

IMPORTANT: Read Instructions on bottom of Certification Page before completing this Form. Failure to comply with instructions may cause disapproval of proposed Regulations.

STATE OF CONNECTICUT
REGULATION
 OF

NAME OF AGENCY
 INSURANCE DEPARTMENT

5875

Suitability in Annuity Transactions

SECTION 1

Sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies are amended to read as follows:

Section 38a-432a-1 Purpose

The purpose of sections 38a-432a-1 to 38a-432a-7, inclusive of the Regulations of Connecticut State Agencies is to set forth standards and procedures for recommendations to [senior] consumers that result in a transaction involving annuities so that the insurance needs and financial objectives of [senior] consumers known at the time of the recommendation are appropriately addressed.

Section 38a-432a-2 Scope

Sections 38a-432a-1 to 38a-432a-7, inclusive of the Regulations of Connecticut State Agencies shall apply to any recommendation to purchase or exchange an annuity made to a [senior] consumer by an insurance producer, or an insurer where no producer is involved, that results in the purchase or exchange recommended.

Section 38a-432a-3 Exemptions

Unless otherwise specifically included, sections 38a-432a-1 to 38a-432a-7, inclusive of the Regulations of Connecticut State Agencies shall not apply to recommendations involving:

- (1) direct response solicitations where there is no recommendation based on information collected from the [senior] consumer pursuant to section 38a-432a-1 to 38a-432a-7, 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
 - (F) formal prepaid funeral contracts.

Section 38a-432a-4 Definitions

- (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;
- (3) "Commissioner" means the Insurance Commissioner.
- (4) "Insurance producer" means "Insurance producer" as defined in section 38a-702a of the Connecticut General Statutes;

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(5) "Insurer" means "insurer" as defined in section 38a-1 of the Connecticut General Statutes;

(6) "Person" means "person" as defined in section 38a-702a of the Connecticut General Statutes; and

(7) "Recommendation" means advice provided by an insurance producer or an insurer where no producer is involved, to a [senior] consumer that results in a purchase or exchange of an annuity in accordance with that advice.[]; and

(8) "Senior consumer" means an individual aged sixty-five (65) years or older. In the event of a joint purchase by more than one party, the purchaser will be considered to be a senior consumer if any of the purchasers is aged sixty-five (65) years or older.]

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

(a) In recommending to a [senior] consumer the purchase of an annuity or the exchange 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 [senior]consumer on the basis of the facts disclosed by the [senior]consumer as to his or her investments and other insurance products and as to his or her financial situation and needs.

(b) Prior to the execution of a purchase or exchange of an annuity resulting from a recommendation made to a [senior]consumer, an insurance producer, or an insurer where no producer is involved, shall make reasonable efforts to obtain information concerning:

- (1) the [senior]consumer's financial status;
- (2) the [senior]consumer's tax status;
- (3) the [senior]consumer's investment objectives; and
- (4) such other information used or considered to be reasonable by the insurance producer, or the insurer where no insurance producer is involved, in making recommendations to the [senior] consumer.

(c) (1) Except as provided under subdivision (2) of this subsection, neither an insurance producer, nor an insurer where no insurance producer is involved, shall have any obligation to a [senior] consumer under subsection (a) of this section related to any recommendation if a [senior]consumer:

- (A) refuses to provide relevant information requested by the insurer or insurance producer;
- (B) decides to enter into an insurance transaction that is not based on a recommendation of the insurer or insurance producer; or
- (C) fails to provide complete or accurate information.

(2) An insurer or insurance producer's recommendation 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 of the recommendation.

