



**December 15, 2019**

## **NAIC Committee Approves Revisions to Annuity Suitability Model**

The NAIC's Life Insurance and Annuities (A) Committee has approved amendments to the NAIC Suitability in Annuity Transactions Model Regulation which include a "Best Interest" standard of care for annuity recommendations and sales. The new standard, which requires producers and insurers to act in the best interest of the consumer without placing the producer's or insurer's interests ahead of the consumer's interest, is a significant enhancement of the suitability standard found in the current model regulation. The model provides that a producer will have acted in the best interest of the consumer if he satisfies the requirements of the four obligations—care, disclosure, conflict of interest and documentation—which are spelled out in the revised model.

While the revised model regulation will require producers to disclose the sources and types of cash and non-cash compensation, including whether the producer will be compensated by commission, specific amounts of compensation to be received are only required to be disclosed if requested by the consumer. The amendments expressly state that the revised model does not "create a fiduciary obligation or relationship", nor does it require the recommendation of the annuity with the lowest compensation schedule. The revisions require agents to "identify and avoid or reasonably manage and disclose material conflicts of interest", but exempt both cash and non-cash compensation from the definition of what may be considered a "material conflict of interest", and require insurers to eliminate only those sales contests, quotas and compensation that are tied to the sale of specific annuity products.

NAIFA worked closely with the NAIC's Annuity Suitability Working Group for almost two years to develop the revisions, which closely track many of the requirements and provisions of the SEC's recently adopted Regulation best interest. NAIFA, along with the American Council of Life Insurers, the Indexed Annuity Leadership Council, the Association for Advanced Life Underwriting, the Committee of Annuity Insurers, the Insured Retirement Institute, the Financial Services Institute, and the National Association for Fixed Annuities supports the revisions to the Model Regulation. In a joint comment letter recently submitted to the NAIC, these groups stated that the proposal "will make it possible for consumers -- regardless of where they live -- to be confident that insurance companies and producers with whom they are entrusting their retirement savings are acting in their best interest, and not putting their own financial interests ahead of consumers' interests."

Some "clean up" issues will be addressed on a December 19 conference call meeting of the Suitability Working Group, and the "A" Committee will have a conference call on December 30



during which it will vote on the entire set of revisions and to send the revised model regulation to the NAIC's Executive Committee and Plenary for final adoption.

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