

September 4, 2006

## Inside Insight...

Insurers: Drop two-day review .....	3
AML Compliance Tips .....	5
Save Yourself from Lawsuits .....	7

## More States May Require Market Conduct Statements

Additional states may soon require both property/casualty insurers and life and annuity providers to file “market conduct annual statements.” Launched as an NAIC pilot project in 2000, the effort has grown to include 21 states and the District of Columbia.


The statements provide “regulators with information not otherwise available for their market analysis initiatives,” according to NAIC. “It promotes uniform analysis by applying consistent measurements and comparisons between companies, which allows all companies to be compared on an equal basis.”

Companies receive a report card from each state where they filed, which includes information designed to identify areas “where opportunities may exist for the company to take action to improve its performance.”

“Currently there are a couple of states that have expressed interest, but that hasn’t been finalized and won’t be made public until the fall meeting,” NAIC market analysis manager Craig Leonard told *ICI*. The NAIC meets Sept. 9-12 in St. Louis. ♦

## Weak Compliance Culture Contributes To ‘Deceptive’ Life Sales to the Military


You can say a lot of things about American-Amicable Life Insurance Company and its recent settlement with regulators over improper sales of life insurance to members of the military. But you’ve got to give the company credit for one thing: From the very beginning of developing a product called Horizon Life, it established its compliance culture at the top echelons of the company, and communicated that throughout the company.

The message, though, was deception, according to this summer’s settlement agreement  with state insurance departments, the Department of Justice and the Securities and Exchange Commission. “This was not a case of a few rogue agents, but of a centralized, company-sponsored marketing system that pitched an investment that had the effect of deceiving thousands of American military personnel. These companies implemented a deceptive sales program from the top down,” said Helane Morrison, an SEC

*(Continued, page 2)*

## Post-Katrina Compliance: Companies Adjust To Meet State Expectations for Storm Claims

An insurance company has already won the first policyholder lawsuit coming out of last year’s disastrous hurricanes. Nevertheless, compliance professionals have already started taking steps to meet the expectations of state insurance departments along the Gulf Coast to minimize customer complaints.

For some, like Nationwide Insurance, it’s going to be business as usual. The company said in a statement it was “very pleased” with last month’s court ruling  in *Leonard v. Nationwide* that determined it didn’t have to pay for excluded flood damage. A compliance executive said its procedures “probably won’t change at all” as a result of the ruling.


Texas Farm Bureau, however, is making changes to incorporate some of the lessons it learned after dealing with Hurricane Rita last year. It is evaluating the buildings it insures, for one thing. “The structures that were built to current building codes stood up better,” Jim Langford, the assistant vice president of compliance, told *ICI*. “As a result, we’re telling policyholders that, based on a building’s age and condition, we may not be able to write wind storm coverage.”

His company has also changed its policy provisions to deal with what Langford called “a chaotic market.” Texas Farm Bureau now requires a

*(Continued, page 4)*

## Insurers Lose Legal Battle with California DOI Over ZIP Code-Based Rating Factors

Auto insurers in California have lost their legal battle to base premiums more heavily on where a policyholder lives. Their lawsuit had argued that an insurance department regulation would significantly reduce where a car is garaged as a rating factor and cause rates to rise for the majority of drivers, particularly those who live in rural areas.

State law requires auto rates be based on three mandatory factors — driving record, miles driven and driving experience — and other, optional, rating factors like geography. Commissioner John Garamendi said the decision  will force carriers to base rates on how well someone drives, rather than where they live and garage the vehicle.

The court wasn't convinced by insurers' arguments, and noted that two companies had agreed before the court decision to go along with the new regulations and stop basing premiums on ZIP codes. Both USAA and State Farm said last month that they would join the Automobile Club of Southern California and drop their rates. The judge cited the ACSC rate filing as proof that insurance premiums won't escalate as the trade groups argued. ♦

## 'Deceptive' Life Sales *(Continued from page 1)*

administrator.

