

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

Agency

Insurance Department

Subject

Suitability in Annuity Transactions

Inclusive Sections

§§ 38a-432a-1—38a-432a-8

CONTENTS

Sec. 38a-432a-1.	Purpose
Sec. 38a-432a-2.	Scope
Sec. 38a-432a-3.	Exemptions
Sec. 38a-432a-4.	Definitions
Sec. 38a-432a-5.	Duties of insurers, agencies and insurance producers
Sec. 38a-432a-6.	Mitigation of responsibility
Sec. 38a-432a-7.	Record keeping
Sec. 38a-432a-8.	Insurance producer training

Suitability in Annuity Transactions

Sec. 38a-432a-1. Purpose

(a) The purpose of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies is to require insurers to establish a system to supervise recommendations and to set forth standards and procedures for recommendations to consumers that result in transactions involving annuity products so that the insurance needs and financial objectives of consumers known at the time of the transaction are appropriately addressed.

(b) Nothing herein shall be construed to create or imply a private cause of action for a violation of section 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-2. Scope

Sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies shall apply to any recommendation to purchase, exchange or replace an annuity made to a consumer by an insurance producer, or an insurer where no producer is involved, that results in the purchase, exchange or replacement recommended.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-3. Exemptions

Unless otherwise specifically included, sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies shall not apply to transactions involving:

(1) direct response solicitations where there is no recommendation based on information collected from the consumer pursuant to section 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies, or

(2) contracts used to fund:

(A) an employee pension or welfare benefit plan that is covered by the federal Employee Retirement and Income Security Act (ERISA), Public Law 93-406;

(B) a plan described by the following sections of the federal Internal Revenue Code: 26 USC 401(a), 26 USC 401(k), 26 USC 403(b), 26 USC 408(k), or 26 USC 408(p), if established or maintained by an employer;

(C) a governmental or church plan defined in 26 USC 414, a government or church welfare benefit plan, or a deferred compensation plan of a state or local government or tax exempt organization under 26 USC 457;

(D) a nonqualified deferred compensation arrangement established or maintained by an employer or plan sponsor;

(E) settlements of or assumptions of liabilities associated with personal injury litigation or any dispute or claim resolution process; or

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

§38a-432a-4

Insurance Department

(F) formal prepaid funeral contracts.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-4. Definitions

As used in sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies.

(1) “Agency” means a person that employs one or more insurance producers;

(2) “Annuity” means “annuities” as defined in section 38a-1 of the Connecticut General Statutes, that is or are individually solicited, whether the product is classified as an individual or group annuity;

(3) “Commissioner” means the Insurance Commissioner.

(4) “Continuing education credit” or “CE credit” means a “credit hour” as defined in section 38a-782a-1 of the Regulations of Connecticut State Agencies;

(5) “Continuing education provider” or “CE provider” means a person that is approved to sponsor continuing education courses pursuant to section 38a-782a-4 of the Regulations of Connecticut State Agencies;

(6) “FINRA” means the federal Financial Industry Regulatory Authority or a succeeding agency;

(7) “Insurance producer” means “Insurance producer” as defined in section 38a-702a of the Connecticut General Statutes;

(8) “Insurer” means “insurer” as defined in section 38a-1 of the Connecticut General Statutes;

(9) “Person” means “person” as defined in section 38a-702a of the Connecticut General Statutes;

(10) “Recommendation” means advice provided by an insurance producer or an insurer where no producer is involved, to an individual consumer that results in a purchase, exchange or replacement of an annuity in accordance with that advice;

(11) “Replacement” means a transaction in which a new annuity policy or contract is to be purchased, and it is known or should be known to the proposing producer, or to the proposing insurer if there is no producer, that by reason of the transaction, an existing annuity policy or contract has been or is to be:

(A) Lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated;

(B) Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;

(C) Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;

(D) Reissued with any reduction in cash value; or

(E) Used in a financed purchase; and

(12) “Suitability information” means information that is reasonably appropriate in determining the suitability of a recommendation, including the following:

