

PLI Investment Management Institute 2017

DEVELOPMENTS IN INSURANCE PRODUCTS

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MONEY FLOW

Contract Owners



Life Insurance Company
Separate Account



Underlying Mutual Fund

VARIABLE PRODUCT MUTUAL FUNDS

TABLE 58

Variable Annuity Mutual Funds: Total Net Assets, Net New Cash Flow, and Number of Funds

Year	Total net assets <i>Millions of dollars, year-end</i>				Net new cash flow* <i>Millions of dollars, annual</i>				Number of funds <i>Year-end</i>			
	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market	Total	Equity	Hybrid and bond	Money market
1990	\$28,749	\$14,974	\$8,355	\$5,420	\$3,083	\$1,866	\$323	\$895	331	145	134	52
1991	91,056	69,138	13,734	8,184	6,174	5,097	1,498	-420	354	150	147	57
1992	109,868	80,934	21,046	7,888	12,884	8,708	4,363	-188	366	157	151	58
1993	152,403	104,823	39,740	7,841	26,088	16,423	9,834	-169	428	192	176	60
1994	176,370	121,153	44,339	10,878	22,066	15,998	3,763	2,305	507	245	202	60
1995	259,813	187,702	60,042	12,069	20,824	18,604	2,214	5	665	344	250	71
1996	349,341	260,959	73,189	15,193	40,133	32,699	5,063	2,371	800	435	290	75
1997	473,331	364,286	92,571	16,474	40,470	33,743	6,316	411	937	535	323	79
1998	615,152	474,961	116,337	23,853	44,259	27,857	10,362	6,040	1,162	703	377	82
1999	818,958	656,877	128,349	33,732	38,543	30,736	-460	8,267	1,353	868	404	81
2000	816,800	652,421	131,342	33,037	48,461	58,314	-7,790	-2,063	1,562	1,051	431	80
2001	742,258	558,654	138,848	44,756	21,583	4,861	8,035	8,687	1,750	1,248	413	89
2002	638,949	438,603	152,276	48,070	-1,286	-12,763	11,151	327	1,903	1,389	422	92
2003	837,443	619,018	182,773	35,652	29,827	34,969	6,929	-12,071	1,889	1,364	437	88
2004	973,910	738,444	202,106	33,361	33,505	33,592	2,595	-2,683	1,881	1,351	443	87
2005	1,072,894	822,105	217,090	33,699	16,404	13,254	4,449	-1,299	1,882	1,356	443	83
2006	1,266,934	975,532	249,210	42,192	29,712	17,018	7,192	5,501	1,926	1,391	454	81
2007	1,398,318	1,052,868	292,727	52,723	31,780	1,581	22,948	7,251	1,900	1,367	455	78
2008	928,693	598,524	255,199	74,971	-6,059	-30,615	5,018	19,538	1,897	1,369	449	79
2009	1,187,610	792,083	338,231	57,296	10,033	-3,644	32,483	-18,806	1,830	1,307	450	73
2010	1,339,959	886,357	405,048	48,554	-1,996	-25,375	33,090	-9,711	1,773	1,256	447	70
2011	1,299,386	800,129	450,383	48,873	-21,121	-48,213	26,956	136	1,738	1,222	452	64
2012	1,444,379	875,004	525,443	43,932	-31,604	-55,367	28,895	-5,132	1,726	1,195	471	60
2013	1,671,751	1,050,470	581,489	39,792	-53,709	-61,392	10,321	-2,638	1,735	1,180	498	57
2014	1,710,993	1,065,125	608,744	37,124	-67,342	-58,536	-6,142	-2,665	1,730	1,150	524	56
2015	1,637,860	1,006,711	592,105	39,043	-64,971	-53,821	-12,956	1,806	1,707	1,127	527	53

* Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges.

Note: Data for funds that invest primarily in other mutual funds were excluded from the series. Components may not add to the total because of rounding.

