February 5, 2010

Mary Jo Hudson, Chair—IIPRC  
Director, Ohio Division of Insurance  
IIPRC Management Committee  
444 North Capitol Street, NW  
Hall of the States, Suite 701  
Washington, DC 20001-1509

Mike Geeslin, Chair—Product Standards Committee  
Commissioner, Texas Department of Insurance  
IIPRC Products Standards Committee  
444 North Capitol Street, NW  
Hall of the States, Suite 701  
Washington, DC 20001-1509

RE: Additional Standards for Guaranteed Living Benefits for Individual Deferred Non-Variable Annuities

Additional Standards for Guaranteed Living Benefits for Individual Deferred Variable Annuities

Additional Standards for Guaranteed Minimum Death Benefits for Individual Deferred Variable Annuities

Dear Chair Hudson, Chair Geeslin, Members of the Product Standards Committee & Members of the IIPRC:

Thank you for your dedication to the protections of annuity consumers, your persistence in continuing the detailed review and consideration of the draft annuity standards listed above brings integrity and validity to the Interstate Compact process.

This letter is sent to represent the concerns of the members of the Life Insurance Settlement Association (LISA), the nation’s oldest, largest and most diverse organization of participants in the secondary market for life insurance. Thank you for the opportunity to participate in the deliberations regarding the development of product standards for annuities with guaranteed living benefit riders and guaranteed minimum death benefits. We are committed to the promotion of appropriate standards and the preservation of the fundamental rights of consumers in insurance products.
We have commented consistently throughout the product standards development process with concern and emphasis on the basic fundamental rights of consumers to have choices regarding their annuity purchases. Annuities and other life insurance products are becoming more and more complex and complicated while your consumers are dependent upon the life insurance and annuity companies’ appointed producers to present and explain these complex and complicated financial products. As the life insurance and annuity companies continually develop additional financial products to meet the demands of consumers and compete in this highly competitive marketplace, it is vitally important that proper regulations and standards be developed that ensure the stability of the marketplace while allowing your consumers the flexibility to manage their financial portfolios. The riders being discussed are very complex and complicated and could bring significant value to existing or newly issued annuity contracts. As an industry representative advised the IIPRC in December, their company has a successful penetration rate above 75% on all their existing and newly issued annuity contracts containing these types of riders. We do not argue the potential benefits of these riders, we are concerned with the possible negative effects these riders could have on your annuity owners. What are your consumers’ options if these products do not perform as represented in the life insurance and annuity companies’ appointed representatives presentations or should their circumstances change for your annuity consumers? We believe the consumer should have the right to seek assistance from the secondary market to evaluate their options, denying your consumers this right could be detrimental to their financial well being.

The Life Insurance Settlement Association (LISA) has become concerned with some of the comments from regulators regarding the possibility of some type of outside involvement in the purchasing of annuities that is being characterized as “stranger originated”. Our position has been consistent regarding “stranger originated” programs, insurable interest laws must be adhered to and enforced fairly and equitably on all parties.

There seems to be some confusion about how a life or annuity “stranger originated” program could be successful without the assistance, cooperation and participation of a licensed, appointed representative of the life insurance company or annuity issuer, most commonly recognized as a life insurance producer. It would be our understanding that in order for either a life insurance policy or annuity contract to be submitted for underwriting to the insurance company, an application would have to be prepared by an appointed and appropriately licensed life insurance/annuity producer prior to submission. In most applications, to our knowledge, there is a required section where the life insurers’ appointed producer in the transaction must affirm their knowledge and association with the applicant and attest to the presence of insurable interest. If there is improper behavior regarding the applying for life insurance or annuities, in this context, it occurs in the conduct of the life insurance company’s or annuity issuer’s appointed and compensated representatives. These representatives have no statutory fiduciary duty to the consumer; rather, their fiduciary duty is to the life insurance company which has appointed them. In every state, to varying degree, insurance companies are responsible for the actions of their appointed agents in transactions that are submitted to them for underwriting.
If more training is needed, then we believe it is incumbent upon the life insurance industry to provide for the appropriate training of their appointed representatives to help identify and eliminate these instances where insurable interest is manipulated in order to sell life insurance and annuities. The appointed producers are the primary line of defense in eliminating the possibility of such faulty policies.

With these types of complex and complicated transactions, there are significant suitability issues. In some reports, there is an indication that these types of transactions have relevant features that the annuity payments do not begin for approximately 20 years on an individual of relatively poor health and it would be unlikely the potential annuitant would survive to receive any of the payments. What suitability provisions apply in these types of transactions? Could it be considered unsuitable for the appointed life insurance/annuity producer to recommend such a sale or accept this sale on behalf of the companies they represent? What is the company’s responsibility in accepting these types of annuities? What are the product development standards on such an annuity? Would there not be some type of purchase age requirements on an annuity that does not schedule annuity payments for approximately 20 years? One would think that for the protection of our elderly and senior consumers, that such products would not be authorized nor approved for use.

These types of potential insurable interest issues raise many questions as to the applicable suitability and underwriting processes. One would think that the annuity issuers could rely upon their appointed agents to protect their interests in these types of questionable transactions, as the appointed agents are the only conduit for the submission and issuance of these types of complex and complicated financial products. To balance and protect consumers and companies, we must rely upon the integrity of our representatives to act in accordance with the law and our codes of conduct. As we all know, there are many opportunities for improper behavior, sometimes under pressure from outside forces, and it is incumbent upon regulators, therefore, and interested parties, altogether, to implement standards and procedures to protect consumers, clients, the life insurance and annuity industry and the secondary market.

One of the arguments presented by the life insurance industry has been the pricing methodology of these riders. It has been asserted by insurers and others that an absence of proposed termination provisions found in these draft annuity rider standards would lead to higher prices for consumers. We believe these reports are based on supposition as there does not seem to be quantitative data or experience available to properly measure the risk and pricing methodologies.

On January 21, 2010, National Underwriter through the NU Online News Service published the following story.

*Use of the guaranteed minimum withdrawal benefit option offered with variable annuities has been lower than originated expected. Consultants at Ruark*
Consulting L.L.C., Simsbury, Conn., an actuarial consulting firm, come to that conclusion in a new study.

Ruark consultants analyzed 3 million policy years of experience data from 7 major VA issuers that was collected from January 2005 to June 2009. When the consultants looked at owners whose annuities included a guaranteed lifetime withdrawal benefit, they found that only 1 in 5 are taking partial withdrawals. Among owners who are taking partial withdrawals, only 1 in 3 are taking the maximum amount allowed. Both of these levels are below what many insurers had expected, the consultants report. If those GMWB trends continue, they could have a favorable effect on insurers' reserve and capital levels, the consultants say.

"Guaranteed lifetime withdrawal benefits that provide lifetime income to the owner have been the most popular form of guarantee over the last few years," Peter Gourley, a Ruark vice president, says in a comment on the study. But, because the products are so new, the insurance industry has had relatively little experience to evaluate, Gourley says.

Given this report, we do not believe the insurance industry has adequate experience to evaluate the pricing methodology on these types of products. Regulators should understand the issues before inhibiting consumers’ ability to seek assistance from the secondary market if they so choose. Who is responsible for advising consumers on the best way to fully benefit from these complex and complicated products?

We appreciate the dedication and service of the IIPRC representative regulators to your states and to the process, and your full consideration in this matter. We would be glad to answer any questions you might have on the February 18th conference call or feel free to contact me prior to the call at 859-879-0098 or at brian@rightllc.org.

Sincerely,

Brian K. Staples