The Three R's "Replacements, Rebating and (Ad) Review"

Group Discussion

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COMPLIANCE & ETHICS FORUM FOR LIFE INSURERS

Replacements Background

- Owners of life insurance policies and annuity products may elect to “replace” those products with a different product. Often these types of “replacement” transactions are recommended by insurance producers. However, “replacement” transactions should be in the best interest of the consumer.
- Producers must provide various disclosures to inform consumers that the replacement may involve higher costs and result in the loss of existing policy or contract rights.
- Insurers must maintain a system to review the appropriateness of these replacement transactions consistent with regulation and the company’s policies and procedures.

Replacement Discussion Topics

- What are some possible reasons a replacement transaction would be recommended?
  - Higher rate of return
  - Lower cost of insurance
  - New and additional product features
  - Others?

Replacement Discussion Topics

- What are some concerns an insurer may have as to why a replacement transaction may not be in the best interest of a consumer?
  - Inconsistent with the company's replacement policies and procedures
  - Surrender Charges/New Acquisition Costs
  - Loss of the Incontestability Period
  - New evidence of insurability
  - Replaced product features are inconsistent with the customer's goals and objectives
  - Others?

Replacement Discussion Topics

- What are some of the challenges an insurance company may have when attempting to supervise and complete a replacement transaction?
  - Lack of cooperation from the replaced company
  - Incomplete replacement forms (i.e., the producer does not require the consumer to list all current policies and contracts) (undisclosed replacement)
  - Unsigned disclosure forms (by producer or consumer)
  - Others?

Replacements Network

- Consider sharing your contact information with others for the purpose of discussing replacement issues that may arise!

Rebating Background

- Anti-rebating laws prohibit rebating of premiums or other consideration paid as an inducement to purchase a life insurance policy or annuity contract.
- Recently, life insurance companies have offered “wearables” or “activity trackers” (e.g., Fitbit, VivoFit, etc.) to encourage consumers to maintain healthy lifestyles and to provide life insurers with data that can be used to offer “credits” for premium reductions and other incentives.
- Regulators have expressed concerns that providing “wearables” to consumers may violate anti-rebating laws.
- As a result, state insurance regulators have discussed the possibility of doing away with anti-rebating laws in order to promote innovation in the life insurance marketplace.

Rebating Discussion Topics

- Is it appropriate for a life insurance company to provide a free “wearable” to a life insurance consumer?
  - Discussion of pros and cons.

Rebating Discussion Topics

- If the information provided to the life insurance company by a “wearable” is used to reduce the cost of insurance, should this be considered a rebate?
  - Many states would consider it a rebate.

Rebating Discussion Topics

- What other types of rebates could be offered by a producer to encourage a consumer to purchase a life insurance company product?
  - Return of premium (in whole or in part).
  - Reduction of commission.
  - Others?

Rebating Discussion Topics

- Should state insurance regulators do away with rebating laws?
  - Discussion of pros and cons.

Rebating Network

- Consider sharing your contact information with others for the purpose of discussing rebating issues that may arise!

(Ad) Review Background

- Life insurance companies use a wide range of advertising media (including print, television and social media ads) to promote sale of their products.
- State and federal laws require insurers to submit advertising for review by regulatory authorities.
- In some states, a life insurance company can submit an advertisement and use it immediately ("file and use"). (If problems are detected "after the fact," the regulator can ask the life insurer to correct or pull the advertisements from the marketplace.) In other states (and under federal securities laws), a life insurance company must submit an advertisement and gain approval by a regulator before the advertisement can be used.

(Ad) Review Discussion Topics

- What parts of the company are involved in advertising review?
  - Sales and Marketing
  - Legal
  - Compliance
  - Others?

(Ad) Review Discussion Topics

- What are some concerns that ad review specialists identify?
  - Incorrect or misleading product name
  - Inaccurate or misleading product features
  - Inaccurate rates of return
  - Lack of required disclosures
  - Failure to identify possible risks
  - Failure to identify the life insurance company offering the product
  - Others?

(Ad) Review Discussion Topics

- With the growth of social media and direct messaging, producers may want to develop their own Facebook pages, websites and use other means to communicate with customers. Should this be permitted? Must these communications be approved in advance?
  - Company policies differ
  - Most social media advertisements developed by producers must undergo ad review
  - Direct messaging with consumers is permitted by some life insurance companies

(Ad) Review Network

- Consider sharing your contact information with others for the purpose of discussing ad review issues that may arise!

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