. We focused the survey on the largest US life and P&C companies in an effort to maximize our chances that all the companies surveyed had the necessary resources to create state-of-the-art, effective compliance functions if they so chose.

Based on the results of self-rating of key compliance and spending parameters, companies were separated into two

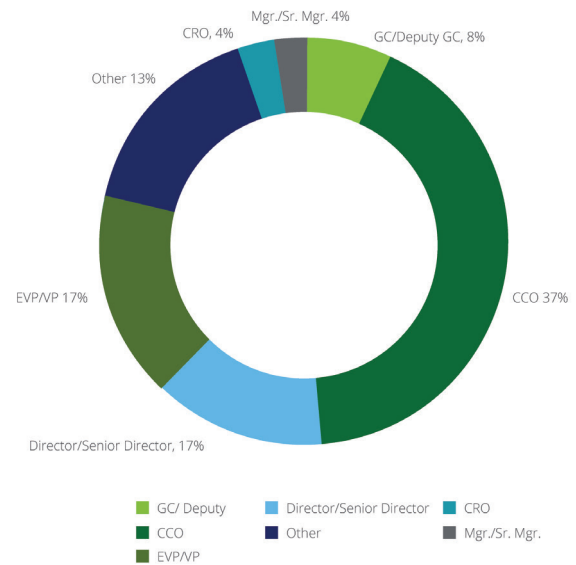
compliance maturity categories—higher and lower maturity—using the Deloitte compliance maturity framework as a benchmark.

The results of the survey: Today's great compliance function should be considered an asset to insurers, where investment in the function is associated with increased top and bottom lines as well as lowered danger of reputational and other risks.

Figure 1. About the 2016 Deloitte Insurance Ethics and Compliance Survey

- Senior-level executives from 15 of the largest US life and P&C insurance companies participated in the survey.
- Two categories of compliance maturity (higher and lower maturity) were created based on the Deloitte compliance maturity framework.
- Compliance programs of select companies were analyzed in detail to serve as calibration points for the compliance maturity categorization.
- Respondents were asked to rate several key compliance and spending parameters. These responses were used to classify the companies into one of the two maturity categories.
- Financial parameters from statutory financial statements were analyzed and compared to the responses to understand the differences in financial performance.

Respondent profile



Why compliance has evolved

Life insurers have a textbook example of how regulation has changed in the past few years and the effect it has had on both the compliance function and on insurers.

At the turn of this decade, regulators began to examine the relationship between life insurance policies and unclaimed benefits. Some insurers had been using the Social Security Death Master File to verify the status of those who received annuity payments, but not to see if insureds covered by their life policies had died with proceeds that had gone unclaimed.

According to an NAIC report, insurers must report the proceeds of policies that are not claimed under state unclaimed property laws that are generally based on the Uniform Unclaimed Property Act (UUPA). The NAIC

noted, "According to the UUPA, life insurers have no proactive duty to determine whether an insured had died in order to make sure life insurance benefits are paid."⁹

Nonetheless, regulators decided that this heretofore standard industry practice violated insurance regulations. Numerous life insurance companies were fined and billions of dollars were returned to consumers. Aggregate fines for just 10 of the companies exceeded \$150 million.¹⁰

This is an indicator of the difference between the compliance responsibility that was and the compliance mindset that is now expected. In the past, an effective compliance and ethics program could well have been one that checked all the boxes with strict interpretations of regulatory requirements

and avoided any immediate repercussions from regulators.

As the unclaimed benefits issue demonstrates, however, expectations keep rising. A standard business practice is no longer enough to provide a safe harbor. The fact that a regulator may not have been concerned with a practice in the past does not mean that the regulator will not act in the future, more so if he considers that the rules were being followed in letter only and not in spirit.

Compliance is no longer a reactive function. To be effective, it has become and must be not only a proactive function that continually evaluates and influences strategic decisions, but a mindset that drives all employees to consider ethics and compliance risks when



making decisions because it is in the DNA of the company.

That should not be a surprise. As shown in figure 2, various political and regulatory directives have steadily broadened the scope of compliance and the demands on the function. Even before the financial downturn, the Foreign Corrupt Practices Act (FCPA) of 1977, Sarbanes-Oxley, and the Justice Department’s Thompson memo of 2003 and superseding McNulty memo of 2007 listing the “Principles of Federal Prosecution of Business Organizations,” had been among the factors driving an

increase in the importance and centrality of the compliance function.

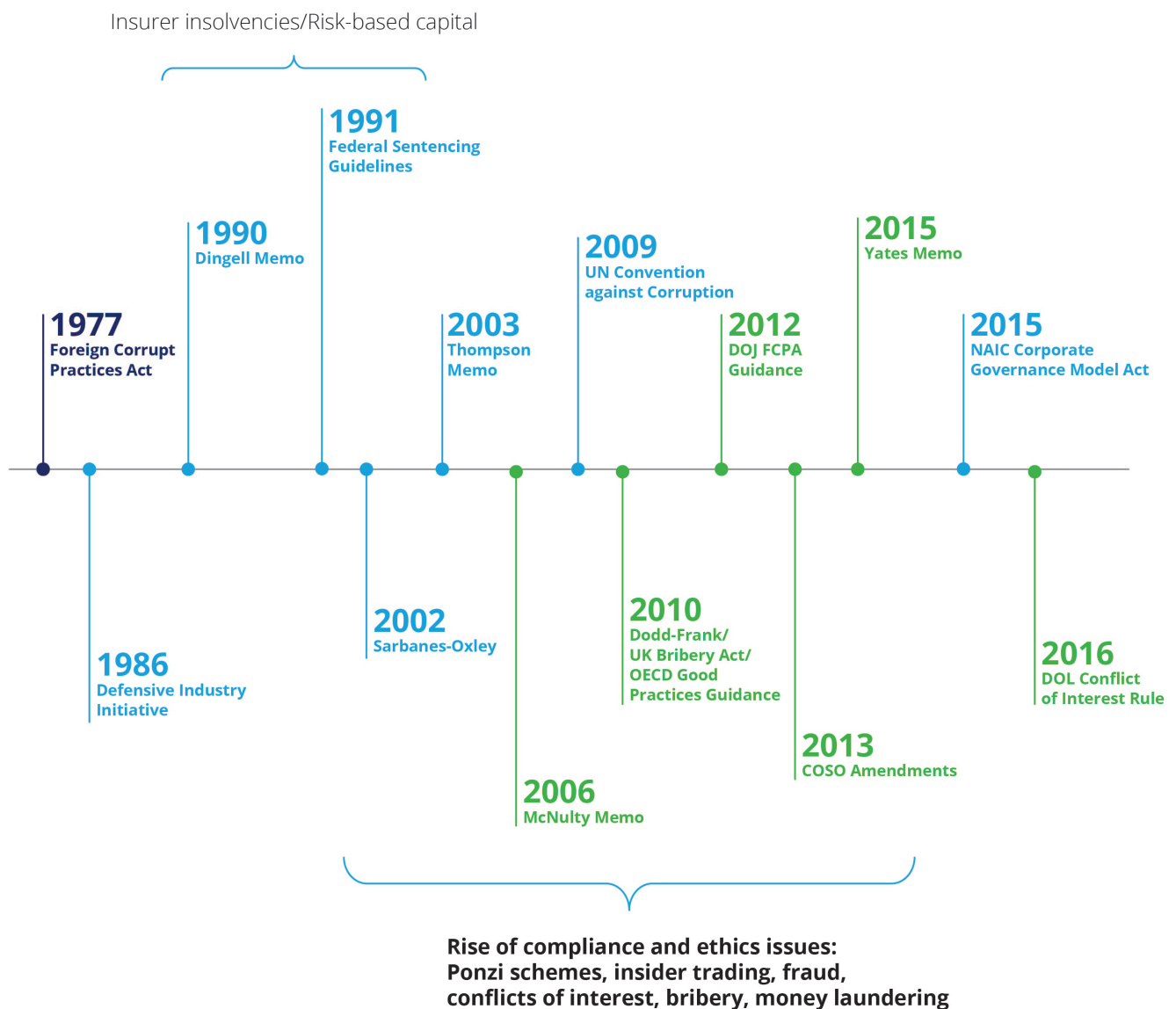
In recent years, insurance regulators have increased their focus on compliance and their demands of the function. In the US, the NAIC’s Own Risk and Solvency Assessment (ORSA)—derived from the IAIS ORSA—in part encourages insurers to view compliance and enterprise risk management as an integral business planning tool and not as a regulatory exercise.