The settlements stem from allegations originally made by *The New York Times* two years ago that life insurance was being sold at captive meeting held during duty hours in violation of Defense Department rules. Market conduct exams of insurers followed, as did congressional hearings. American-Amicable agreed in 2005 to refund \$1.3 million in insurance premiums to 901 soldiers at Fort Benning, Ga.

In the current actions, the American-Amicable companies neither admitted nor denied the allegations made by regulators, but nevertheless agreed to pay \$10 million in restitution to 57,000 military policyholders, and increase policy benefits by an estimated \$60 million for 35,000 other military and civilian customers. Georgia and Texas negotiated the multi-state settlement, which has been signed by 44 jurisdictions.

### Where Insurers Went Wrong

Regulators contend that American-Amicable and its two affiliates, Pioneer American Insurance Company and Pioneer Security Life Insurance Company, sold Horizon Life as an investment and a "savings plan."

The written materials given to investors after the sale "apparently accurately" the product, the SEC said, but the company's sales pitch certainly did not.

The company trained its sales agents to present themselves as financial coaches or advisers and to tell potential customers they could become millionaires if they invested in the product, said the regulators. But the Horizon Life policy was really little more than an expensive, 20-year term life policy with an accumulation fund rider.

### New Ground Rules

Now, under terms of the settlement, American-Amicable producers will hear a new message coming from the executive suite: compliance. Here are the new ground rules:

- ▶ Horizon Life sales must end at the end of the year.
- ▶ All marketing materials will have to be approved, in writing, by the general counsel, or an officer or director of the company.
- ▶ An in-house quality control group will promote compliance within the company and conduct field audits of company operations, focusing on marketing and sales. The

group is expressly prohibited from being from part of the company responsible for oversight of marketing, sales or finance operations.

- ▶ One employee will serve as an advocate to represent the interests of policyholders and resolve complaints. Producers will be required to reply, in writing, to customer complaints.
- ▶ A new code of ethics will be written, stressing the need to clearly explain products to its customers.
- ▶ A new compliance committee will meet quarterly to assess how well the company is living up to its settlement agreements.

It will also be much harder for the insurer to sell to the armed forces. American-Amicable and its affiliates have been banned from selling on military bases for five years and must fire any producer who sells its products on a military installation. They also cannot:

- ▶ accept applications from lower-ranking enlisted members who haven't been counseled by their military supervisors;
- ▶ participate in any on-base financial education training; or
- ▶ compile lists of military members for marketing purposes.


"As part of the settlement, the company agreed to a strengthening

*(Continued, page 5)*


## Insurers: No Need for Variable Annuity Rule, But Definitely Drop Two-Day Reviews

Consideration by the Securities and Exchange Commission of a suitability rule specifically for variable annuities is still pending, but compliance professionals and agents are insisting that at least one element — supervisory approval within two business days — has got to go.

“Slow mail delivery, vacations and business travel of the customer, financial advisor, or supervisor, and other routine occurrences could easily result in the failure to meet the proposed rule’s time frame for review,” Timothy Lyle, chief compliance officer at Pacific Life-subsi-dary Contemporary Financial Solutions told the SEC earlier this summer. “As a result,” continued Lyle, “the Proposed Rule should be revised to require the completion of principal review within a reasonable time-period (not to exceed the expiration of the free look period) following the date the member transmits the VA purchase or exchange to the issuing insurance company.”

Proposed Rule 2821  deals with how to determine suitability at the point of sale. Insurance compa-

nies have delegated the responsibility for suitability reviews to broker-dealers for years. But they have a keen interest in the proposal, which was approved by NASD and is awaiting SEC consideration. For one thing, more than half of all registered reps work for insurer-affiliated broker-dealers. Beyond that, insurers must still guarantee that both affiliated and non-affiliated broker-dealers have processes in place to make sure that registered reps sell their products properly and that supervisors are reviewing the sale.

