

Statement in Support of a Suitability Rule for Insurance Companies and Agencies

The Annuity Working Group May 8, 2007

Last year, the Minnesota Department of Commerce and NASD co-sponsored an annuity roundtable, which opened an important dialogue on the regulatory framework under which annuities are marketed and sold. Following the roundtable, the Minnesota Department of Commerce and NASD formed the Annuity Working Group to evaluate regulatory standards in various areas, including the suitability obligation of those who sell different types of annuity products. The Annuity Working Group includes the four representatives of the insurance and securities regulatory authorities listed below.

It was the general consensus of the more than 20 securities and insurance regulators and industry executives who participated in the annuity roundtable that investors purchasing fixed, variable or indexed annuities should have suitability protection, regardless of which regulatory regime covers the particular product they buy.

The Annuity Working Group supports the Suitability in Annuity Transactions Model Regulation recently approved by the National Association of Insurance Commissioners (the "Model Suitability Rule"), because it represents an important step toward this goal. The Model Suitability Rule would impose a suitability requirement on the purchase or exchange of fixed annuities in those states that do not have such a requirement. With respect to the purchase and exchange of variable annuities, the Model Suitability Rule would impose an express suitability standard on insurance companies where none currently exists. Although broker-dealers and investment advisers are subject to the federal securities laws and certain state securities laws that impose suitability standards on broker-dealers and investment advisers, insurance companies have not been subject to an express obligation. The Annuity Working Group urges every state that does not currently have a suitability standard applicable to the sale of annuities to enact the NAIC's Model Suitability Rule.

The Model Suitability Rule should be enacted on its own merits; therefore, we would oppose any industry attempt to use it as a vehicle to impair the authority of state securities commissioners to regulate broker-dealer and investment adviser distribution of variable annuities.

The Annuity Working Group stands ready to provide whatever assistance necessary to advance the enactment of the Model Suitability Rule in the various states.

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