



SUITABILITY MONITORING STANDARDS

**AMERICAN COUNCIL OF LIFE INSURERS
NAVA, INC.**

2008

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BACKGROUND

The NAIC Suitability in Annuity Transactions Model Regulation imposes supervision requirements on life insurers (Insurers), and allows insurers to delegate supervision to third parties (Third Parties) at Section 6(D)(3) under a variety of conditions, including monitoring Third Parties' performance. This document contains categories of data and lists of information that insurers can use in fulfilling this monitoring role through collection and dissemination of trend data. These information categories parallel other industry developments to promote uniformity.

EXPECTATIONS FOR INSURERS DELEGATING SUPERVISION TO THIRD PARTIES

Insurers shall use as appropriate for their products and distribution channels the information outlined below on a quarterly or more frequent basis for purposes of monitoring Third Parties' compliance with the NAIC Suitability in Annuity Transaction Regulation. The informational categories, where applicable, apply to fixed, index, and variable annuities.

Insurers will highlight transactions that appear to be outside of the anticipated normal range for any category for Third Parties. Insurers may make reasonable inquiry of Third Parties to explain activities outside of the anticipated normal range and may elect to exclude *de minimis* results for informational categories. Insurers shall maintain copies of the statistical information reports.

EXPECTATIONS FOR THIRD PARTIES PERFORMING SUPERVISION BY DELEGATION FROM INSURERS

Third Parties shall adopt and implement written policies and procedures with respect to the compliance reports provided by Insurers. Third Parties shall provide Insurer with whom it has a sales and/or distribution agreement, upon request, copies of its policies and procedures with respect to the categories of information provided by the Insurer. Third Parties shall make a representation to the Insurer stating that it has in place appropriate policies and procedures with respect to the categories of information provided by Insurer, and that it has a reasonable basis to believe that it is in compliance with its policies and procedures.

Once an Insurer's data identifies activities outside the anticipated normal range for the product type, the Third Party should examine the identified activities to determine if they met the suitability standards. If a reasonable basis for the deviation cannot be ascertained, then the Third Party should commit to initiating corrective action to address the deviation, which may be monitored by the Third Party, and the Insurer may elect to preclude the producer and/or Third Party from selling the Insurer's products. The Third Party should report the results of its examination and any associated remedial practices to the Insurer within a set time period set by the Insurer. Insurers could include an obligation to support follow-up and remedial practices in sales and/or distribution agreements with sales organizations.

Third Parties shall respond to any inquiry from the Insurer regarding questions raised by the Insurer's informational reports within a reasonable time period after receipt of the request. Upon request, the Third Party will provide its response in writing.

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CATEGORIES OF COMPARATIVE DATA FOR COMPILATION

- Average age of new sales for the firm or agency as compared with other distributors selling the same or similar products, including aggregate new sales and number of contracts with owners above specified ages, such as 65, 70, 75, 80, and 80+.
- Purchases over stated ages, broken down by type of contract, benefits selected, and producer.
- New sales by aggregate premium and by number of new contracts for each product type sold by the distributor, and showing sales as compared with other distributors selling the same or similar products.
- Percentage of new business (based on premium) for each product type for the distributor.
- Number of new contracts sold by producer, broken down by product type and showing sales as compared with other producers selling the same or similar products.
- Aggregate new premiums, broken down by product type, and further broken down by producer and sales compared with other producers selling the same or similar products.
- Benefit election by percentage of new business of the firm as compared with other distributors selling the same or similar products.
- Benefit election for each producer as compared with other producers selling the same or similar products.
- Replacement percentage for new contracts placed with the Insurer based on number of contracts and aggregate premiums for the distributor, as compared with other Distributors selling the same or similar products. (Replacements include internal replacements but do not include surrendered contracts.)
- Percentage of new contracts considered to be a replacement, broken down by contract and premium, for individual producers.
- Percentage of new contracts replaced as compared with other distributors, and including destination Insurer for each replaced contract to the extent the information is readily available.
- Percentage of surrenders and death claims (each shown separately) based on amounts surrendered vs. total assets for the firm, as compared to other distributors selling the same or similar products.
- Percentage of surrenders and death claims based on number of contracts vs. total number of outstanding contracts sold by the distributor and still in effect at the beginning of the period, as compared to other distributors selling the same or similar products.
- Percentage of surrenders and death claims based on amount surrendered vs. total assets sold by individual producers for surrenders within a stated period (e.g. 3 years), as compared to other producers selling the same or similar products.
- Current sub-account allocation percentages broken down by producer.
- Number of exchanges within 36 months of original issuance of contract.
- Number of replacements with large surrender charges, if information is available from original issuer.
- Number of replacements where surrender charges exceed bonus and other benefits received, if information is available from original issuer.
- Number of "charge backs," defined as contingent deferred sales charges and bonus recapture, but not commissions, by producer.

LISTS FOR COMPILATION

- All new contracts considered to be a replacement, for the firm.
- All sales made on a tax qualified basis.
- New sales broken down by benefit election.
- All surrendered contracts and death claims for the period, broken down by producer.
- All aggregate amounts for the firm for which the free look was exercised, as compared with other distributors selling the same or similar products.
- All contracts for which the free look was exercised, showing amounts surrendered, broken down by producer.
- Current sub-account percentages for all variable annuity contracts for the distributor, as compared to other distributors selling the same or similar products.
- Current sub-account allocations for all variable annuity contracts, broken down by producer.
- All subsequent or additional premiums by contract broken down by producer.



The American Council of Life Insurers is a Washington, D.C.-based trade association, whose 353 members account for 93 percent of the life insurance industry's total assets in the United States. ACLI member companies offer life insurance; annuities; pensions, including 401(k) plans; long-term care insurance; disability income insurance; reinsurance; and other retirement products.

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