More recently, the IAIS issued a paper on

conduct of business risk, urging supervisors worldwide to take a forward-looking approach, which supervisors may expect in-turn from compliance personnel.¹¹

The NAIC also has adopted a Corporate Governance Annual Disclosure Model Act, reflecting the regulatory belief that an effective corporate governance and risk management structure—including a compliance function with sufficient authority and influence—is necessary for the protection of consumers and the successful conduct of the business of insurance.

Figure 2. Factors influencing the evolution of the compliance function



How compliance has evolved

So what does the transformation process for a compliance function look like? As shown in figure 3, the goal is to move compliance from a past state as a transactional, process-oriented function focused on cleaning up compliance failures to a forward-thinking, analytics-based function serving as a trusted business advisor whose goal is helping to achieve business goals.

Risk powers performance, especially in an era of relatively slow, steady economic growth. Without low hanging fruit, increasing performance may be dependent on innovation in various areas including product development and distribution.

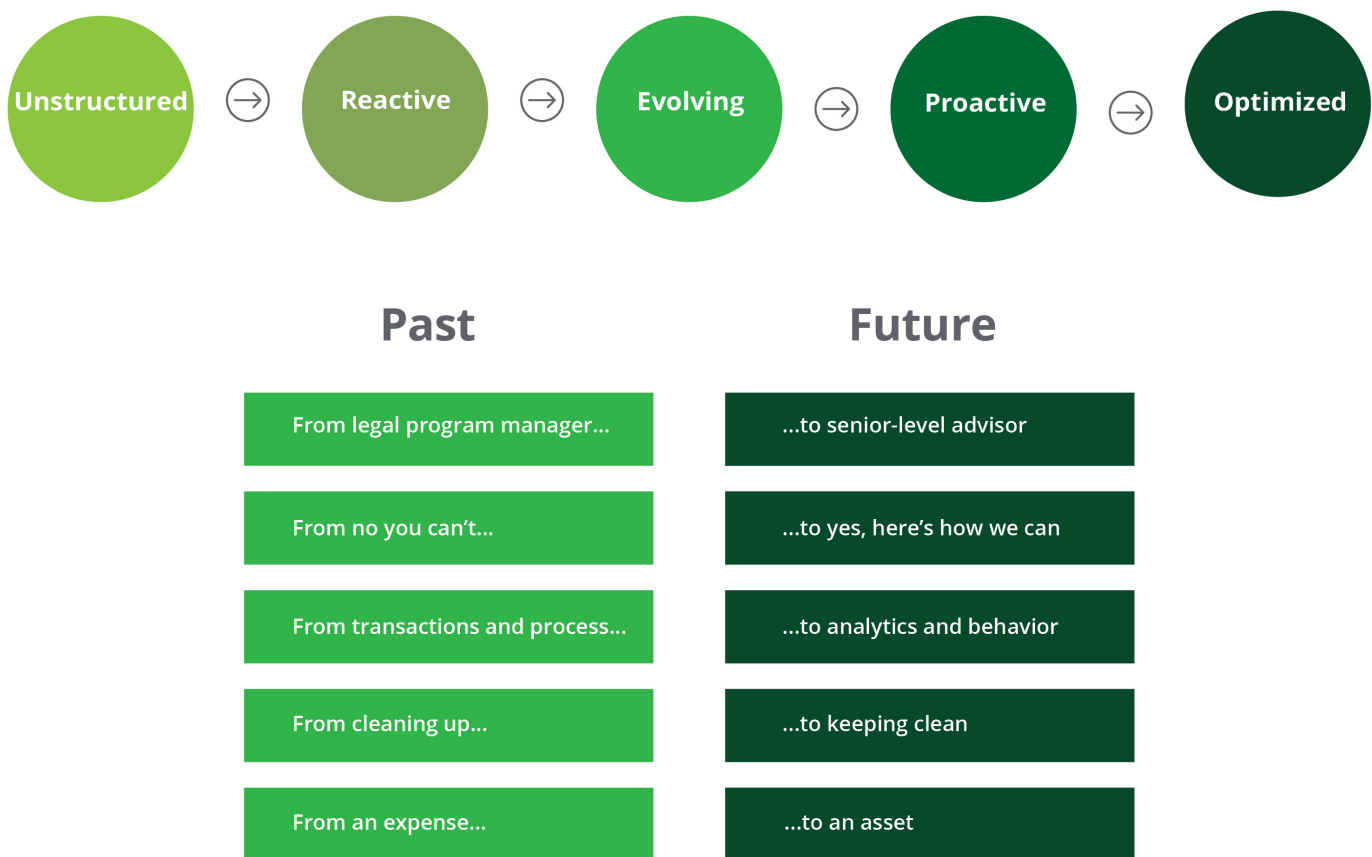
The compliance function of the future will need to be designed to enable positive risks. With a technological basis in analytics and a grounding in behavioral economics, the forecasting capability of such a function may help insurers avoid the risk associated with business as usual during eras of changing consumer or regulatory expectations.

As noted in figure 3, the compliance function then serves to help keep the organization clean—in accord with consumer and regulatory expectations and minimizing reputational risk—rather than having to clean up the damage resulting from dissonance between new expectations and old behaviors, as may be exemplified in the unclaimed benefits issue.

Even then it may still not be possible to fully and accurately quantify the positive effects of a high maturity compliance and ethics program. As the function becomes a business partner and advisor rather than a legal program manager, it may become more evident that compliance is an investment and an asset helping to preserve and drive a more prosperous future for an insurer.