Insurers — and just about everyone else in the financial services industry, judging by the comments sent to the SEC  — would rather the proposed rule be disapproved entirely. The American Council of Life Insurers, for example, says it has “serious concerns” about the reasons NASD has cited for needing a new rule and said the regulator has “failed to show that the regulatory revision will have any impact.” Enforcement of existing supervision and suitability standards are adequate, ACLI argues, making NASD’s argument for

new procedures “unconvincing.”

This is the second round of public comment to the SEC about the proposed rule. NASD says the review has to be completed, not just in progress, by the end of the second day.

Kerry Cunningham, writing for ING, called that time period “arbitrary” and won’t provide the flexibility that’s needed for a proper review, even if supervisors are sick or out of the office on other business. She predicted it will result in “unnecessary delays and cancellations of transactions that are otherwise suitable.”

The National Association for Variable Annuities said a more lenient standard, to do the review “promptly,” would provide the principal more time to gather the needed customer data and make a more reasoned decision about the sale.

### Complicating Factors

The National Society of Compliance Professionals pointed to yet another complicating factor — that, in some cases the registered principal who is to conduct the review is stationed at the issuing insurance company. “If [the proposed rule is] taken quite literally, those individuals might not be able

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## Companies Make Adjustments *(Continued from page 1)*

2-percent deductible for damage to a dwelling caused by a named storm. The carrier has no exposure along the Gulf, but others like Allstate, USAA, Farmers and State Farm no longer write wind coverage in many coastal counties.


Texas Farm Bureau also is stressing the need for its policyholders to buy flood insurance. "A lot choose not to buy it, but we see it as an essential coverage in some areas." To drive the point home, the company has a statement on the insurance application — right above the customer's signature — that the policy doesn't cover water damage.

### Louisiana's Plans

Gulf coast insurance commissioners are making plans of their own. Louisiana commissioner Jim Donelson and Gov. Kathleen Blanco met with representatives from the 12 largest property/casualty insurers in a closed-door session last month to discuss marketing practices and pricing strategies. "We want to see how we can maintain a strong market in the state," said Clarissa Preston, the deputy commissioner for property/casualty insurance.

The department has already put a number of reforms in place, including a 10-percent flex rating band and the deregulation of commercial property insurance so rate filings can bypass the state's cumbersome rating commission and go directly to the insurance department for approval.

Preston gives the industry high marks for claims service. Complaints were made for only 0.5 percent of the more than 1 million hurricane claims from last year. But other complaints about property policy renewals led the department to issue

an advisory letter  reminding insurers of their obligations under Emergency Rule 23 to renew property policies at the previous premium and with the same terms and conditions as earlier policy.

But she indicated that the department will soon begin a series of market conduct exams to see what went wrong and how the system can improve. For starters, expect the state to look at adjuster pools. "A lot of companies were grabbing adjusters from the same pool," Preston said, so the state will want to examine company lists to see the extent of the overlap and how that will impact company operations. Because many complaints implicated people who were new to the industry, the department will also be interested in a company's training and disaster response plans.

### Adjuster Woes in Texas

Texas, on the other hand, dealt mostly with adjusters who low-balled estimates and claims for temporary living expenses.

"I suppose the adjuster situation isn't totally unexpected, because of the magnitude of what we faced last year," said associate commissioner David Durden. "We didn't get a lot of complaints, but we would expect to see an improvement next time."

The problem with living expenses did take everyone by surprise, however, because state and local governments required people to evacuate their homes. But living expense coverage doesn't kick in unless there is damage to the dwelling, and many properties had no damage. Durden said the legislature will take up the issue when it reconvenes in January.

The department is also keeping an eye on rate hike requests. State

Farm has asked for significant increases for property along the Gulf Coast. "We want to make sure companies aren't overreacting," said Durden. "It's one thing if the rate increase is warranted, but we won't let companies try to recoup last year's losses in [this year's] rate hike."