Source: Investment Company Institute 2016 Fact Book (with permission)

VA Responses to DOL Fiduciary Rule

- Relatively low-cost base contract charges:
 - No front-end sales load;
 - No surrender charge, or lower surrender charges and relatively short surrender charge schedules;
 - Low M&E and admin charges, or separate account charge instead.
- Variety in number, type and cost of available optional benefit riders offered; sometimes no riders at all (i.e., “investment only” VAs).
- Fund line-ups—variety of non-proprietary and proprietary funds; may focus on a few fund types (e.g., ETFs, index funds, target date funds).
- Fee-based channel—can deduct third-party advisory fees from contract value of tax qualified contract and not treat as a distribution.

Implications for VAs of Recent IM Guidance Update 2016-06

Background

- Guidance addressing certain mutual fund disclosure and filing concerns arising out of B-D industry's response to DOL Fiduciary Rule; Guidance is N-1A specific, but should be useful for VAs.
- Permits sales load variation disclosure for multiple intermediaries in *single appendix* to statutory prospectus or in *stand-alone document* incorporated by reference into the prospectus.
- All sales load variations for all share classes must be presented in a single appendix; complete appendix must be delivered with statutory prospectus.

Application to VAs

- VA issuers can disclose variations in sales load in appendix to prospectus or in stand-alone document, provided that disclosure and procedural requirements set forth in Guidance Update are met.

Implications for VAs of Recent IM Guidance Update 2016-06

Application to VAs (*cont'd*)

- Even in the absence of the Guidance Update, VA issuers have been able to place disclosures regarding sales load variations for different intermediaries in an appendix attached to the (product) statutory prospectus.
- Alternatively, VA issuers can rely on the 1995 “Dear Registrant” letter, which permits issuers to file multiple prospectuses in a single registration statement when the prospectuses describe variations of the same contract sold through different distribution channels.

Note: In instituting variations in sales charges, VA issuers should be mindful of any discrimination issues under applicable state insurance laws and regulations.

Implications for VAs of Recent Capital Group No-Action Letter

Background

- Permits brokers to receive commissions directly from customers purchasing mutual fund shares that are no-load and without any other asset-based fee for sales or distribution (“clean shares”) and to determine the amount of those commissions, even though the amounts are not specifically disclosed in the fund’s prospectus.
- Subject to certain conditions, restrictions of §22(d) of 1940 Act do not apply when broker acts as agent on behalf of its customers and charges its customers commissions for effecting transactions in clean shares.