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

Insurance Department

§38a-432a-5

- (A) Age;
- (B) Annual income;
- (C) Financial situation and needs, including the financial resources used for the funding of the annuity;
- (D) Financial experience;
- (E) Financial objectives;
- (F) Intended use of the annuity;
- (G) Financial time horizon;
- (H) Existing assets, including investment and life insurance holdings;
- (I) Liquidity needs;
- (J) Risk tolerance; and
- (K) Tax status.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-5. Duties of insurers, agencies and insurance producers

(a) In recommending to a consumer the purchase, exchange or replacement of an annuity that results in another insurance transaction or series of insurance transactions, the insurance producer, or the insurer where no insurance producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to his or her investments and other insurance products and as to his or her financial situation and needs, including the consumer's suitability information, and that there is a reasonable basis for the insurance producer or the insurer to believe all of the following:

(1) The consumer has been reasonably informed of various features of the annuity, such as the potential surrender period and surrender charge, potential tax penalty if the consumer sells, exchanges, replaces, surrenders or annuitizes the annuity, mortality and expense fees, investment advisory fees, potential charges for and features of riders, limitations on investment returns, insurance and investment components and market risk;

(2) The consumer would benefit from certain features of the annuity, such as tax-deferred growth, annuitization or death or living benefit;

(3) The particular annuity as a whole, the underlying subaccounts to which funds are allocated at the time of purchase or exchange of the annuity, and riders and similar product enhancements, if any, are suitable (and in the case of an exchange or replacement, the transaction as a whole is suitable) for the particular consumer based on his or her suitability information; and

(4) In the case of an exchange or replacement of an annuity, the exchange or replacement is suitable including taking into consideration whether:

(A) The consumer will incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits (such as death, living or other contractual benefits), or be subject to increased fees, investment advisory fees or charges for riders and similar product enhancements;

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

§38a-432a-5

Insurance Department

(B) The consumer would benefit from product enhancements and improvements; and
(C) The consumer has had another annuity exchange or replacement and, in particular, an exchange or replacement within the preceding thirty-six (36) months.

(b) Prior to the execution of a purchase, exchange or replacement of an annuity resulting from a recommendation, an insurance producer, or an insurer where no producer is involved, shall make reasonable efforts to obtain the consumer's suitability information.

(c) Except as permitted under subsection (d) of this section, an insurer shall not issue an annuity recommended to a consumer unless there is a reasonable basis to believe the annuity is suitable based on the consumer's suitability information.

(d) (1) Except as provided under subdivision (2) of this subsection, neither an insurance producer nor an insurer shall have any obligation to a consumer under subsection (a) or (c) of this section related to any annuity transaction if:

(A) No recommendation is made;

(B) A recommendation was made and was later found to have been prepared based on materially inaccurate information provided by the consumer;

(C) A consumer refuses to provide relevant suitability information and the annuity transaction is not recommended; or;

(D) A consumer decides to enter into an insurance transaction that is not based on a recommendation of the insurer or insurance producer.

(2) An insurer's issuance of an annuity subject to subdivision (1) of this subsection shall be reasonable under all the circumstances actually known to the insurer or insurance producer at the time the annuity is issued.

(e) An insurance producer or, where no insurance producer is involved, the responsible insurer representative, shall at the time of sale:

(1) Make a record of any recommendation described in subsection (a) of this section;

(2) Obtain a customer signed statement documenting a customer's refusal to provide suitability information, if applicable; and

(3) Obtain a customer signed statement acknowledging that an annuity transaction is not recommended if a customer decides to enter into an annuity transaction that is not based on the insurance producer's or insurer's recommendation.

