

# ***Life Insurance and Annuity Suitability Webinar***

*Presented by*  
**Roger Hayashi**

Co-Director, Compliance and Risk Mitigation Assistance Program



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# Agenda

- Annuity Suitability Regulatory Focus
- Annuity Suitability
- Annuity Case Study



# Agenda

- Life Insurance Suitability Regulatory Focus
- Life Insurance Suitability



# Agenda

- Impact of Department of Labor Fiduciary Rule



# Federal Focus on Annuity Suitability

## Suitability is on the radar of federal insurance authorities

- The Federal Insurance Office (FIO) issues an *Annual Report on the Insurance Industry* pursuant to the Dodd-Frank Act
- Report is required to go to:
  - the President
  - the Committee on Financial Services of the House of Representatives
  - the Committee on Banking, Housing, and Urban Affairs of the Senate

*“...on the insurance industry and any other information as deemed relevant by the Director or requested by such committees.”*



# Federal Focus on Annuity Suitability (cont.)

## The FIO's Annual Report on the Insurance Industry, September 2014:

*“With unprecedented numbers of seniors reaching retirement age and living longer, annuity suitability standards should not vary based on geography and **should meet or exceed a common standard**. FIO will continue to **monitor and report on the states’ progress** toward full adoption of the Model Suitability Regulation.”*

# Federal Focus on Annuity Suitability (cont.)

The FIO's Annual Report on the Insurance Industry,  
September 2015:

*“FIO recommends that all states adopt a suitability standard **at least as rigorous as the NAIC model**. In the absence of more uniform adoption and implementation of the Model Suitability Regulation, **federal authorities should consider appropriate action.**”*

# State Focus on Annuity Suitability

## State insurance regulators have signaled an increased focus on annuity suitability

- It's been **six years** since adoption of the latest version (2010) of the Suitability in Annuity Transactions Model Regulation (“the Model Regulation”)
- Questions remain about whether insurers have implemented **a satisfactory process and adequate supervisory controls**
- While the majority of states (37) have adopted the Model Regulation, there are concerns about disparate standards and processes by insurers
- Insurers should expect additional scrutiny during market conduct exams and more regulator questions in general



# Annuity Suitability

## Topics

- Reasonable efforts to obtain suitability information
- Minimum recommended information to obtain
- Reasonable grounds to believe the transaction is suitable
- Unsuitable transactions
- System of supervision

# Annuity Suitability *(cont.)*

Reasonable efforts to **obtain suitability information**

- Utilize suitability form or new account form
- Follow up with producers or consumers if missing information
- Unable to obtain the information
- Consumer won't provide the information

# Annuity Suitability *(cont.)*

Minimum recommended [information to obtain](#):

- Premium amount
- Qualified or non-qualified
- Age
- Value of annuities owned
- Income
- Expenses
- Net worth
- Liquid net worth
- Expected changes to financial situation/needs
- Federal income tax bracket
- Financial objectives
- Intended use of the product
- Financial time horizon
- Other financial products owned, or have previously owned
- Risk tolerance
- Source of premium
- Replacement information
- How/When plan to take distributions
- Owner/producer acknowledgements

# Annuity Suitability *(cont.)*

Reasonable grounds to believe the transaction is suitable

- Utilize a technology solution with a rules engine
- Financial guidelines – liquid net worth, income, % of net worth in annuities, premium as % of income, etc.
- Replacements – surrender charges, new surrender charge period, when original annuity purchased, product features, etc.
- Consistency is critical

# Annuity Suitability *(cont.)*

## Unsuitable transactions

- Offer alternative recommendations if appropriate
- Make modified offer, if appropriate – less premium, etc.
- Can always decline
- In writing, in consumer's own words, consumer signature

# Annuity Suitability *(cont.)*

## System of supervision

- Reasonably designed to achieve producer compliance
- Consumer signature on suitability information
- Provide copy of suitability form and insurer contact info to consumer
- Systematic surveys of consumers – LIMRA CAP, phone calls, etc.
- Trending/Surveillance by producer
- Testing for consistency in application of standards
- Must do oversight if delegated to a third party
- Annual report to senior management



# Annuity Suitability Case Study

Application for a flexible premium, deferred fixed annuity

- 64 year old widow
- \$400,000 premium
- Qualified
- Currently owns one annuity
- \$100,000 annual income
- \$70,000 annual expenses
- \$15,000 liquid assets
- \$1.5 million net worth
- No expected changes to financial situation/needs
- 25% federal income tax bracket
- Objective is tax-deferred growth, pass on to beneficiaries
- Owns stocks and several rental properties
- Conservative risk tolerance
- Source of funds is replacement from other annuity
- Plans to take distributions in 6 years

# Annuity Suitability Case Study *(cont.)*

## Testing the suitability process

- Random sampling of cases handled by rules engine (if applicable) and by people
- Sampling should also include similar cases/issues for comparison
- Determine application of policies and procedures, guidelines, consistency in application, etc.
- Review documentation to support decisions
- Analyze results and determine if changes are required

# Annuity Suitability Case Study *(cont.)*

## Producer compliance

- Trending reports by producer
- Identify negative trends (lack of information, number of unsuitable cases, questionable information provided, survey responses, etc.)
- Determine next steps (education, termination, etc.)
- Trending by agency, IMO, etc.

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- Life Insurance Suitability
- Impact of Department of Labor Fiduciary Rule

# Life Insurance Suitability Regulatory Focus

Federal Insurance Office (FIO) Annual Report on the Insurance Industry, September 2015:

“...the target market for IUL consists of pre-retirees and retirees, many of whom would benefit from the protection provided by appropriate suitability standards. Therefore, FIO recommends that state insurance regulators consider whether uniform, national consumer protection standards should be adopted for IUL.”

# Life Insurance Suitability Regulatory Focus

State insurance regulators signaling **greater scrutiny of life insurance suitability**

- May lead to additional regulation (no model regulation yet)
- As annuity sales continue to be a hot topic, concern that some producers are **selling life insurance instead** to meet similar income needs of consumers (and bypassing annuity suitability)
- Increase in sales of IUL may be helping drive this awareness/focus



# Life Insurance Suitability

Steps to consider now for **life insurance**

- Gather more financial information than historically gathered for financial underwriting – **more information is better**
- Should have primary need for death benefit – review **advertising regulations** for perspective on how life insurance should be positioned
- Examine insurer marketing materials, illustrations used in sale

# Life Insurance Suitability *(cont.)*

## Best practices for life insurance suitability *(cont.)*

- Income and expenses?
- What if the consumer's situation changes?
- Plan to take distribution? If so, how, when, why?
- Replacement?
- Liquid net worth?

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# Impact of DOL Fiduciary Rule

- Impact on state insurance suitability requirements?
- Impact on insurers?
- Impact on producers?



# *Thank You!*

*rhayashi@currincompliance.com*

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