With the increasing importance of the compliance function must come a recognition of the important role of its leader: the chief compliance officer (CCO). CCOs may already be familiar with the ambivalent reception they sometimes

Figure 3. The evolution of the compliance function



receive. But as with CFOs before the transformation of the finance function in most insurers, this may be more of a reaction to one element of the function's responsibilities, albeit one that is primary in less mature compliance functions.

If compliance exists only to say no, then the CCO may be considered by some as simply the chief naysayer. However, as the function evolves and becomes that trusted business advisor, that CCO role should be transformed—as is the function—into a senior business partner and strategic advisor, enabling the businesses to say yes to effective risk-taking and innovation.

That is reflected in the four faces of the CCO as shown in figure 4. The roles of steward and risk manager are integral to the performance of the CCO, but they are not the only faces the CCO has. Ironically, evolving into a strategist and communicator, providing ethics and compliance leadership throughout the organization, and promoting that culture of ethics throughout the organization makes it easier for the CCO to perform the role of risk manager or steward.

Leadership and communication help infuse a culture of ethics throughout the organization. The ideal is that every single decision made in an organization reflects that clearly understood ethical culture. Call it a principles-based approach if you will, it provides the flexibility to help enable an organization to avoid the “conduct of business” risk that is a concern of regulators worldwide.

In a recent issues paper, the IAIS said: “Conduct of business risk can be described as the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers.”¹²

“Fair treatment of customers” may seem a nebulous concept, but that framework is at the heart of current regulatory thinking on market conduct. It represents regulatory movement away from a strict rules-based approach to one where the principle is expected to determine and is used to assess the outcome.

It is worth noting that regulators no longer see compliance failures as isolated bad behavior with little impact on the industry or the broader economy. Regulation since the fiscal downturn has had a major focus on the preservation of the broader economic system and the reduction of systemic risk. There can be little doubt that regulators will move rapidly to ensure any possible systemic risk is reduced.

In that light, the importance of one sentence in the IAIS issues paper on conduct of business risk should not be minimized or ignored. It hints at the importance regulators attach to effective compliance and provides insight into levers that may be used to enable strong regulatory response to a compliance failure. That sentence is: “The recent financial crisis has also highlighted that poor conduct of business can give rise to systemic risks.”¹³

If regulators attach such importance to compliance, it may only be logical for forward-thinking insurers to follow their lead.

Figure 4. The evolution of the role of the chief compliance officer

The four faces of the CCO



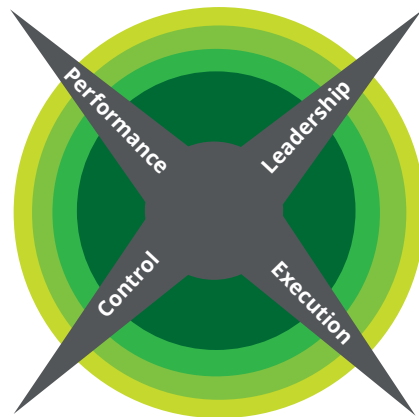
Communicator

Promote a culture of ethics and compliance throughout the organization



Steward

Assume ownership and identify accountability for ethics and compliance processes, controls and technology tools



Strategist

Provide ethics and compliance leadership for the organization and its businesses



Risk manager

Lead organization-wide efforts to identify, prioritize, and mitigate ethics and compliance risks

How compliance powers performance: Survey says

Figure 5 summarizes the results of the 2016 Deloitte Insurance Ethics and Compliance Survey. In general, across industries, compliance spend has been moderately increasing in the recent past, according to an annual compliance survey conducted by Deloitte and *Compliance Week*.¹⁴

We began with the premise that spending does not necessarily equal performance and sought to determine what the difference was, if any, between “spend” and “investment” in the compliance function and what effect that had on both the compliance function in the organization as a whole.

As shown in figure 5, based on the responses to our survey, we determined that many of the respondent companies chose to systematically and continuously invest in their compliance and ethics programs. This was not an ad hoc investment or series of investments in

reaction to any particular event, but part of a corporate plan to increase the functions and capabilities of compliance and ethics program.

In our view, the resulting qualitative increase in the abilities and maturity level of the compliance function can best be described as a movement from “good” to “great.”

Great compliance and ethics programs have certain characteristics in common. As our colleagues Nicole Sandford and Maureen Mohlenkamp noted in their research, the first ingredient in a world class compliance and ethics program is the attitude that senior management sets, known as “tone at the top.”

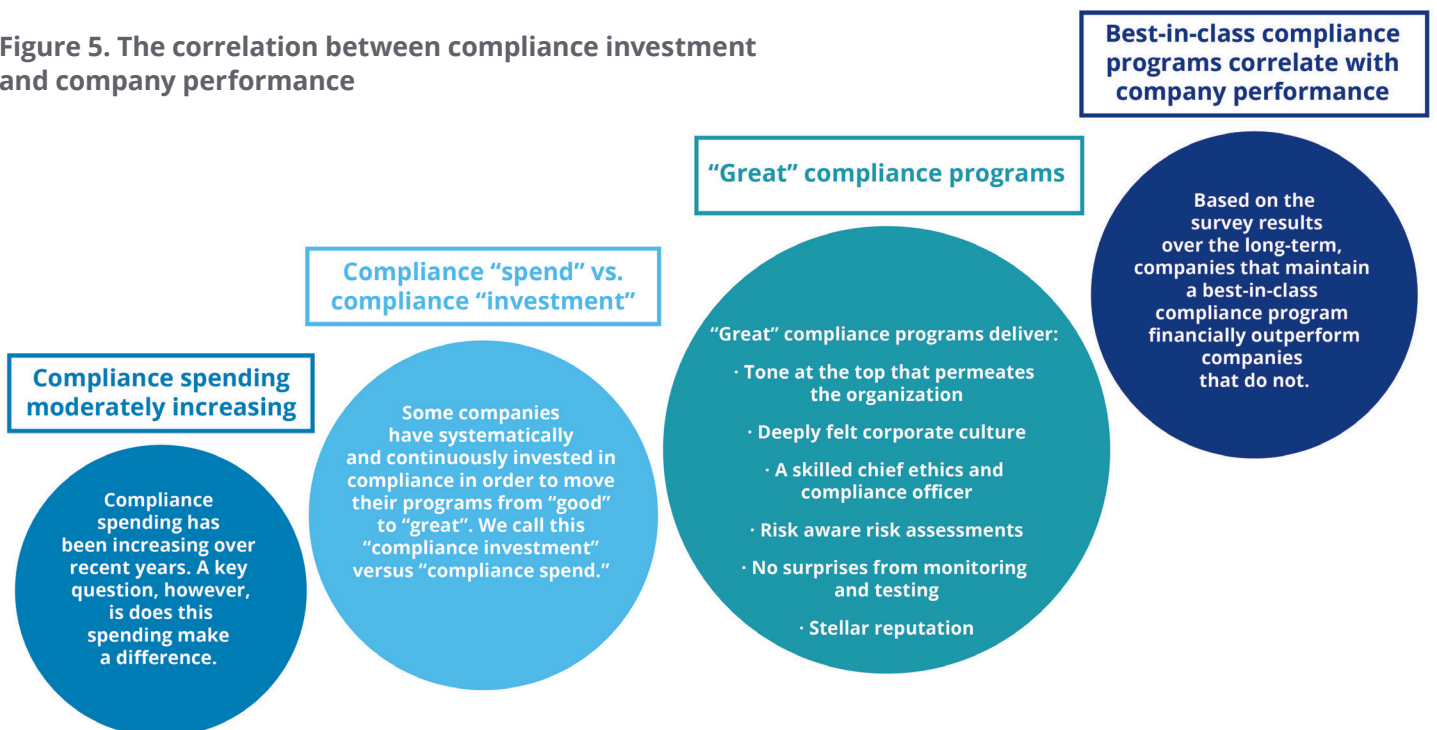
“The tone at the top sets an organization’s guiding values and ethical climate. Properly fed and nurtured, it is the foundation upon which the culture of an enterprise is