Implications of Recent Capital Group No-Action Letter for VAs

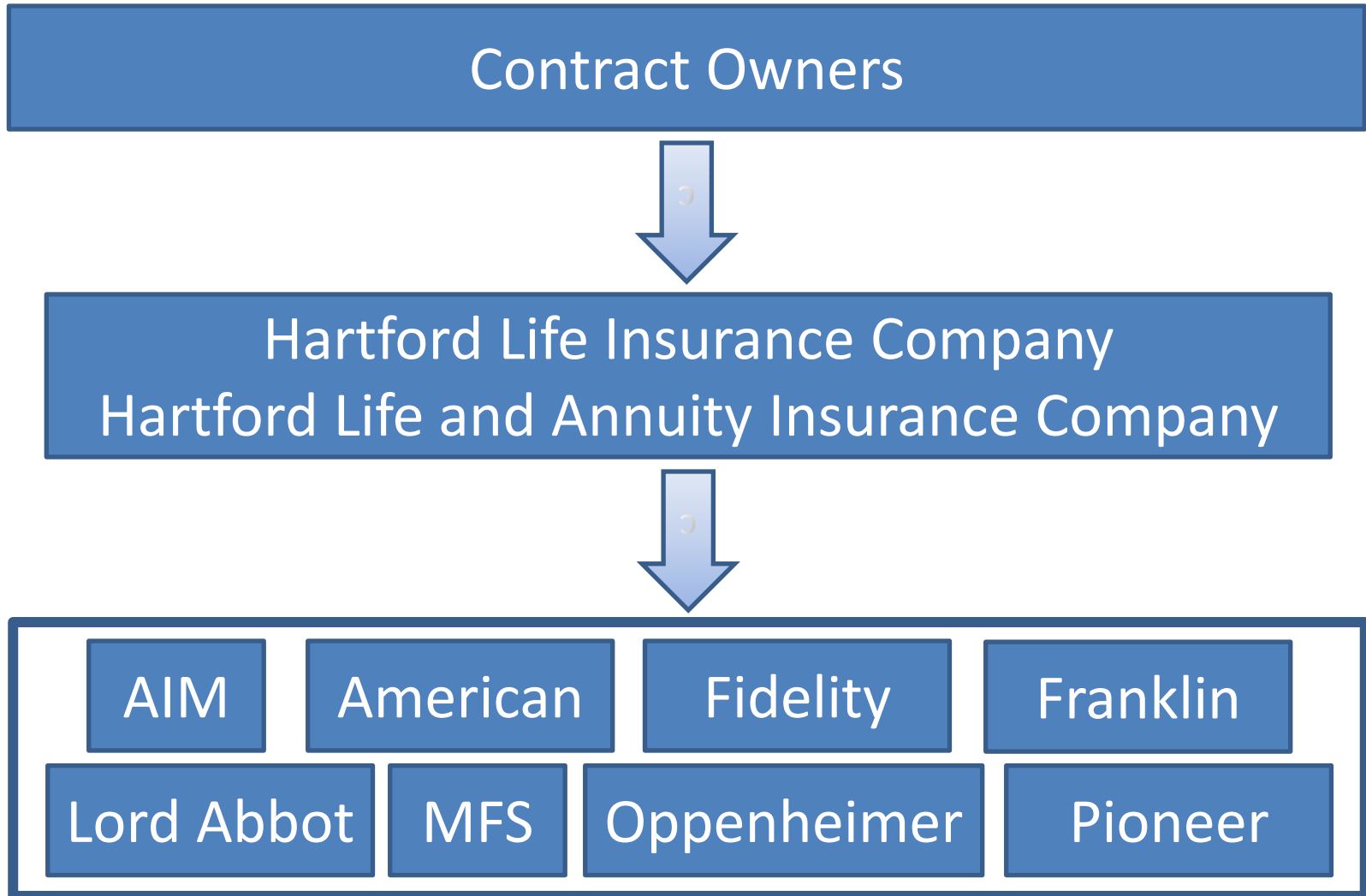
Application to VAs

- Although the no-action letter applies only to mutual fund “clean shares,” the §22(d) interpretation in the letter provides useful guidance for issuers of VAs interested in developing no-load variable annuities distributed through broker-determined commission-based accounts.
 - *Note:* No-load VAs are being offered to customers of RIAs that charge clients an ongoing advisory or management fee—typically a percentage of assets under management.
 - The “clean share” concept in the context of VAs would dictate no front-end, surrender, or asset-based sales charges and no payments for distribution expenses made by the issuer or principal underwriter to third party intermediaries.
 - Questions about how unique insurance charges fit with the “clean share” concept and how state insurance law licensing requirements fit with the no-action letter condition that broker must be acting as agent for the customer.

Underlying Fund Platform Evolution

- On-going trend of insurers taking steps to adjust their underlying fund offerings, including to simplify the fund line-ups and improve their operational efficiencies.
- SEC staff requires that conditions for relief—tailored to reflect particular facts and circumstances presented—be set forth in a discrete section of substitution application.
- SEC staff has required a variety of representations, including
 - substantial similarities between each “existing fund” and its “replacement fund”;
 - same or lower fees and expenses, as supported by temporary or permanent expense caps;
 - impact proposed substitution would have on the availability of, and benefits provided by, contract guarantees and on the value of those benefits.
- Applicants have indicated that contract owners will continue to have a similarly diverse array of investment options post-substitution.

