

CHAPTER 64
REGULATION GOVERNING SUITABILITY
IN LIFE INSURANCE AND ANNUITY TRANSACTIONS

Section 1. Authority

These rules and regulations governing the suitability in life insurance policies and annuity transactions in the State of Wyoming supplement the provisions of W.S. 26-3-116(b)(ii), W.S. 26-9-231, W.S. 26-13-102, W.S. 26-13-103, W.S. 26-13-104, W.S. 26-13-105, W.S. 26-13-106, W.S. 26-13-107, W.S. 26-13-110, W.S. 26-13-116, W.S. 26-15-107, W.S. 26-15-109, and W.S. 26-15-110. They are promulgated by authority of and pursuant to the Wyoming Administrative Procedure Act (W.S. 16-3-101 through W.S. 16-3-115) and the Wyoming Insurance Code (W.S. 26-2-110 and W.S. 26-2-125).

Section 2. Purpose

The purpose of this Regulation is:

(a) 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 life insurance and annuity products so that the insurance needs and financial objectives of consumers at the time of the transaction are appropriately addressed.

(b) To declare that failure to comply with the provisions of this Regulation will be deemed an unfair method of competition and an unfair trade practice.

Section 3. Scope

This regulation shall apply to any recommendation to purchase, exchange or replace a life insurance policy or 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.

Section 4. Definitions

(a) "Annuity". as set forth in W.S. 26-1-102(iv) means an annuity that is an insurance product that is individually solicited, whether the product is classified as an individual or group annuity.

(b) "Continuing education credit" or "CE credit" means one continuing education credit as defined in W.S. 26-9-231 et seq.

(c) “Continuing education provider” or “CE Provider” means an individual or entity that is approved to offer continuing education courses pursuant to Wyoming Department of Insurance Rules and Regulations, Chapter 20, Section 11.

(d) “FINRA” means the Financial Industry Regulatory Authority or a succeeding agency.

(e) “Insurer” means a company required to be licensed under the laws of this state to provide insurance products, including annuities.

(f) “Insurance producer” means a person required to be licensed under the laws of this state to sell, solicit or negotiate insurance, including annuities.

(g) “Life insurance” means insurance on human life and the transaction of life insurance set forth in W.S. 26-5-102 et seq.

(h) “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 placement of a life insurance or annuity policy in accordance with that advice.

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

(i) Lapsed, forfeited, surrendered, or otherwise terminated;

(ii) 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;

(iii) 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;

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

(v) Pledged as collateral or subjected to borrowing, whether in a single loan or under a schedule of borrowing over a period of time for amounts in the aggregate exceeding twenty-five percent (25%) of the loan value set forth in the policy.

(j) “Suitability information” means information that is reasonably appropriate to determine the suitability of a recommendation, including the following:

- (i) Age;
- (ii) Annual Income;
- (iii) Financial situation and needs, including the financial resources used for the funding of the life insurance policy or annuity;
- (iv) Financial experience;
- (v) Financial objectives;
- (vi) Intended use of the life insurance or annuity to be purchased;
- (vii) Financial time horizon;
- (viii) Existing assets, including investment and life insurance holdings;
- (ix) Liquidity needs;
- (x) Liquid net worth;
- (xi) Risk tolerance; and
- (xii) Tax status.

Section 5. Exemptions

Unless otherwise specifically included, this regulation shall not apply to transactions involving:

- (a) Direct response solicitations where there is no recommendation based on information collected from the consumer pursuant to this regulation;
- (b) Contracts used to fund:
 - (i) An employee pension or welfare benefit plan that is covered by the Employee Retirement and Income Security Act (ERISA);
 - (ii) A plan described by sections 401(a), 401(k), 403(b), 408(k) or 408(p) of the Internal Revenue Code (IRC), as amended, if established or maintained by an employer;

(iii) A government or church plan defined in section 414 of the IRC, a government or church welfare benefit plan, or a deferred compensation plan of a state or local government or tax exempt organization under section 457 of the IRC;

(iv) A nonqualified deferred compensation arrangement established or maintained by an employer or plan sponsor;

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

(vi) Formal prepaid funeral contracts.

Section 6. **Duties of Insurers and of Insurance Producers**

(a) In recommending to a consumer the purchase of a life insurance policy or of an annuity, or the exchange of a life insurance policy or of an annuity that results in another insurance transaction or series of insurance transactions, the insurance producer, or the insurer where no 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 to believe all of the following:

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

(ii) The consumer would benefit from certain features of the life insurance policy or annuity, such as but not limited to death or living benefits, tax-deferred growth or annuitization;

(iii) The particular life insurance policy or annuity as a whole, the underlying subaccounts or equity index features to which funds are allocated at the time of purchase or exchange of the life insurance policy or 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

(iv) In the case of an exchange or replacement of a life insurance policy or 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), lose cash value, or be subject to increased fees, investment advisory fees or charges for riders and similar product enhancements;

(B) The consumer would benefit from product enhancements and improvements; and

(C) The consumer has had another life insurance policy or 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 a life insurance policy or 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), an insurer shall not issue a life insurance policy or an annuity recommended to a consumer unless there is a reasonable basis to believe the life insurance policy or annuity is suitable based on the consumer's suitability information.