(d) (1) An insurer either shall ensure that a system to supervise recommendations that is reasonably designed to achieve compliance with sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies is established and maintained by complying with subdivisions (3) to (5), inclusive, of this subsection, or shall establish and maintain such a system, including, but not limited to:

- (A) maintaining written procedures; and

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- (B) conducting periodic reviews of its records that are reasonably designed to assist in detecting and preventing violations of sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies.
- (2) An agency either shall adopt a system established by an insurer to supervise recommendations of its insurance producers that is reasonably designed to achieve compliance with sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies, or shall establish and maintain such a system, including, but not limited to:
- (A) maintaining written procedures; and
- (B) conducting periodic reviews of records that are reasonably designed to assist in detecting and preventing violations of sections 38a-819-70 to 38a-819-76, inclusive, of the Regulations of Connecticut State Agencies.
- (3) An insurer may contract with a person, including an insurance producer or agency, to establish and maintain a system of supervision as required by subdivision (1) of this subsection, with respect to insurance producers under contract with or employed by the person.
- (4) An insurer shall make reasonable inquiry to ensure that the person contracting under subdivision (3) of this subsection is performing the functions required under subdivision (1) of this subsection and shall take such action as is reasonable under the circumstances to enforce the contractual obligation to perform the functions. An insurer may comply with its obligation to make reasonable inquiry by doing all of the following:
- (A) the insurer annually obtains a certification from the person that an individual who has responsibility for the delegated functions has a reasonable basis to represent, and does represent, that the person is performing the required functions; and
- (B) the insurer, based on reasonable selection criteria, periodically selects persons contracted under subdivision (3) of this subsection for a review to determine whether the persons are performing the required functions. The insurer shall perform those procedures to conduct the review that are reasonable under the circumstances.
- (5) An insurer that contracts with a person pursuant to subdivision (3) of this subsection and that complies with the requirements to supervise in subdivision (4) of this subsection shall have fulfilled its responsibilities under subdivision (1) of this subsection.
- (6) An insurer or agency is not required by subdivisions (1) or (2) of this subsection to:
- (A) review, or provide for review of, all insurance producer solicited transactions; or
- (B) include in its system of supervision an insurance producer's recommendations to [senior] consumers of products other than the annuities offered by the insurer or agency.
- (7) An agency or agent contracting with an insurer pursuant to subdivision (3) of this subsection shall promptly, when requested by the insurer pursuant to subdivision (4) of this subsection, give a certification as described in subdivision (4) of this subsection or give a clear statement that it is unable to meet the certification criteria.

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- (8) No individual may provide a certification under subdivision (4)(A) of this subsection unless:
- (A) the individual is a senior manager with responsibility for the delegated functions; and
 - (B) the individual has a reasonable basis for making the certification.

(e) Compliance with the National Association of Securities Dealers Conduct Rules pertaining to suitability shall satisfy the requirements under this section for the recommendation of variable annuities. Nothing in this subsection shall limit the commissioner's ability to enforce the provisions of sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies.

Section 38a-432a-6 Mitigation of responsibility

- (a) The commissioner may order:
- (1) an insurer to take reasonably appropriate corrective action for any [senior] consumer harmed by the insurer's, or by its insurance producer's, violation of sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies;
 - (2) an insurance producer to take reasonably appropriate corrective action for any [senior] consumer harmed by the insurance producer's violation of sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies; and
 - (3) an agency that employs or contracts with an insurance producer to sell, or solicit the sale, of annuities to [senior] consumers, to take reasonably appropriate corrective action for any [senior] consumer harmed by the insurance producer's violation of sections 38a-432a-1 to 38a-432a-7, inclusive, of the Regulations of Connecticut State Agencies.

(b) Any applicable penalty of the Connecticut General Statutes for a violation of subsections (a), (b), and (c)(2) of section [38a-432a-74] 38a-432a-5 of the [Connecticut General Statutes] Regulation of the Connecticut State Agencies may be reduced or eliminated at the discretion of the commissioner, if corrective action for the [senior] consumer was taken promptly after a violation was discovered. 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.

Section 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 [senior] consumer and other 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 38a-432a-1 to 38a-432a-7, 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.

Statement of purpose: To modify Sections 38a-432a-1 to 38a-432a-7, inclusive of the Regulations of Connecticut State Agencies to establish standards and procedures for recommendations to all consumers, regardless of age, that result in a transaction involving annuity products so that the insurance

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needs and financial objectives of all consumers at the time of the transaction are appropriately addressed.