HARTFORD UNDERLYING FUNDS



FOLLOW THE MONEY

- About 100 contract types
- Hundreds of thousands of contracts
- About \$16.1 billion under contracts
- About \$7.3 billion in American funds

APPLICATION TIMETABLE

April 21, 2015	Hartford files application
May 25, 2016	Hartford amends application
August 31, 2016	Hartford further amends application
December 8, 2016	SEC notices application
December 28, 29 and 30, 2016	American funds, Raymond James, and contract owners request SEC hearing
January 21 and 27, 2016	Hartford requests SEC to deny hearing requests
February 2, 6 and 7, 2016	American funds and others answer Hartford's request to deny hearing

SEC ADOPTS RULE 12b-1



Chairman Harold Williams

- October 28, 1980

SEC BANS UNDERLYING FUND RULE 12b-1 PLANS

“Mortality and expense charges . . . provided a source of revenue.”



Director Joel Goldberg

SEC REVERSES BAN



Associate Director Heidi Stam

No provision of the Investment Company Act, or rules thereunder, “prohibits the use of 12b-1 plans in connection with variable insurance contracts.”

May 30, 1996

RULE 12b-1 ALTERNATIVE



Chairman Mary Schapiro

“Our proposed amendment ... would **not require any special board findings** (such as those required by Rule 12b-1) ... or impose fund governance requirements.”

SEC Rel. No. 1C-29367

July 21, 2010

QUESTION LINGERS



Chairman Mary Schapiro

“Given that most distribution activities occur at the **separate account level**, is it appropriate to permit **underlying funds** to impose the marketing and service fee or ongoing sales charges.”

SEC Rel. No. 1C-29367

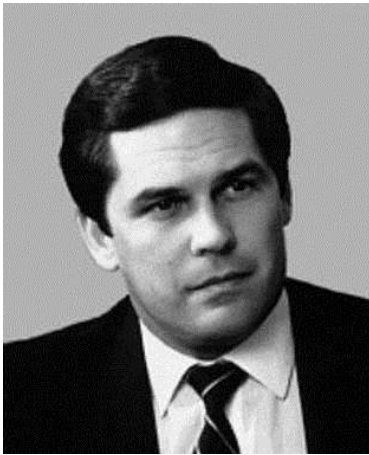
July 21, 2010

DIRECTOR DUTY

- Hire actuarial consultants?
- Select actuaries as directors?

REASONABLENESS REPRESENTATION

“... **fees and charges** deducted under the contract, in the aggregate, are **reasonable** in relation to



Congressman
Jack Fields

- the services rendered,
- the **expenses** expected to be incurred, and
- the risks assumed by the insurance company

and ... the insurance company so represents in the registration statement for the contract.”

Status of Proposed Rule 30e-3

- Would facilitate electronic, website-based transmission of annual and semi-annual reports for mutual funds underlying VAs.
- Not adopted in October 2016 as part of final rule aimed at modernizing investment company disclosure and reporting.
- Chair White directed SEC staff to study the comments received on proposed Rule 30e-3 and to prepare a recommendation for Commission consideration before the end of 2016, but proposed Rule was not considered again before the close of 2016.

MONEY FLOW

Contract Owners



Life Insurance Company
Separate Account



Underlying Mutual Fund

SEC ADOPTS MUTUAL FUND SUMMARY PROSPECTUS



Chairman Christopher Cox

Proposed:

November 21, 2007

Adopted:

January 13, 2009

SEC'S FIRST ANNOUNCEMENT

“Our staff already has announced that it is developing a simplified ‘summary prospectus’ for variable annuities.”

December 3, 2009



Chairman Mary Schapiro

SEC'S SECOND ANNOUNCEMENT

“The Division is beginning work on a rule that would create a similar summary prospectus for variable annuities.”