built. Ultimately, it is the glue that holds an organization together,” Mohlenkamp and Sandford said.¹⁵

Survey participants cited the active and visible leadership and genuine support from the CEO and senior management as a driving reason for embracing compliance as an essential responsibility at all levels in the organization.

Great compliance programs also have a deeply felt corporate culture where the tone at the top is transmitted throughout the organization. The presence in the organization of the chief compliance officer and/or chief ethics officer is important, partly because of the message it sends about the importance of compliance and ethics in the organization, and partly because there needs to be accountability to facilitate an ethical compliance culture.

Figure 5. The correlation between compliance investment and company performance

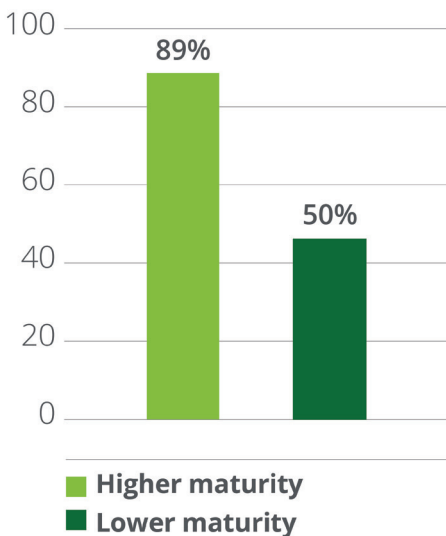


Ongoing risk assessments and monitoring and testing to avoid surprises are other important attributes. Combined, these attributes tend to lead to a stellar reputation for the compliance and ethics program and for the organization as a whole.

In real life, insurers may have a way to go in transmitting the tone at the top throughout the organization, based on the results of our survey. Survey responses indicate there is a significant difference between the respondent companies with higher maturity compliance functions and those with lower maturity compliance functions (see figure 6).

Figure 6. Tone at the top

The compliance and ethics tone from the top is highly correlated with where a company is on the maturity continuum of effective compliance and ethics programs. Half of respondents from lower maturity companies feel that their company is very effective in setting a tone at the top regarding ethical behavior and compliance compared to 89 percent of respondents from higher maturity companies.



At nearly nine out of 10 respondent companies with higher maturity compliance functions, CCOs believe that their company is very effective in setting that tone at the top as opposed to merely half of CCO respondents at companies with lower maturity compliance functions.

If, as Mohlenkamp and Sandford indicate, tone at the top is the primary component and indicator of a “great” compliance and ethics program, this provides a guide to improvement for companies with lower maturity compliance functions.

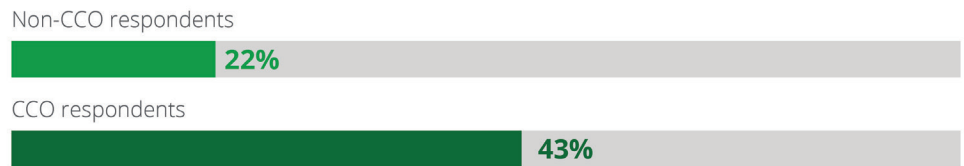
Tone at the top must be transferred throughout the organization for companies

to have a deeply felt corporate culture of ethics. By that token, that only 33 percent of CCOs surveyed felt that their company was very effective in providing them with the necessary influence in organizations may be considered disappointing. It may also be an indicator of the early stages of the transformation of the compliance function from its legal program-based beginnings as primarily a gatekeeper to its optimized role as a business advisor.

Figure 7 represents a subset of the companies responding to the survey. Here, companies with responses from both CCOs and non-CCO respondents were used to compare the difference in perception

Figure 7. Differences in perception

My company is very effective at creating a compliance culture



My company is very effective at setting the tone at the top for compliance and ethical behavior



between those responsible for creating the compliance culture and those in whom this culture must be inculcated.

The indication here is of a divide between CCOs and functional management on the effectiveness of the compliance culture. The difference between the perceptions of the tone at the top is significant, but not overwhelming. However, there is a large gap between CCOs and functional management as to whether an effective compliance culture has been created.

This may in part reflect differences between CCOs focused on the compliance culture and functional leaders focused more directly on the top or bottom line. It may reflect a need for organizational improvement as only 33% of the CCOs responding to our survey considered themselves to have the necessary influence on organizational decisions. Figure 7 may serve as a reminder that accountability without authority or influence may not be effective.

While transmission of the tone at the top down through the organization is important, so too is transmission up through the organization to leadership of compliance issues, concerns, and opportunities.

As a proxy for the importance assigned to compliance by the C-suite and the board, we looked at how active boards in their committees or subcommittees are in receiving information on compliance. This may be some of the most positive news our survey uncovered.

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As shown in figure 8, routine reporting of compliance issues to leadership is, indeed, routine. That indicates a free flow of timely and actionable information, and also the importance attached to that information. Figure 8 shows that, in the respondent companies, just about nine in 10 business leaders and CEOs are provided compliance updates at least every six months, and a committee of the board of directors in every single company surveyed received such an update at least every six months. Furthermore, 20 percent of the full boards received such updates.