### 'Educate Policyholders'

Mississippi is also happy with how claims are being settled. Insurers there have paid \$10.4 billion to settle 476,515 claims. The biggest snag: determining the portion of damage caused by wind, as was the case in *Leonard v. Nationwide*.

Companies could have headed off a lot of problems by explaining their coverages better immediately after Katrina, said commissioner George Dale, who called their efforts "the worst job of PR that I've ever seen." Insurers have to do a better job of educating policyholders, he said.

The big push now is to get property owners signed up for flood insurance. Part of that effort will be a mandate in a soon-to-be-issued bulletin for insurance companies to put a notice on declaration pages that the property policy doesn't cover water damage. ♦


### Go Online to Complete Exclusive Salary Survey

The 2005-2006 *Insurance Compliance Insight* Salary Survey questionnaire is now available online. This is the only survey developed specifically for insurance compliance professionals. All responses are completely confidential. *ICI* subscribers will receive our exclusive report and analysis later this year. Fill out the survey at [www.ins-compliance.com](http://www.ins-compliance.com). ♦

## Independent Agent Contracts Should Require AML Cooperation, Compliance Pros Say

*(First of a five-part series)*

Integrating independent agents into an anti-money laundering program is proving as difficult as many insurers thought it might be prior to the May 2 implementation deadline.

Sure, there are other issues with the new Treasury Department AML rule . Among them are whether to build or buy the technology necessary to implement AML programs, systems integration, product risk analysis, establishing a compliance structure, red-flag identification and Suspicious Activity Report filings. But, say compliance officers with large independent producer bases, developing and implementing the systems to train and monitor tens of thousands of agents is akin to herding cats.

“We’re still grappling with it,” says Cheryl Tobin, associate vice president at Pacific Life. The company sales force includes approximately 18,000 independent agents. “We’re not unhappy about where we are,” Tobin, formally compliance chief in Pacific Life’s annuities division, told *ICI*, “but we’re not 100 percent where we need to be.”

Tobin’s not alone. Only one-third of insurers and other financial services companies surveyed by Deloitte & Touche recently had “a comprehensive AML program.”


Meanwhile, integrating independent agents into an AML program was a much-discussed topic at the American Council of Life Insurers’ mid-July compliance section meeting. One thing was clear from that gathering of insurance compliance professionals: the May 2 deadline for AML compliance was just the beginning.

Carriers that issue or underwrite

covered products must “establish and implement policies, procedures, and internal controls reasonably designed to integrate its agents and brokers into its anti-money laundering program and to monitor their compliance with its program.”

Under the rule, a “covered product” is:

- ▶ a permanent life insurance policy, other than a group life insurance policy;
- ▶ an annuity contract, other than a group annuity contract; and
- ▶ any other life insurance product that has cash value or investment features.

In its fact sheet  on AML compliance, Deloitte & Touche posed this question: How are insurers going to coordinate the various policies and procedures of their independent sales force? “That’s something insurance companies, agents and brokers are going to have to figure out,” was the response.

Figuring it out is just what compliance professionals have been trying to do.

Insurers should place some of the compliance burden on their producers as a condition of appointment, Carol Stern, vice president and chief compliance officer at ING U.S. Financial Services. “The company must define the role of the agent in detecting suspicious activity and then monitor compliance by the producers,” Stern and Richard Kinville, director of the anti-money laundering unit at Prudential Financial, said in a joint presentation at the ACLI compliance meeting.

Further, said Stern and Kinville,

the independent producer:

- ▶ “must have an affirmative duty to complete anti-money laundering training in a timely manner and be knowledgeable regarding the red flags and the AML risks regarding the covered products;”
- ▶ has “a duty to report suspicious activity;” and
- ▶ shares responsibility “with the compliance officer ... for performing any due diligence necessitated by the presence of any red flags that may arise....”