A. The problems, issues or circumstances that the regulation proposes to address.

These regulations set forth standards and procedures for recommendations to consumers that result in a transaction involving annuities so that the insurance needs and financial objectives of consumers known at the time of the recommendation are appropriately addressed.

B. A summary of the main provisions of the regulation.

This regulation sets forth the duties of the producers for recommendations to consumers that result on annuity transactions. These duties include understanding the prospect's needs and financial objectives.

C. The legal effects of the regulation, including all ways that the regulation would change existing regulations or other laws.

This broadens the existing regulation which is targeted at senior consumers to all annuity consumers.

CERTIFICATION

R-39 REV. 1/77

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Be it known that the foregoing:

Page 1 of 1 pages

Regulations Emergency Regulations

Are:

Adopted Amended as hereinabove stated Repealed

By the aforesaid agency pursuant to:

x Sections 38a-8 of the General Statutes.

Section 38a-432a of the General Statutes, as amended by Public Act No. 147 of the 2008 Public Acts.

Public Act No. _____ of the Public Acts.

After publication in the Connecticut Law Journal on, 6/17/08 and _____ of the notice of the proposal to:

Adopt Amend Repeal such regulations

(If applicable): And the holding of an advertised public hearing on _____ day of _____ 20 _____

WHEREFORE, the foregoing regulations are hereby:

Adopted Amended as hereinabove stated Repealed

Effective:

When filed with the Secretary of the State.

(OR)

The _____ day of _____.

| | | | |
|---------------------|------------------------|---|---|
| In Witness Whereof: | DATE <u>7/22/08</u> | SIGNED (Head of Board, Agency or Commission) <i>Thomas R. Jellison</i> | OFFICIAL TITLE, DULY AUTHORIZED INSURANCE COMMISSIONER |
|---------------------|------------------------|---|---|

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|---|------------------------------------|------------------------|---|
| Approved by the Attorney General as to legal sufficiency In accordance with Sec. 4-169, as amended, C. G. S. : | SIGNED <i>William B. Miller</i> | DATE <u>7/31/08</u> | OFFICIAL TITLE, DULY AUTHORIZED ASSOC. ATTY. GENERAL |
|---|------------------------------------|------------------------|---|

Approved

Disapproved

Disapproved in part, (Indicate Section Numbers disapproved only)

Rejected without prejudice.

| | | |
|---|-------------------------|---|
| By the Legislative Regulation Review Committee in accordance With Sec. 4-170, as amended, of the General Statutes. | DATE <u>10/29/08</u> | SIGNED (Clerk of the Legislative Regulation Review Committee) <i>Camela B. Booth</i> |
|---|-------------------------|---|

Two certified copies received and filed, and one such copy forwarded to the Commission on Official Legal Publications
In accordance with Section 4-172, as amended, of the General Statutes.

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|---------------------------|--|--------------------------|
| DATE <u>11-10-2008</u> | SIGNED (Secretary of the State.) <i>Susan Bysiewicz</i> | BY <i>[Signature]</i> |
|---------------------------|--|--------------------------|

1. One copy of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the Attorney General for his determination of legal sufficiency. Section 4-169 of the General Statutes.
2. Seventeen copies of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the standing Legislative Regulation Review Committee for its approval. Section 4-170 of the General Statutes.
3. Each regulation must be in the form intended for publication and must include the appropriate regulation section number and heading. Section 4-172 of the General Statutes.
4. Indicate by "(NEW)" in heading if new regulation. Amended regulations must contain new language in capitol letters and deleted language in brackets. Section 4-170 of the General Statutes.

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SECRETARY OF THE STATE
LEGISLATION & ELECTIONS
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SECRETARY OF THE STATE

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| <p>Regulations OF Department of Insurance</p> |
| <p>CONCERNING Suitability in Annuity Transactions</p> |
| <p>Approved by the Attorney General July 31, 2008</p> |
| <p>Approved by the Legislative Regulation Review Committee of General Assembly October 28, 2008</p> |
| <p>Received and filed in the Office of the Secretary of the State November 10, 2008 Effective Date: November 10, 2008</p> |
| <p>Published in the Connecticut Law Journal</p> |
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