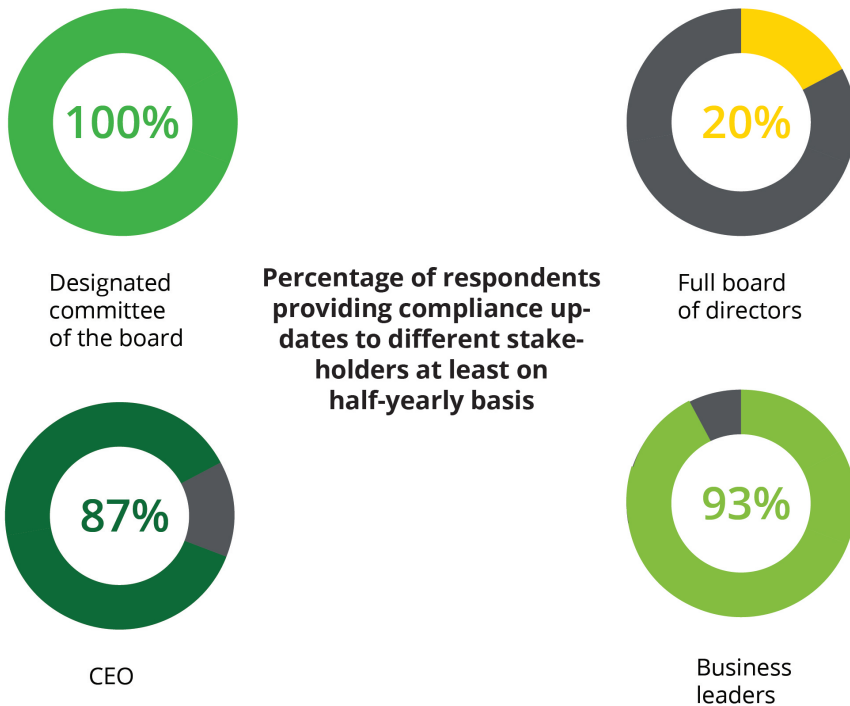
According to our study, 53 percent of the full boards of our responding companies were updated at least annually.

There is a difference between companies with high maturity compliance functions and those with low maturity functions in terms of how often reports are made to the full board. One third of the high maturity companies responding reported they updated the full board at least twice a year, while none of the low maturity companies

“The compliance function of the future will have a true and direct connection to the organization's vision, goals, and strategies.”

**Richard Godfrey, principal,
Deloitte & Touche LLP**

Figure 8. How regularly are key stakeholders informed?



did. Two thirds of companies with high maturity compliance functions reported to the board at least annually, but only 33 percent of low maturity companies did so.

This regular reporting may represent an institutionalization and empowerment of compliance, that moves beyond an ad hoc structure whereby relevant stakeholders are informed only after the fires are already flaring.

One area for improvement may be in the resources provided to the compliance function. Only 40 percent of responding CCOs believe their company is very effective in providing them with the resources necessary to do their job. Here, too, there may be a divide between companies with higher and lower maturity functions, with those with higher maturity compliance functions reporting a significantly higher ratio of compliance employees to total employees.

Only 9 percent of respondents believe that their company could correlate compliance spend with financial or operational performance. Here our survey provides some enlightening results.

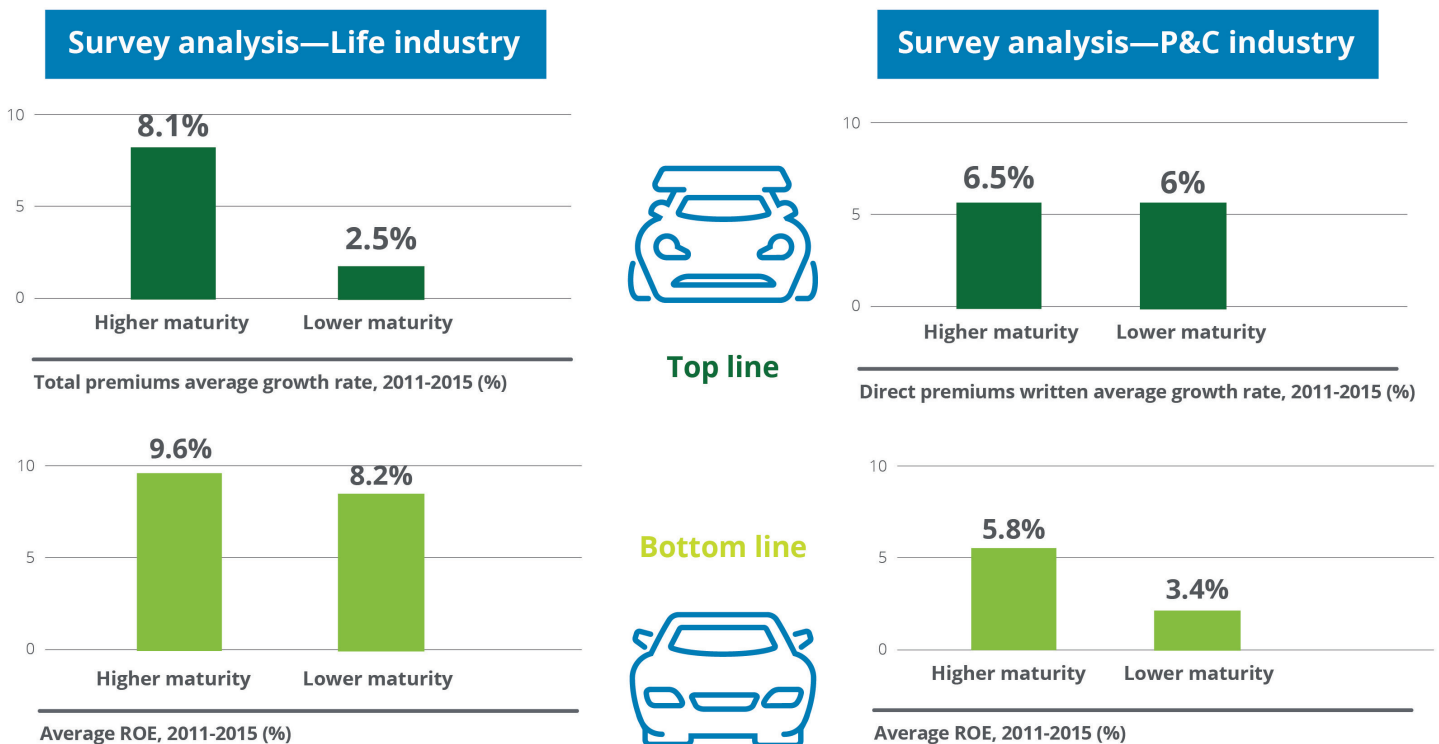
As shown in figure 9, survey results demonstrated a correlation between the level of maturity and both top and bottom lines for both life and P&C companies during the period covered.

On the top line, P&C companies with higher maturity compliance functions showed a growth rate in direct premiums written almost 10 percent higher than that of companies with lower maturity functions for 2011-15—6.5 percent as opposed to 6.0 percent. Life companies with a higher maturity compliance function had an 8.1 percent average growth rate in total premiums in that period as compared to a 2.5 percent average growth rate for companies with lower maturity compliance functions.

Similar differences are evident in the comparison of the average return on equity (ROE) for the same period. Life companies with higher maturity compliance functions had an average return on equity more that is 140 basis points higher than their counterparts with lower maturity compliance functions—9.6 percent as opposed to 8.2 percent. Property-casualty companies with higher maturity compliance functions had an average ROE of 5.8 percent for the period compared to a 3.4 percent average ROE among P&C companies with a lower maturity compliance function.

A high maturity compliance function is associated with improved financial returns. This may indicate that a high maturity compliance function is an indicator of effective corporate leadership and management, as well as a culture of trust and integrity as a way of doing business.