These producer requirements should be spelled-out in the agent contract, said Stern and Kinville. And what of producers who balk at the new procedures? “They need to know there is a range of options, including termination,” said Stern.

And what of verifying independent agent training? Stern compared the process to “validating an agent’s license or annuity training in California.”

Her bottom line: “Get it done.” Or, as one compliance officer at the meeting said, “If there is no written record, then it didn’t happen.” ♦

*(Part Two of ICI’s series on AML compliance will focus on SAR filing requirements under the new rule.)*


## ‘Deceptive’ Life Sales

*(Continued from page 2)*

of the existing compliance programs,” Mindy Brown, a spokeswoman for American Amicable Life Insurance Company of Texas, told *ICI*. “We have always been committed to compliance and have long had a policy of monitoring agents and taking action where appropriate. The company remains committed to doing business in an ethical and compliant manner,” Brown said. ♦

## Appraisals Should Determine Property Damage, Scope of Repair, Michigan Regulator Says

Let's be clear about appraisals. In Michigan, you cannot refuse to submit disputes about the amount of a loss to appraisal. Yet that's apparently what some property/casualty insurers have been doing.

Insurance commissioner Linda Watters didn't say which insurance companies are behind the behavior that led her to issue a bulletin  about the practice. But here's what

she's hearing from policyholders:

► In claims involving repair or replacement cost policies, some carriers mistakenly say that the extent of damage and the scope of the repair or replacements are "coverage issues" for a court to decide, and that they aren't subject to an appraisal.


► Some insurers have refused to participate in the appraisal process at all until the policyholder first agrees


to limit to it to the scope of repairs that the company has calculated.


Watters wants that to stop. "These issues do not constitute a 'coverage question' for the courts," she stated in the bulletin. It is expected that insurance companies will not delay or refuse appraisal. Once it is determined that a loss is covered and there is a demand for an appraisal, that process will determine factual issues like whether damages claimed by the policyholder were caused by the covered event. ♦


## — RULES, REGS & BULLETINS —

### Automobile Insurance


Arizona is concerned that auto insurers aren't giving their policyholders the benefit of the state's mandatory seven-day grace period for paying premiums. State rules state that "the insurer's duty to afford coverage during the grace period is unconditional and absolute." Accordingly, an insurance company cannot backdate the effective date of a cancellation in the event of nonpayment, says **Bulletin 2006-06** , and must continue to accept, investigate and pay claims (but it may deduct the amount of the premium owed from any amount that is due to the insured). Cancellation can be done after the grace period by mailing a notice using first-class mail.


North Carolina **SB 881**  adds a requirement for personal auto liability carriers to notify the insurance department, with 20 business days, when it issues a new or replacement policy; terminates a policy, unless it also issues a replacement policy; or reinstates a policy after telling the department about a cancellation or termination. The requirement applies to every insurer with \$25 million or more in premium volume.

South Carolina **Bulletin 2006-04**  explains that a new amendment to the insurance code now permits an auto insurance policy to be cancelled within the first 60 days for nonpayment, starting with the 31st day it has been in force. All policy forms must be filed for approval.




A new regulation in Texas, **28 TAC 1.5.M.5.9357** , gives a break to county mutual insurers writing non-standard personal auto insurance. The easier filing procedures apply to county mutual carriers writing only at non-standard rates, provided the carrier and its affiliated companies or group have a market share of 3.5 percent or less. The rule outlines the filing procedures.

### Compensation

Massachusetts **SB 2060**  will permit paying referral fees to unlicensed employees when the employee refers customers to a licensed insurance producers in connection with the purchase of insurance.


Washington has issued **Technical Assistance Advisory T 06-04**  to remind brokers of the need to provide adequate disclosure about their compensation for property/casualty transactions. Disclosure has to be provided in writing before the final purchase decision is made, must be signed by both the agent-broker and customer, and must be kept on file for five years. The advisory outlines other requirements as well.


