

ANNUITY SUITABILITY AND DISCLOSURE

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- The core mission of the NAIC is to:
 - Protect the public interest; and
 - Facilitate the fair and equitable treatment of insurance consumers.
- Ensuring suitable sales of life insurance and annuity products to consumers of all ages is part of that mission.

- Annuities are increasingly being viewed as a retirement tool.
- Baby boomers are now retiring.
- Ready and “rich” pool of potential buyers.

- State insurance regulators concerned about annuity sales practices used by insurers and producers.
- “Free lunch” seminars conducted by “certified senior advisors.”

- Ensuring stability of annuity sales
- Enhanced disclosure requirements

- Sets forth standards and procedures for recommendations to consumers involving annuity transactions to ensure that the insurance needs and financial objectives of consumers at the time of the transactions are appropriately addressed.

- Adopted in 2003 and revised in 2006 and 2010.
- 2006 revisions expanded scope to apply to consumers of all ages.
- Over 35 states have adopted some version of the model. About 9 states have adopted the 2010 version.

2010 Revisions

- Clarifies that the insurer is responsible for compliance with the model even if the insurer contracts out functions to a 3rd party.
- Requires review of all recommended transactions.
- Establishes general training and specific product training for insurance producers.

Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities

- Designed to address possible fraudulent marketing and sales activity related to the use of senior-specific designations and professional certifications in the sale of life insurance and annuities to seniors.
- Establishes standards for the use of senior-specific certifications and professional designations by insurance producers in the sale of life insurance and annuities to all consumers regardless of age.

Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities

- Makes it an unfair and deceptive act or practice for an insurance producer to use a senior-specific certification or professional designation that indicates or implies in such a way as to mislead a purchaser or prospective purchaser that the insurance producer has special certification or training in advising or servicing seniors in connection with the solicitation, sale or purchase of a life insurance or annuity product.

Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities

- Adopted in 2008
- To date, about 30 states have adopted the model.

- Establishes standards for the disclosure of certain information about annuity contracts to protect consumers and foster consumer education about these products.
- Specifies the minimum information that insurers and producers must disclose to consumers and the method for disclosing it in connection with the sale of annuity contracts.
- Goal is to ensure consumers understand certain basic features of annuity contracts.

- Revisions under discussion:
 - Adding annuity illustration guidelines to provide uniformity in the way illustrations are presented to consumers as part of the sales and solicitation process to avoid confusion or misinformation as to the future performance of an annuity.
- Anticipated adoption in Fall 2011.

Over the last few years, a new stranger-originated financial transaction has been identified:

Stranger-Originated Annuities

Such transactions are known as:

- STOA – Stranger Originated Annuities
- STOVA – Stranger Originated Variable Annuities
- STATS – Stranger Originated Annuity Transactions
- STOLA – Stranger Originated Life Annuities

Like Stranger Owned Life Insurance (STOLI) transactions, stranger originated annuity transactions manufacture policies for the benefit of investors.

The parties involved are also similar to that of a STOLI transaction:

- Insurance Agent / Registered Representative
- Investor – Contract Owner / Beneficiary
- Annuitant – Terminally Ill Individual
- Sponsor – Person Who Put Transaction Together
- Insurer – Company Issuing Annuity

- The NAIC's Life Insurance Committee held a hearing on STOA.
- Developed an insurer bulletin on the topic that recommends certain actions that insurers can take to mitigate their exposure to such transactions.
- Bulletin scheduled to be adopted sometime during the Summer of 2011.



QUESTIONS?