Figure 9. Compliance powering performance
Insurance companies with a more mature compliance program outperform those with a less mature compliance program in certain financial metrics



Source: Deloitte Insurance Ethics & Compliance Survey, 2016

How to move from “good” to “great”

What makes a difference for ethics and compliance? How does a compliance function move from “good” to “great”? Mohlenkamp and Sandford found five key differentiators, as shown in figure 10: tone at the top, culture and values, chief ethics and compliance officer, testing and monitoring, and robust risk assessment.¹⁶

Tone at the top is not about making speeches or having good intentions. It must incorporate both accountability and balanced performance metrics for senior management that reflects the importance of an ethical culture to an organization. A CEO who speaks often about the need for an ethical culture may be undermined if the performance metrics drive revenue and nothing else.

This speaks to another differentiator of a great compliance function: robust risk assessments. An organization must understand the risks it faces, both internally and externally. Without such an understanding, an organization may be caught unprepared by an emerging risk and suffer a compliance failure.

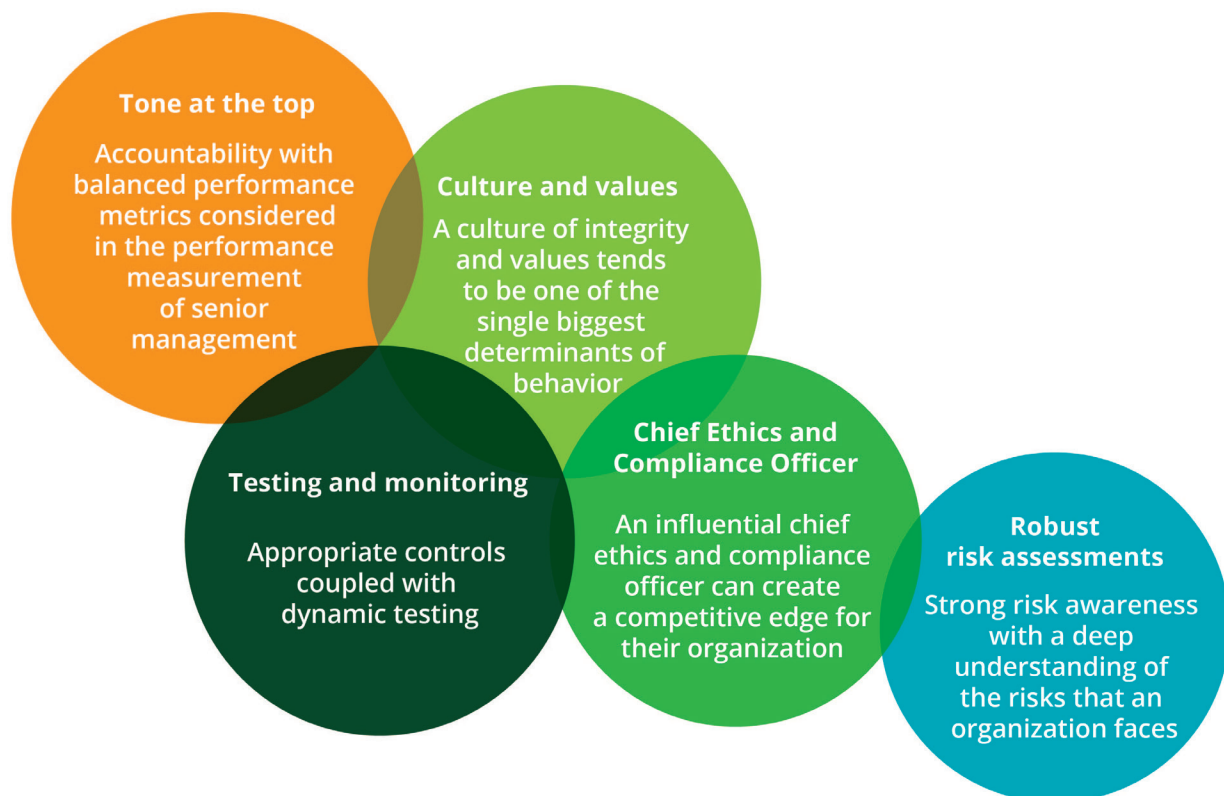
Similarly, appropriate controls and dynamic testing enable an organization to measure the effectiveness of its compliance program. Accountability for that program must rest in the hands of the CCO, who should have the authority and resources to disseminate throughout the organization the tone at the top and transform that message from the top into a culture of compliance that permeates every organizational decision.

Companies wishing to elevate their compliance and ethics programs may be able to help determine their current status by conducting activities such as comparing their performance with that of the higher maturity compliance functions in the areas shown in figure 11.

A number of tools are considered indispensable to creating that culture of integrity in an organization. At minimum, annual training on ethics for all employees helps remind employees of the importance of ethics. In our survey, all insurers with high maturity compliance functions performed annual training.

The communication around the code of conduct should be regular and disseminated

Figure 10. From “good” to “great” compliance: Five key differentiators



throughout the organization. As shown in figure 11, all surveyed insurers with high maturity compliance functions provided regular updates and communications around that code of conduct.