March 7, 2013



Director Norman Champ

AGENCY RULE LIST – FALL 2016

Securities And Exchange Commission

Agency	Agenda Stage of Rulemaking	Title	RIN
SEC	Prerule Stage	Guide 3 Bank Holding Company Disclosure	3235-AL79
SEC	Proposed Rule Stage	Implementation of Title I of the JOBS Act	3235-AL38
SEC	Proposed Rule Stage	Registration of Security-Based Swaps	3235-AL44
SEC	Proposed Rule Stage	Amendments to Interactive Data (XBRL) Program	3235-AL59
SEC	Proposed Rule Stage	Amendments to Financial Disclosures About Entities Other Than the Registrant	3235-AL77
SEC	Proposed Rule Stage	Business and Financial Disclosure Required By Regulation S-K	3235-AL78
SEC	Proposed Rule Stage	Disclosure Update and Simplification	3235-AL82
SEC	Proposed Rule Stage	Universal Proxy	3235-AL84
SEC	Proposed Rule Stage	Corporate Board Diversity	3235-AL91
SEC	Proposed Rule Stage	Filing Fee Processing	3235-AL96
SEC	Proposed Rule Stage	Exchange-Traded Funds	3235-AJ60
SEC	Proposed Rule Stage	Investment Company Advertising, Target Date Retirement Fund Name and Marketing	3235-AK50
SEC	Proposed Rule Stage	Enhanced Disclosure for Separate Accounts Registered as Unit Investment Trusts and Offering	3235-AK60
SEC	Proposed Rule Stage	Reporting of Proxy Votes on Executive Compensation and Other Matters	3235-AK67

VIEW RULE

[View EO 12866 Meetings](#)

[Printer-Friendly Version](#)

[Download RIN Data in XML](#)

SEC

RIN: 3235-AK60

Publication ID: Fall 2016

Title: Enhanced Disclosure for Separate Accounts Registered as Unit Investment Trusts and Offering Variable Annuities

Abstract:

The Division is considering recommending that the Commission propose rules designed to provide variable annuity investors with more user-friendly disclosure and to improve and streamline the delivery of information about variable annuities through increased use of the Internet and other electronic means of delivery.

Agency: Securities and Exchange Commission(SEC)

Priority: Substantive, **Nonsignificant**

RIN Status: Previously published in the Unified Agenda

Agenda Stage of Rulemaking: Proposed Rule Stage

Major: Undetermined

Unfunded Mandates: No

CFR Citation: Not Yet Determined (To search for a specific CFR, visit the [Code of Federal Regulations](#).)

Legal Authority: [15 U.S.C. 77a et seq.](#) [15 U.S.C. 80a-1 et seq.](#)

Legal Deadline: **None**

Timetable:

Action	Date	FR Cite
NPRM	10/00/2017	

Regulatory Flexibility Analysis Required: Undetermined

Government Levels Affected: Undetermined

Federalism: Undetermined

Included in the Regulatory Plan: No

RIN Data Printed in the FR: No

Agency Contact:

Keith Carpenter

Division of Investment Management

Securities and Exchange Commission

100 F Street NE,

Washington, DC 20549

Phone:202 551-6795

Email: carpenterk@sec.gov

“There are a significant number of prospectuses, however, in which disclosure remains complex, technical and duplicative. Further, the staff continues to see what it believes are unnecessarily long Summary Sections.”

