

Current Consumer Marketing Concerns

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Current Consumer Marketing Concerns

- Deputy Commissioner Kimberly Shaul
- Chair, Suitability of Annuity Sales (A) Working Group
- Chair, OCI Annuity Sales Supervision Advisory Task Force



Wisconsin Insurance Market

- Strong insurance marketplace
- Wisconsin's insurance market ranks 6th in the nation.
- Major employer
- 120,000 licensed agents
- 2,000 licensed companies
- Major industry leaders
- \$150 million in franchise and premium taxes collected for the state.



Consumer Focus

- OCI's Consumer Focus
 - Senior Designations Administrative Rule
 - Health Insurance Legislation
 - Life Settlement Legislation
 - Contract Readability



Consumer Concerns

- Marketing issues facing regulators
- Stranger Originated Life Insurance
- Suitability of Annuity Sales



What is STOLI and Why Do Regulators Care?

- STOLI – acronym for stranger-originated life insurance
- STOLI is a life insurance policy owned by a person that has **no** insurable interest in the insured at the time of policy issuance.



Why is STOLI an issue?

- Impacts insurable interest laws.
- Against basic purpose for having life insurance, which is to provide financial security in the event of death for individual and family needs and in business.
- Uses up an individual's insurability.



NAIC and NCOIL Model Revisions to Address STOLI

- Different approaches.
- NAIC addresses STOLI with a 5-year transactional definition approach to make STOLI transactions less attractive to investors (mortality risk).
- NCOIL defines STOLI and prohibits such transactions.



2008 State Legislative Activity

- NAIC Life Insurance and Annuities (A) Committee has been tracking state legislative activity.
- In 2008, 26 States introduced bills on viatical/life settlements and STOLI.
- 13 bills have been enacted of which 2 were based on the NAIC model, 8 based on the NCOIL model and 3 hybrid versions of both the NAIC and NCOIL models.
- Committee will continue to track in 2009 as part of its activities.



Wisconsin Activities

- Commissioner Dilweg convened Life Settlements Work Group in December 2008.
- Representatives from insurance and life settlement companies.
- Working group held seven meetings.



Wisconsin Activities

- Working group recommendations include:
 - Common definition of STOLI.
 - Disclosure requirements.
 - Five year prohibition on life settlement transactions.
- OCI draft provided to legislators for introduction.
- Life settlement industry opposition
 - Five year prohibition and STOLI definition.
 - The life settlement industry was agreeable to other provisions.



Suitability of Annuity Sales

- Wisconsin working to update annuity suitability statutes and is working with the NAIC to update the model regulation.
- Consumers put their trust in an insurance agent's recommendations.
- 280 complaints regarding unsuitable sales of annuities in the past two and a half years.



Suitability of Annuity Sales

- Major enforcement actions over suitability
- Number of complaints and the likelihood of action shows cause for concern
- Consumers, particularly seniors, are silent victims
- Annuity suitability enforcement actions can be difficult.



Suitability of Annuity Sales (A) Working Group

- Charge is to review and consider changes to the Suitability in Annuity Transactions Model Regulation.
- Focus is on agent training, supervision and monitoring standards.
- Working Group is developing specific revisions to the model to address annuity sales suitability and supervision issues based on WI OCI work.



Suitability of Annuity Sales (A) Working Group

- Wisconsin currently chairs the Working Group.
- The current exposure draft closely parallels the FINRA rule 2821.
- Draft requires insurers to maintain effective supervision programs.



Suitability of Annuity Sales (A) Working Group

- NAIC draft model requirements:
 - Insurers maintain a supervision system to ensure recommendations are suitable.
 - Insurers train agents in the features of its annuity products.
 - Insurers periodically examine insurance agencies to detect and prevent unsuitable sales.
 - Insurers collect and verify consumer suitability information to determine whether a recommended annuity sale is suitable.



Suitability of Annuity Sales (A) Working Group

- NAIC draft model requirements:
 - Insurers have independent staff review each recommended annuity sale for suitability, or at least review each such sale that is flagged as suspect.
 - Insurers test and review their supervision system each year to determine whether it is effective.
 - Prohibits insurers from issuing a recommended annuity unless it is suitable.



Suitability of Annuity Sales (A) Working Group

Next Steps

- Soliciting comments on exposure draft until Oct 15.
- Resolve issues related to transaction suitability review, grace periods for training, and FINRA Rule 2821 requirements.
- Expect completed draft in December 2009.



Questions?