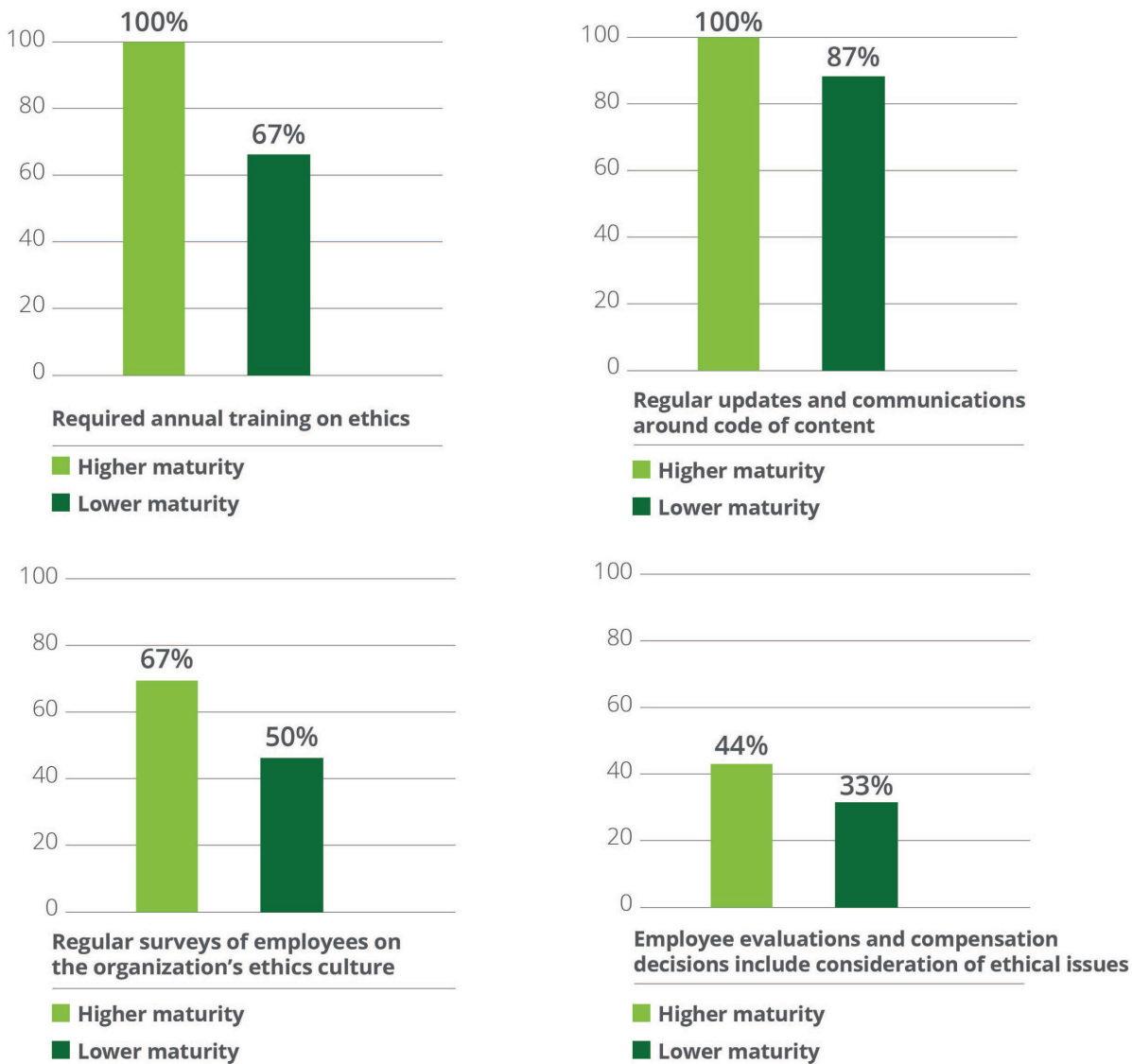
Does it work? That is the question regular surveys of employees are designed to answer. As in other facets of the organization, feedback, measurements, and assessments of the effectiveness of the compliance effort are necessary in order to optimize that effectiveness.

Companies with higher maturity compliance functions also tend to put a greater emphasis on including consideration of ethical behavior in employee evaluation and compensation matters. In our survey, 44 percent of these companies said they did so formally.

As part of the preliminary research for the survey, we conducted in-depth interviews with CCOs. Some noted that while there was no formal process, ethical behavior was a basic expectation for all employees, and thus was implicitly incorporated into employee

evaluations and compensation decisions. It may be worth considering incorporating considerations of ethical behavior into the formal process so as to emphasize its importance.

Figure 11. Key indicators of compliance maturity
Higher maturity companies are stronger than lower maturity companies in each listed area



What's next for compliance?

The compliance function of today must continue to evolve to remain relevant and effective. Tracking regulatory change and compliance risk is becoming ever more difficult as the pace of change increases and the risks become ever more diverse.

Compliance is becoming more complex, requiring better management and a focus toward the proactive and the predictive in order for the function to be a strategic advisor and a value add to an organization. The new compliance function will most likely focus less on process and more on higher value activities including technology, data and analytics, workforce skills, and risk awareness.

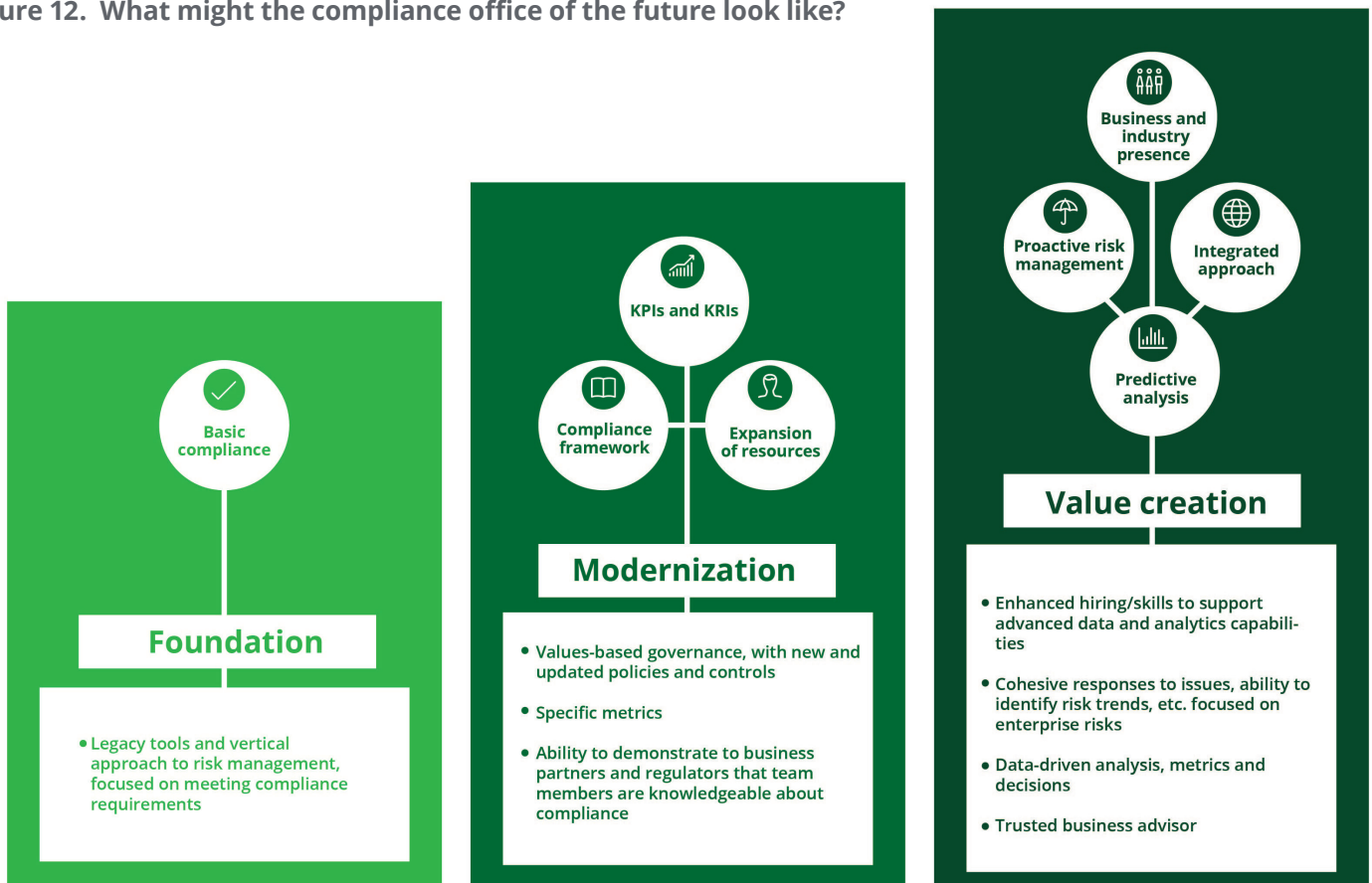
This is a building block process, as shown in figure 12. The foundation is

one shared by most current compliance organizations. The movement by many is toward modernization with values-based governance and specific metrics.