LIMITS ON RULES



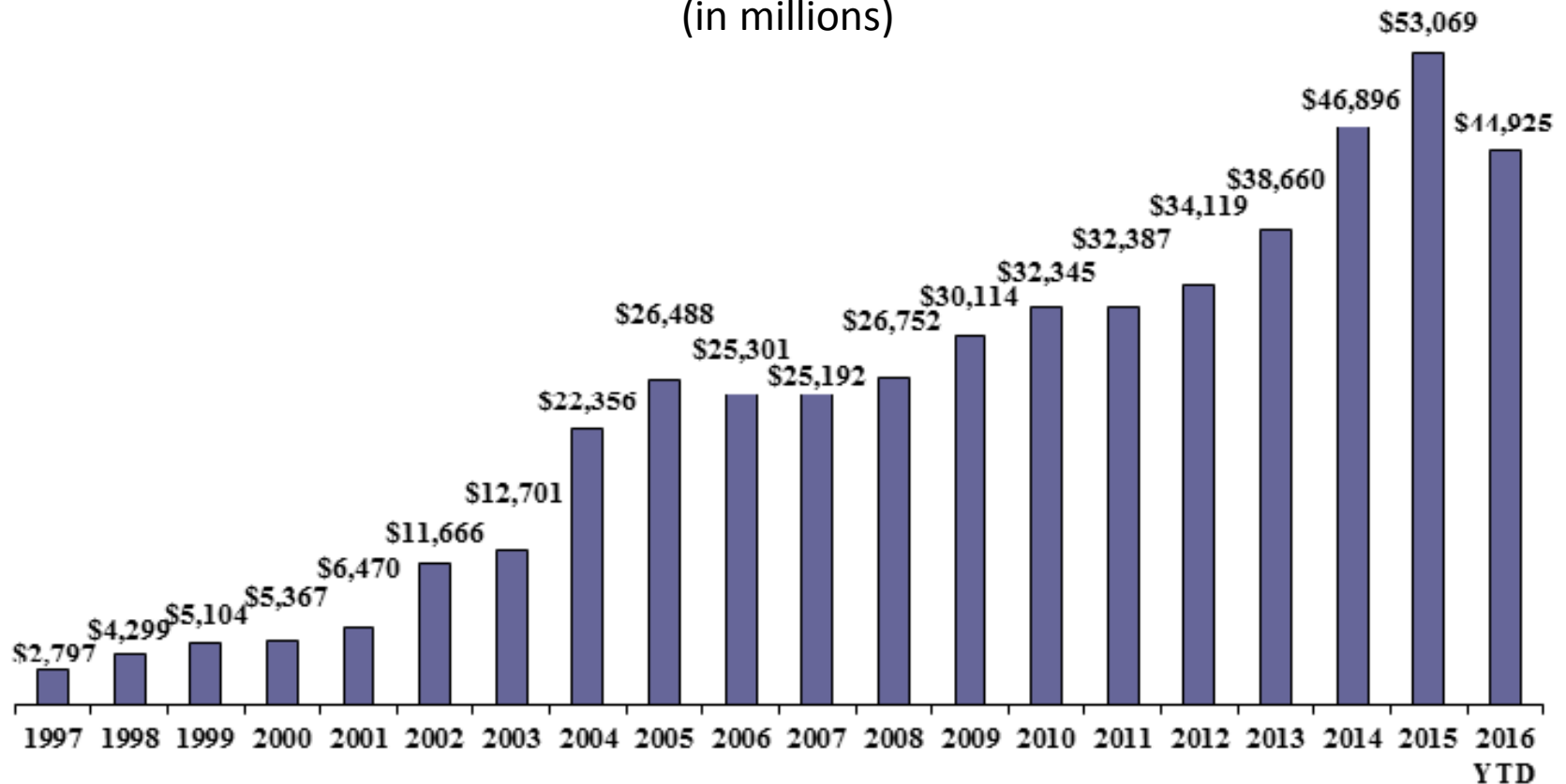
President Donald Trump

“Unless prohibited by law, whenever an executive department or agency (agency) publicly proposes for notice and comment or otherwise promulgates a new regulation, it shall identify at least two existing regulations to be repealed.”

