



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Sean Dilweg, Commissioner

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

Office of the Commissioner of insurance Annuities Sales Supervision Advisory Committee

Minutes
Wednesday June 18, 2008
1:30 p.m. – 3:30 p.m.
Teleconference

Committee Members Attended: Deputy Commissioner Kimberly Shaul, John Wheeler, John Patrick Planning Group; Connie O'Connell, WCLI; DuWayne Mews, Financial Strategies; John Hendricks, Coalition of Wisconsin Aging Groups; Sharon Brosnan (for Carla Strauch), Thrivent Financial; Martha Kendler, Northwestern Mutual Life; and Mary Jane Rosenak (for Representative Frank Lasee).

OCI Members Attended: Jennifer Stegall, Sue Ezalarab, and Mary Reines.

I. Update on May 31, 2008 NAIC Suitability of Annuity Sales Working Group Meeting.

Kim Shaul, Chair

Kim Shaul gave a summary of the activities regarding the charge for the Working group that was approved by the NAIC for Suitability of Annuity Sales. At the Summer NAIC meeting, the charge was read and Kim Shaul gave an update on the Wisconsin Committee for Annuities Sales Supervision Advisory Committee. Kim highlighted the presentations given by Wisconsin companies on the issues they see and the procedures used to review suitability of annuity products. Ms. Shaul also spoke about Jim Mumford's presentation and the work the state of Iowa has done recently. At the summer meeting, Prudential gave a presentation and the Florida law on suitable sales was discussed. Finally, the group discussed gaps in the current NAIC model law in the following areas: monitoring, training, and consumer education.

Next Steps:

- The committee requested a copy of the Florida law.
- The NAIC Working Group will be holding a teleconference on July 21, 2008.

II. **Member Discussion on Suggested Improvement to Current Law Addressing Suitability in Annuity Transactions.**

Kim Shaul, Chair

This was an open panel discussion on the current law. The purpose of this agenda item was to gain a consensus around principles for suitable annuity sales and ask questions to gain further detail on the issues currently affecting the industry so principals for regulation could be identified. The following are all suggested comments by the committee members:

A. Comments from the Committee Members:

John Hendricks of CWAG-

- Liquidity evaluation should be done with all annuity products and screening on all sales.

DuWayne Mews of Financial Strategies-

- Liquidity is always a concern and from the independent agent aspect, it is difficult to control all products by all companies. There should be some short-term liquidity options.
- Companies are responsible for regulation (self-regulation) in the non-captive field force. The state of Wisconsin should be the regulator for these products.
- Companies have supervision over the product, does not have FINRA as a rule currently due to the types of products he sells currently.
- In regard to oversight, likes independent internal monitoring, but third party responsibilities need to be considered.

Martha Kendler of NML-

- Again, as stated liquidity is an issue.
- There is also a needs-based approach to the sale to the consumer. It is important to ensure there is a mix of assets for the consumer's needs to be met.
- It is important to provide guidelines to the consumer, but not to be too technical/ descriptive with the consumer. ACLI CEO disclosure template is a good model.

Cindy of Thrivent–

- It is important to look at the liquidity issue. It is also important to look at the over net worth of a client and their current assets.
- Thrivent applies FINRA 2821 as a part of their suitability process now.
- In regards to suitability, she suggested there be independent oversight. It is important individuals are checking suitability and guidelines are being followed.

John Wheeler of Patrick Patrick Planning Group–

- There are issues with both captive and non-captive field forces. It is important to understand the impacts of regulation and the field force relationship with the company (ies) and customer.
- There are three products: fixed annuities, indexed annuities, and variable annuities. FINRA has no jurisdiction over fixed rules. FINRA is a good framework for regulatory guidance on fixed products.
- NAIFA's position on supervision is that the insurer is the responsible party.
- Pensions are going away and John feels annuities are going to be used more regularly as an investment option. It is important to have a second set of eyes review the transaction for the insured; because once the producer is paid, the insured may not necessarily receive follow up calls to the sale or proper service.

Connie O'Connell of WCLI –

- It is not a problem to have FINRA 2821 as a safe harbor. It is good to govern how staff and companies retain consumer information. It is also important for companies to establish clear procedures with a consistent approach along with who ever is handling annuities in the company.
- Periodic reviews of sales are important. Computer programs are available to do sampling or percentages of all transactions as one way to review suitability of the sale. The expectation of monitoring and ability of doing oversight is done at some level beyond the sampling.
- There currently is no requirement to standardize data elements. Companies have the ability to have their own forms and determine the data pulled into the system. It is worth looking into standardized requirements for data on suitability forms.
- On supervision, it is important to acknowledge the insurer's responsibility for proper supervision of sales.

Kim Shaul –

- Asked the group if there is any opposition to liquidity that insurers establish? It is important to give careful analysis for the consumer on liquidity issues and other issues such as surrender periods.
- The statements from WCLI and FINRA are beneficial to the discussion and were reviewed at this point.
- The purpose of developing suitability standards is to create a level playing field.
- It is important to create core criteria as guidelines to the industry.
- The other issue to be reviewed is to look for outliers who may not like standardization.

B. Open discussion with the general audience:

John Gerni of ACLI –

Acknowledged the position and summary by WCLI. The key to third party is in how to delegate and be careful the insured is not in a position to supervise every transaction.

Diane Hodgeman – Portland, OR – Feels it is about the principal of protecting the customer. It is important to empower and educate the consumer.

C. Topics discussed specifically in regards to the “Suitability of Annuity Sales Working Group” word document:

Monitoring-

- There is the issue of when the forms are signed by clients – before or after the sale.
- Disclosure forms are signed with a delivery receipt to ensure the products are delivered and explained to the client.

Training -

- Agents should receive specific product training.
- Agents need to receive training on the laws and regulations specific to state laws.
- A potential approach to make sure agents receive training is to have a uniform requirement. This could resolve the issue of making sure independent agents receive base line training. A uniform requirement maybe a more efficient method instead of leaving the training to the individual companies.
- Due to the complexity of products, specific product training should be held. Especially since newer agents are still becoming familiar with the products they have to sell.
- It was suggested to the group to make annuity-training part of the CE's agents need on a regular basis.

Other suggestions around Policy Forms and Design-

- Several committee members thought it would be good to adopt and follow the NAIC model on policy forms.
- There should be standards for carriers to follow when designing forms so readability level is appropriate for the market.
- Policy design should be suitable for the policyholder, not a prescription for companies.
- It was suggested that similar font type & size be like Medigap possibly.
- Disclosures need to have a level of readability general insureds would understand.

Disclosures-

- In terms of suitability, it is important certain types of annuity products are appropriate where as other products could be abused. The disclosure should be highlighted and signed by the client.
- Items such as an 18-year surrender period should be in bold, not fine print.
- There are good disclosures used in the market place and would not want companies restricted to the design of the forms so all appropriate information is incorporated.
- It is important in the disclosure to make sure the client knows money is tied up for a length of time. Products do have certain liquidity periods and if a client is likely to go in a nursing home, there may be an urgent need to ensure liquidity is mentioned properly regardless of the type of contract.
- The product is either suitable for the client or it is not. The focus should be on the training, supervision of the sale, and monitoring.

Item noted for later discussion:

DuWayne Mews –there is concern over the index annuity products as they are complicated and there are concerns for the product, monitoring, and how orphan policies are supervised.

III. Other Business

Kim Shaul, Chair

- Points around the call will be reviewed.
- List of principals will be the focus in the upcoming meetings.
- John Gerni will send electronically the NAVA Annuity Disclosure.

IV. Next Meeting

July 22, 2008

Meeting Location: OCI