### Flood Insurance

Massachusetts , Nevada  and Washington  have issued similar bulletins to clarify that certain producers must complete a mandatory three-hour continuing education course before selling policies for the National


Flood Insurance Program. The training is a federal mandate required of property, casualty and personal lines producers who sell flood insurance. Nevada will require insurance companies to show, upon request, that their producers who sell flood insurance have completed their training.


### Life Insurance and Annuities


A change to Iowa regulations, **IAC 191-15.8(4)** , contain new standards and procedures governing recommendations for the sale of annuity products. The state wants to make sure the consumer's insurance needs are addressed.

NASD, in **Notice to Members 06-38** , is telling broker-dealer firms that life settlement transactions involving variable life insurance policies are securities transactions and must be properly supervised. The notice outlines suitability, due diligence, best execution and other practices that must be followed in those sales.


### Policy Provisions

Alaska, in **HB 394** , will allow companies to use policies in languages other than English, provided than an official English language version has been filed with the Insurance Department.


New York **Legal Opinion 06-07-10** , acknowledges the right of companies to accept credit cards for insurance premiums, but says they cannot charge extra fees to cover those expenses.

South Carolina is setting new standards for service and other administrative fees that insurance companies can charge when issuing insurance policies. **Bulletin 2006-08**  says insurers can charge policy-level fees — application, policy, origination, inspection, risk management and similar charges — only if they are set forth in the policy, declarations page or endorsements, and reflected in the premium.

### Producer Licensing

Maryland **COMAR 31.03.13.06**  is clarifying that producers can act on behalf of the insurer as soon as they have been appointed, even if they haven't been formally added to the insurer's register.

### Property/Casualty Insurance

Texas has a new regulation in place, **28 TAC 1.21.J.21.1007** , to protect homeowners from "from being unfairly stigmatized" by previous mold damage or the filing of mold damage claims. The rule restricts insurers from using a single water damage claim during underwriting and rating. The rule is now in effect.

*(Produced with the assistance of The Clear Report)*

## Wind and Water Top P/C Litigation Concerns; Fee and Premium Disclosure Pose Risk for Life Policies

There is always going to be someone who thinks the insurance industry is unfair, and chances are pretty good they'll be able to find a lawyer who agrees with them. So where do they think companies are going wrong these days?

The top trend facing property/casualty insurers involves disaster claims along the Gulf Coast, "and it is likely to continue for the next five to 10 years," predicts Michael Nelson, a partner with Nelson Levine deLuca & Horst. Current hot topics are the wind versus water question and, in Texas, paying for temporary living expenses when there is no damage to the insured property (*see related story, page 1*).

A closely aligned emerging issue is whether companies have an obligation to advise homeowners they need to buy flood insurance. "Is there an affirmative duty to advise that flood coverage is needed in some areas? If there is, there is a need for insurers to train producers to comply with state regulatory requirements," Nelson tells *ICI*. "The industry does

a lot of this currently, but there is pressure on companies to substantiate they've done the right thing. Make sure that compliance, claims and underwriting policies are all in order."

Computer software is another potential trouble spot, particularly in Arkansas where software that determines the value of automobile bodily injury claims may be a target of a national class action lawsuit. The allegations are it deliberately undervalues claims. "Compliance can protect the company by understanding how software is being used and testing it to verify its results are accurate," Nelson suggests.

Underwriting that attempts to unfairly exclude certain segments of the population is also being alleged. "There will always be allegations that companies are trying to make its policyholder base unfairly slanted toward better risks," says Nelson. "Protect yourself by using rate and form filings to provide an explanation in adequate detail."

Finally, Nelson suggests that

companies listen to the opposition to see if you might be a risk somewhere around the bend. "There may be nothing to their allegations," he says, "but listen anyway."