January 30, 2017

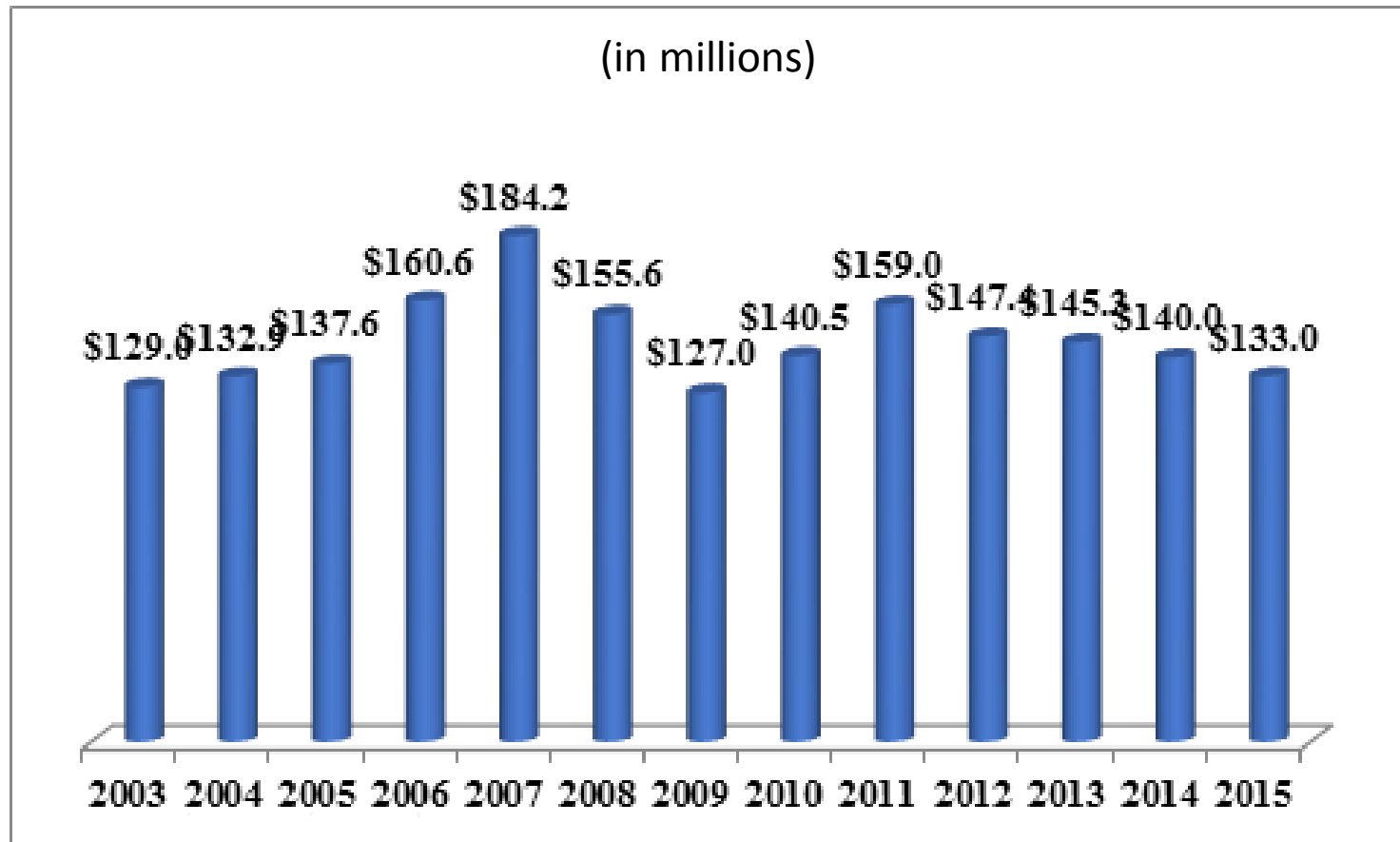
ANNUAL INDEXED ANNUITY PREMIUM

(in millions)



Source: *Wink's Sales & Market Report*, 3Q2016 (with permission).

ANNUAL VARIABLE ANNUITY PREMIUM



Source: *Wink's Sales & Market Report*, 2015 (with permission).

ICI SUPPORTS REGISTRATION



President Paul Stevens

“We believe that . . .
indexed annuities . . .
should be registered with
the Commission . . . for
the benefit of both
investors and market
participants.”

September 10, 2008

SEC WILL NOT RE-ENGAGE



Chairman Mary Schapiro

“Given the legislation . . . we don’t have any plans to re-engage on this issue.”