Value creation is the next step for compliance and ethics programs. That will require adjusting the skill set in these programs to be able to effectively use advanced analytics, perform data-driven analysis, and make data-based decisions. The focus shifts from individual risks to trends and enterprise concerns, with the endpoint being the transformation of compliance into a trusted business advisor.

Using its new tools, tomorrow's compliance and ethics program may wish to position itself within the organization using a three factor framework.

Figure 12. What might the compliance office of the future look like?



As shown in figure 13, strategic planning, vision and goals, and value proposition and measurement should be the basis of that positioning. Compliance aligns to the organization's goals and strategies, enabling the business to grow. The organization should also align effectively to its own compliance goals, and by a framework that does not exclude any segment of the insurer.

The new, more analytic compliance function will allow compliance to strategically leverage data wherever it may be found. That is particularly important in an era of "big data" where the availability of information seems to grow exponentially.

As companies with high maturity compliance and ethics programs already know, that requires an ongoing investment in performance. As detailed in figure 14, there are four key areas for investment.

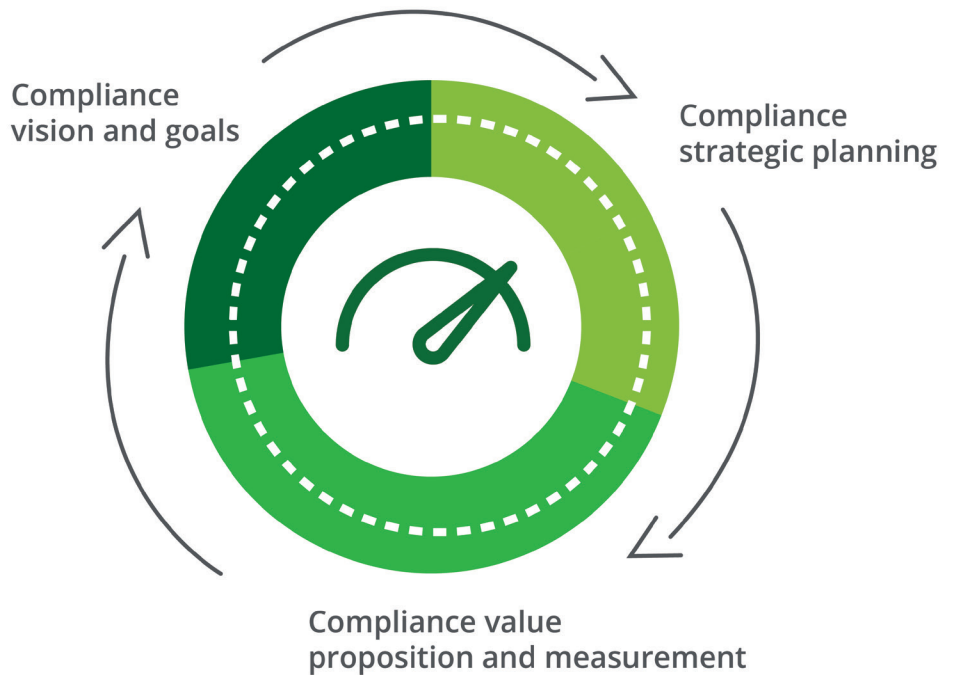
Talent may be the most important and also the most difficult. Compliance staffers of the future may, like many current finance personnel, be embedded in the business. Their value may lie largely in their understanding of not only analytics and compliance, but also of how to integrate those functions into the pursuit of larger organizational goals.

In similar functional transformations, we have seen significant use of third-party vendors not just to address cost issues, but also to provide skill that may not be immediately available to an organization.

Figure 13. Positioning the compliance program of the future

Key factors for effectively positioning the compliance value proposition:

- Direct connection/tie to organizational and compliance vision, goals and strategies
- Allow the business to own compliance and use data, metrics and analysis to support transparency and enable the business to grow
- Embed within the organization in a manner that promotes compliance and allocating time/resources for effective compliance
- Metric framework should cascade to all levels of the organization
- Strategically leverage both internal and external data



Moving away lower-value activities may require automating manual processes to rise to a new level of regulation tracking, risk assessment, and testing. The function will need to keep pace as regulators move to use big data for real-time market conduct evaluations.

Fortunately, new tools and technologies are available to store, manage, analyze, and distribute data, both for the compliance function and for the enterprise. The combination of people,

process, and technology transformation can feed into a governance transformation, where more and more usable data are available for organizational leadership and the evaluation of risk becomes forward-looking.

Figure 14. Where to invest

Below are some key areas across the compliance program in which companies can invest to achieve a "great" compliance program

People	Process
<ul style="list-style-type: none"> • More analytics and less domain-specific staff • More synergistic relationship with compliance personnel embedded in business • Use of third-party vendors for scale, cost reduction, and supplementing lack of skillsets 	<ul style="list-style-type: none"> • More data/KPIs and dashboards for executive and board level consumption • Proactive evaluation of risk (predictive vs reactive)
Tools/technology	Governance
<ul style="list-style-type: none"> • More sophisticated compliance and risk tools (GRC) • Data repositories • Predictive analytics • Centralized portal to maintain policies and procedures • Single place for employees to go to for compliance-related information (compliance portal/dashboard) 	<ul style="list-style-type: none"> • Automate manual processes for increased productivity • More sophisticated new rules and regulations tracking and management processes • Data-driven testing • Consistent risk assessment processes across organization • Real-time information

Why change compliance?

In the end, the answer to why a compliance and ethics program must change is not just that it is a good idea, but that it is a business imperative. Conduct of business and corporate governance are major concerns of both regulators and consumers and are likely to become even more prominent in the future.

The volume and speed of information available to consumers and regulators will continue to increase. Negative information spread through social media and other channels tomorrow may prove even more costly to an insurer's reputation or share price than a front-page story in the newspaper today.

In a Deloitte Touche Tohmatsu Limited global survey on reputational risk, 87 percent of executives rated reputational risk as more important than all the other types of risk, and 55 percent believed that ethics and integrity are the top driver of reputational risk.¹⁷

The consequences of compliance failure in a competitive environment will continue to be severe, including the loss of revenue and brand value resulting from reputational risk events. What is also true is that these failures may become easier to avoid with properly resourced and effectively functioning compliance and ethics programs.

Thus, a great compliance function should be considered an asset to insurers, where investment in the function is associated with increased top and bottom lines, as well as lower threats of reputational and other risks.

“The compliance role is quickly and clearly evolving to be a value-based advisor, a major voice in how the business is done at the most senior levels, advising businesses and leaders on how to achieve their goals within the boundaries of good compliance and the law.”

George Hanley, managing director, Deloitte & Touche LLP



Endnotes

1. As used in this document, "Deloitte" means Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.
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