(f) (1) An insurer shall establish a system of supervision that is reasonably designed to achieve the insurer's and its insurance producers' compliance with sections 38a-432a-1 to 38a-432-8, inclusive, of the Regulations of Connecticut State Agencies, including, but not limited to the following:

(A) The insurer shall maintain reasonable procedures to inform its insurance producers of the requirements of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies and shall incorporate the requirements of this regulation into relevant insurance producer training manuals;

(B) The insurer shall establish standards for insurance producer product training and shall maintain reasonable procedures to require its insurance producers to comply with the requirements of section 38a-432a-8 of the Regulations of Connecticut State Agencies;

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

Insurance Department

§38a-432a-5

(C) The insurer shall provide product-specific training and training materials which explain all material features of its annuity products to its insurance producers;

(D) The insurer shall maintain procedures for review of each recommendation prior to issuance of an annuity that are designed to ensure that there is a reasonable basis to determine that a recommendation is suitable. Such review procedures may apply a screening system for the purpose of identifying selected transactions for additional review and may be accomplished electronically or through other means including, but not limited to, physical review. Such an electronic or other system may be designed to require additional review only of those transactions identified for additional review by the selection criteria;

(E) The insurer shall maintain reasonable procedures to detect recommendations that are not suitable. This may include, but is not limited to, confirmation of consumer suitability information, systematic customer surveys, interviews, confirmation letters and programs of internal monitoring. Nothing in this subparagraph prevents an insurer from complying with this subparagraph by applying sampling procedures, or by confirming suitability information after issuance or delivery of the annuity; and

(F) The insurer shall annually provide a report to senior management, including to the senior manager responsible for audit functions, which details an analysis, with appropriate testing, reasonably designed to determine the effectiveness of the supervision system, the exceptions found, and corrective action taken or recommended, if any.

(G) Nothing in this subsection restricts an insurer from contracting for performance of a function (including maintenance of procedures) required under this subdivision. An insurer is responsible for taking appropriate corrective action and may be subject to sanctions and penalties pursuant to the Connecticut General Statutes regardless of whether the insurer contracts for performance of a function, and regardless of the insurer's compliance with subparagraph (H) of this subdivision.

(H) An insurer's system of supervision under this subdivision shall include supervision of the contractual performance under this subsection. This includes, but is not limited to, the following:

(i) Monitoring and, as appropriate, conducting audits to ensure that the contracted function is properly performed; and

(ii) Annually obtaining a certification from a senior manager who has responsibility for the contracted function that the manager has a reasonable basis to represent, and does represent, that the function is properly performed.

(2) An insurer is not required to include in its system of supervision an insurance producer's recommendations to consumers of products other than the annuities offered by the insurer.

(g) An insurance producer shall not dissuade, or attempt to dissuade, a consumer from:

(1) Truthfully responding to an insurer's request for confirmation of suitability information;

(2) Filing a complaint; or

(3) Cooperating with the investigation of a complaint.

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

§38a-432a-6

Insurance Department

(h) (1) Sales made in compliance with FINRA requirements pertaining to suitability and supervision of annuity transactions and the provisions of subdivision (2) of this subsection shall satisfy the requirements under sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies. This subsection applies to FINRA broker-dealer sales of variable annuities and fixed annuities if the suitability and supervision is similar to those applied to variable annuity sales. However, nothing in this subsection shall limit the commissioner's ability to enforce the provisions of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies, including the conducting of investigations.

(2) For subdivision (1) of this subsection to apply, an insurer shall:

(A) Monitor the FINRA member broker-dealer using information collected in the normal course of an insurer's business; and

(B) Provide to the FINRA member broker-dealer information and reports that are reasonably appropriate to assist the FINRA member broker-dealer to maintain its supervision system.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-6. Mitigation of responsibility

(a) An insurer is responsible for compliance with sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies. If a violation occurs, either because of the action or inaction of the insurer or its insurance producer, the commissioner may order:

(1) an insurer to take reasonably appropriate corrective action for any consumer harmed by the insurer's, or by its insurance producer's, violation of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies; and

(2) a general agency, independent agency or an insurance producer to take reasonably appropriate corrective action for any consumer harmed by the insurance producer's violation of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies.