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

(i) No recommendation is made;

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

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

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

(e) An insurer's issuance of a life insurance policy or annuity subject to paragraph (d) shall be reasonable under all the circumstances actually known to the insurer at the time the life insurance policy or annuity is issued.

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

(i) Make a record of any recommendation subject to section 6 (a) of this regulation;

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

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

(g) An insurer shall establish a supervision system that is reasonably designed to achieve the insurer's and its insurance producers' compliance with this regulation, including, but not limited to, the following:

(i) The insurer shall maintain reasonable procedures to inform its insurance producers of the requirements of this regulation and shall incorporate the requirements of this regulation into relevant insurance producer training manuals;

(ii) 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 7 of this regulation;

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

(iv) The insurer shall maintain procedures for review of each recommendation prior to issuance of a life insurance policy or 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;

(v) 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 life insurance or annuity; and

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

(h) Nothing in this subsection restricts an insurer from contracting for performance of a function (including maintenance of procedures) required under paragraph (g). An Insurer is responsible for taking appropriate corrective action and may be subject to sanctions and penalties pursuant to section 8 of this regulation regardless of whether the insurer contracts for performance of a function and regardless of the insurer's compliance with subparagraph (i) of this paragraph.

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

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

(B) 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.

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

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

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

(ii) Filing a complaint; or

(iii) Cooperating with the investigation of a complaint.

(k) Sales made in compliance with FINRA requirements pertaining to suitability and supervision of transactions shall satisfy the requirements under this regulation. This subsection applies to FINRA broker-dealer sales of variable products if the suitability and supervision is similar to those applied to variable life and variable annuity sales. However, nothing in this subsection shall limit the insurance commissioner's ability to enforce (including investigate) the provisions of this regulation.

(i) For paragraph (k) 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.

Section 7. Insurance Producer Training

(a) An insurance producer shall not solicit the sale of life insurance or an annuity product unless the insurance producer has adequate knowledge of the product to recommend the life insurance or 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) An insurance producer who engages in the sale of life insurance or annuity products shall complete a one-time four (4) credit training course approved by the department of insurance and provided by a department of insurance approved education provider.

(i) Insurance producers who hold a life insurance license on the effective date of this regulation and who desire to sell life insurance or 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 license on or after the effective date of this regulation may not engage in the sale of life insurance or annuities until the training course required under this subsection has been completed.

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

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

(i) The types of life insurance and annuities and various classifications of such products;

(ii) Identification of the parties to a life insurance policy or annuity;

(iii) How fixed, variable, and indexed annuity contract provisions affect consumers;

(iv) How whole, universal, variable, indexed, and term life insurance contract provisions affect consumers;

(v) The application of income taxation of transactions within a life insurance policy and of income taxation of qualified and non-qualified annuities;

(vi) The primary uses of life insurance and annuities; and

(vii) Appropriate sales practices, replacement and disclosure requirements.

(e) Providers of courses intended to comply with this subsection shall cover all topics listed in the prescribed outline 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 outline.

(f) A provider of a life insurance and annuity training course intended to comply with this subsection 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 Wyoming Department of Insurance Regulations Chapter 20.

(g) Life insurance and annuity training courses may be conducted and completed by classroom or home-study methods in accordance with Wyoming Department of Insurance Regulations Chapter 20.

(h) Providers of life insurance and annuity training shall comply with the reporting requirement and shall issue certificates of completion in accordance with Wyoming Department of Insurance Regulations Chapter 20.

(i) 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.

(j) An insurer shall verify that an insurance producer has completed the life insurance and annuity training course required under this subsection before allowing the producer to sell life insurance or 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 of vendors or from a reasonably reliable commercial database vendor that has a reporting arrangement with approved insurance education providers.

Section 8. Compliance Mitigation; Penalties

(a) An insurer is responsible for compliance with this regulation. If a violation occurs, either because of the action or inaction of the insurer or its insurance producer, the commission may order:

(i) An insurer to take reasonably appropriate corrective action for any consumer harmed by the insurer's, or by its insurance producer's, violation of this regulation.

(ii) A general agency, independent agency or the insurance producer to take reasonably appropriate corrective action for any consumer harmed by the insurance producer's violation of this regulation; and

(iii) Appropriate penalties and sanctions pursuant to Wyo. Stat 26-1-107 et. al.

(b) Any applicable penalty under Wyo. Stat 26-1-107 et. al. for a violation of this regulation may be reduced or eliminated, as determined by the Insurance 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.

Section 9. Effective Date

This regulation shall take effect six months after filing with the Secretary of State.