For life insurers, the plaintiff's bar loves disclosure, particularly the lack of it, according to Ann Young Black, a partner with JordanBurt. Recent lawsuits have charged insurers with saying that universal life policies require "only a level amount of premium payments" and with charging a policyholder more for the convenience of monthly billings but not disclosing the fee.

In each case, there was disclosure in the contracts, but Black says more disclosure, particularly in annual statements, could help avoid litigation altogether.

"For policies that are subject to lapse, consider whether annual statements should reflect how long the policy would continue in force under current and guaranteed rates," she advises. Also consider a separate listing for charges deducted under a contract. ♦

### IMSA Study Shows Compliance Can Provide Tangible Results

Can compliance pay off for a company? A recent study commissioned by the Insurance Marketplace Standards Association seems to say so.

The paper  concludes that customers are "far more likely to be treated better and be more satisfied" when dealing with life insurance and annuity companies that are committed to using ethical business practices.

"Companies that invest in a strong ethical infrastructure with verifiable policies and procedures have higher A.M. Best rating, lower

regulatory compliance costs and greater cost efficiencies," says Dr. Martin Grace, one of the authors at Georgia State University. Even more impressive: Justified complaints were 150 percent lower.

The study concluded that IMSA member companies had much lower legal expenses and 88-percent lower expenses to investigate and settle policy disputes. Non-IMSA companies, on the other hand, had, on average, a 10-percent higher rate of regulatory discipline. ♦

## Variable Annuity Rule

(Continued from page 3)

to serve as the reviewing principal because the triggering event of the proposed rule is the transmission to the issuing insurance company.”

Also confusing would be the triggering event for sales made by a captive or in-house sales force, historically a popular way to sell variable annuities. Would the rule be interpreted to mean the application has been transmitted to the insurance company when it is completed by the agent, who would be, after all, a representative of the company. NAVA is hoping the clock won't start ticking until the producer actually sends the application to the company.

The Committee of Annuity Insurers, a group of 29 insurance companies that sell fixed and annuity products, feared an even greater danger: A rote review that would rely on a mechanical, checklist approach rather than a thoughtful, substantive and complete review of a sale. That, it implied, would serve no one's best interest.

Two other groups — the Association for Advanced Life Underwriting and the National Association of Insurance and Financial Advisors — had a more basic objection to the review requirement: It requires the principal, with access to less first-hand information than the registered rep, to independently determine the customer's need for the product and the

product's suitability for the customer.


### A bigger problem

Several of those commenting pointed to ACLI research that revealed complaints about unsuitable variable annuity sales account for one-third of one percent of NASD's disciplinary actions during a recent five-year period. In fact, said Perry Nocifora of Wealth Management Services in Garden Grove, Calif., NASD should be looking at indexed and fixed, rather than variable, annuities.

“The most consumer unfriendly products exist in the fixed insurance area [that is] regulated by the various states,” said Nocifora, an insurance producer and Series 7 registered rep with more than 20 years in the business. “The principal review requirements [in the proposed variable annuity rule] seem to be nothing more than a bias against variable annuities by making the

product more difficult to sell while providing little additional consumer protection.” ♦

## New York Issues New Credit Score Rule

New York has issued a temporary regulation that places new limits on how personal lines carriers can use consumer credit scores to underwrite or set rates. The rule  lists six prohibited practices, and requires the company to use another factor, other than credit, when deciding to reject a new policy application.

It also contains requirements insurers must follow to obtain current credit information, including using information no more than 90 days old to take an adverse action. Companies must also, at least every 36 months upon request, re-rate a policyholder, but cannot use that to raise rates. ♦

### Next Time in *Insurance Compliance Insight*

- ◆ Too Much or Too Little? SAR Filing Requirements Under New AML Regulations
- ◆ Behind the Scenes: An Inside Look at One Company's Compliance Shop
- ◆ Annual Compliance Review: Building Effective Risk Assessment Strategies
- ◆ Monitoring Independent Producers for Suitability

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