

Annuities Suitability

Agenda

- Model 275 - Key changes
- What have companies experienced?
- What have states done to date?

Annuities Suitability - The New Look

- Model 275 revisions
- SEC Rule 151A “journey” left its mark on the annuity world
- State adoptions help ensure suitable sales

Annuities Suitability - Why?

- Rule 151A - no more
- Dodd-Frank states must adopt regulations that substantially meet or exceed the minimum requirements established by the NAIC in 2010 by June 16, 2013

Annuities Suitability - Company Considerations

- Training selection, implementation, validation
- Individual state-rollout?
- Rollout to all states assuming full implementation?
- Challenges? Successes?

New Process Steps

- Suitability evaluation
- Producer training
- Use of third-party suitability determination

Suitability - Key Elements

- Obtaining applicants' information that can be effectively used to assess suitability
- Setting appropriately compliant evaluation criteria
- Supervisory system
- Disclosure requirements
- Product training
- Oversight of producers

Insurer Impact

- Insurers are now responsible for making sure producers are trained properly and selling compliantly
- Producers' documentation increases
- Insurers - direct follow-up with producer? With customer?
- More time to process...longer time to close

Insurer Impact

- Does customer understand the product's features?
 - Surrender charges, guaranteed interest rates, bonus interest rates, death benefits, tax-deferred growth, nursing home riders
- Is documentation sufficient?
- Is training adequate?

Model 275 - A Look at Some 2010 Activity

- Iowa
- District of Columbia
- New York
- Oregon
- Pennsylvania

2010 Activity - Suitability

Iowa

- Provides standards and procedures for recommendations to consumers involving annuity products
- Brings the rules into accord with a new NAIC model regulation.
- Requires insurers to establish a system to supervise recommendations, as well as to set forth standards and procedures for recommendations to consumers that result in transactions involving annuity products

Effective January 1, 2011

2010 Activity - Suitability Training

Arkansas

- Rule and Regulation 50 - Annuity suitability training course approval form effective 9/30/10

Oklahoma

- New training requirement: one-time four hour annuity course
- Insurers must ensure producers are able to verify completion of the required training
- Verification of training lies with insurer
- Producers are ultimately responsible to complete the training

A Look at Some Recent Activity

Newly adopting/enacting jurisdictions

- Colorado - 3 CCR 702 4-1-11 - Effective April 1 (but has new proposed revisions effective 8/1/11)
- District of Columbia - 26 DCMR 8400 to 8407 - Effective Dec. 24, 2010
- New York - "Emergency Regulation No. 187"
- North Dakota - HB 1160

A Look at Some Recent Activity

Newly adopting/enacting jurisdictions

- Rhode Island - Regulation 12 - Effective June 1, 2011
- Ohio - Rule 3901-6-13 Effective July 1, 2011
- Oregon - 836-080-0170 to 0193 Effective July 1, 2011
- Wisconsin - 628.347 - Effective May 1, 2011

A Look at Some Recent Activity

- California:
 1. 2695.185 to 2695.192
 2. SB 715
- Connecticut: 38a-432a-1 to 38a-432a-7
- Hawaii: HB 1051
- Maryland: Proposed revised regulations
- Michigan: HB 4328
- Minnesota: HF 1134/SF 877
- New York: AB 563
- South Carolina: Regulation 69-29
- Texas: SB 2277; SB 2278; SB 1415

A Look at Some Recent Activity

CA proposed regulations (follow Model 275)

- Require insurers to establish a system to supervise the recommendations made by the insurer or by the insurers' agent to a consumer that result in the purchase of an annuity
- Producer or insurer must have reasonable grounds for believing that the recommendation is suitable based on information disclosed by the consumer about finances/investments
- No issuance unless reasonable basis exists that the annuity is suitable based on the consumer's suitability information
- Insurer has ultimate responsibility for sale of an unsuitable annuity
- Require a supervision system designed to achieve the insurers' and the producers' compliance with suitability standards
- Training and record retention (Section 2695.185 - .187)

Producer Training Requirements

- Some states have put these requirements into place
- Some insurers have rolled out nationwide
- Some carriers have chosen to adopt the training requirements for their producers on a nationwide basis
- 4 hour general annuity training requirement

Company Efforts

Handy “Handouts”

- State adoption chart
- Sample Compliance Alert (sent to producers)
- Sample CE certification form (producers send this to us to verify the 4-hour annuity training)
- Sample suitability form

Audit Process

- Challenges
- Key validation issues
- Successes

Suitability - 2011

Risk of noncompliance looms large:

- In July 2010, the Wisconsin OIC issued an order that found a company failed “to adequately supervise its field management and insurance agents to prevent certain of its Respondent’s Wisconsin sales branch offices and insurance agents from engaging in unsuitable annuity sales and replacements

\$1,500,000 Fine

So why does this matter in L&A?

Suitability: as states “roll-out” Model 275...

- Evidence of product specific training (agents cannot sell unless PST is done)
- Evidence of supervision
- Evidence of transactional (the secondary) review
- How are “they” selling your products
- Evidence of that “reasonable basis”

Replacements? Are requirements met?

Annuities Suitability - What can we expect?

- Continued adoption of Model 275's revisions
- Otherwise silent states to address these issues
- Compliance verification - embedded in market regulation exams/surveys

Questions?