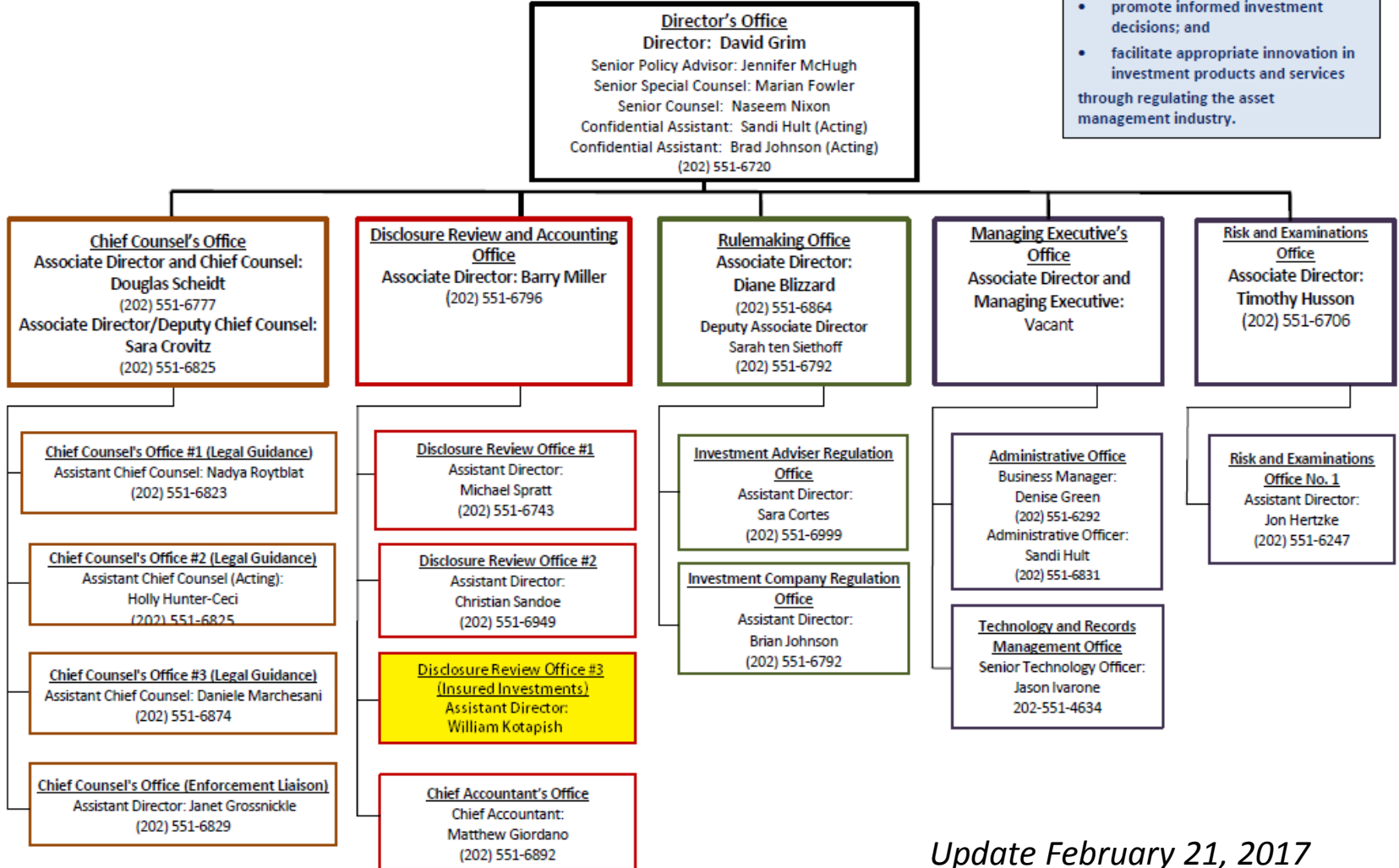
July 20, 2010

DIVISION ORGANIZATION CHART

Division of Investment Management (IM)* Organization Chart

The Division of Investment Management works to:

- protect investors;
- promote informed investment decisions; and
- facilitate appropriate innovation in investment products and services through regulating the asset management industry.



Update February 21, 2017