(b) Any applicable penalty of the Connecticut General Statutes for a violation of sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies may be reduced or eliminated at the discretion of the commissioner, if corrective action for the consumer was taken promptly after a violation was discovered or the violation was not part of a pattern or practice. Nothing contained in this section shall be construed to limit the commissioner's authority to terminate or suspend a producer or insurer's license or to pursue other legal or regulatory action pursuant to the insurance laws of the state of Connecticut.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-7. Record keeping

(a) Insurers, agencies and insurance producers shall maintain or be able to make available to the commissioner records of the information collected from the consumer and other

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

Insurance Department

§38a-432a-8

information used in making the recommendations that were the basis for insurance transactions for seven years after the insurance transaction is completed by the insurer. An insurer is permitted, but shall not be required, to maintain documentation on behalf of an insurance producer.

(b) Records required to be maintained by sections 38a-432a-1 to 38a-432a-8, inclusive, of the Regulations of Connecticut State Agencies may be maintained in paper, photographic, microprocess, magnetic, mechanical or electronic media or by any process that accurately reproduces the actual document.

(Adopted effective August 4, 2005; Amended November 10, 2008; Amended February 18, 2012)

Sec. 38a-432a-8. Insurance producer training

(a) An insurance producer shall not solicit the sale of an annuity product unless the insurance producer has adequate knowledge of the product to recommend the annuity and the insurance producer is in compliance with the insurer's standards for product training. An insurance producer may rely on insurer-provided product-specific training standards and materials to comply with this subsection.

(b) (1) (A) An insurance producer who engages in the sale of annuity products shall complete a one-time four (4) CE credit training course approved by the commissioner and provided by the continuing education provider.

(B) Insurance producers who hold a life insurance line of authority on the effective date of this regulation and who desire to sell annuities shall complete the requirements of this subsection within six (6) months after the effective date of this regulation. Individuals who obtain a life insurance line of authority on or after the effective date of this regulation may not engage in the sale of annuities until the annuity training course required under this subsection has been completed.

(2) The minimum length of the training required under this subsection shall be sufficient to qualify for at least four (4) CE credits, but may be longer.

(3) The training required under this subsection shall include information on the following topics:

- (A) The types of annuities and various classifications of annuities;
- (B) Identification of the parties to an annuity;
- (C) How fixed, variable and indexed annuity contract provisions affect consumers;
- (D) The application of income taxation of qualified and non-qualified annuities;
- (E) The primary uses of annuities; and
- (F) Appropriate sales practices, replacement and disclosure requirements.

(4) Providers of courses intended to comply with this subsection shall cover all topics listed in subdivision (3) of this subsection and shall not present any marketing information or provide training on sales techniques or provide specific information about a particular insurer's products. Additional topics may be offered in conjunction with and in addition to the required topics.

(5) A provider of an annuity training course intended to comply with this subsection

Regulations of Connecticut State Agencies

TITLE 38a. Insurance Department

§38a-432a-8

Insurance Department

shall register as a CE provider in this state and comply with the rules and guidelines applicable to insurance producer continuing education courses as set forth in sections 38a-782a-1 to section 38a-782a-17, inclusive, of the Regulations of Connecticut State Agencies.

(6) Annuity training courses may be conducted and completed by classroom method or by self-study method in accordance with section 38a-782a-7 of the Regulations of Connecticut State Agencies.

(7) Providers of annuity training shall comply with the reporting requirements and shall issue certificates of completion in accordance with section 38a-782a-4 of the Regulations of Connecticut State Agencies.

(8) The satisfaction of the training requirements of another state that are substantially similar to the provisions of this subsection shall be deemed to satisfy the training requirements of this subsection in this state.

(9) An insurer shall verify that an insurance producer has completed the annuity training course required under this subsection before allowing the producer to sell an annuity product for that insurer. An insurer may satisfy its responsibility under this subsection by obtaining certificates of completion of the training course or obtaining reports provided by commissioner-sponsored database systems or vendors or from a reasonably reliable commercial database vendor that has a reporting arrangement with approved insurance education providers.

(Adopted effective February 18, 2012)