

Compliance Bulletin: NEW Suitability and Best Interest Requirements in New York

Effective August 1, 2019

New York has important new producer requirements for sales of life insurance and annuities. The new **Suitability and Best Interests in Life Insurance and Annuity Transactions** rule (New York Reg 187 or “Best Interest Rule”) amends the state’s existing suitability requirements for annuities (effective August 1, 2019) and introduces suitability requirements for life insurance (effective February 1, 2020). It also introduces important new producer requirements with respect to best interest recommendations.

It is your responsibility as a New York licensed producer to comply with requirements under New York Reg 187. When recommending the sale of annuities or life insurance, the producer must act in the best interest of the client. Only the client’s interests can be considered in making the recommendation; the producer’s receipt of compensation or other incentives must not influence the recommendation. All annuity contracts issued in New York must be sold in compliance with this new Best Interest Rule by the applicable effective date.

This bulletin outlines changes related to annuity recommendations and the producer’s responsibilities under the Best Interest Rule, **effective on August 1, 2019**. Our life insurance business is still developing requirements; if you sell our life products we will follow up with a subsequent communication.

Overview of Producer Obligations

Be well prepared throughout the sales process. Know what tasks need to be completed and what information you need to help ensure you have complied with the Best Interest Rule.

- ✓ Complete both the newly required Best Interest Rule training and already-required product training prior to soliciting the sale for any application that will be dated August 1, 2019 or later. We cannot accept applications dated prior to the completion of the required trainings.
- ✓ Determine the annuity is suitable and is in the client’s best interest.
- ✓ Inform the client of the annuity features requiring disclosure, both favorable and unfavorable, including any riders, allocations, fees and potential penalties.
- ✓ If the purchase of the annuity recommended will result in a replacement, explain the advantages and disadvantages of replacing the existing annuity.
- ✓ Provide the required disclosures to the client:
 - Compensation disclosure
 - The basis of recommendation

Note: You may be required to provide documentary evidence of these agent obligations upon request.

New York 187 Requirements

Best Interest Training

You must take training on the Best Interest Rule, and, if not already completed, take the applicable product specific training. Both trainings must be completed prior to recommending an annuity in New York on or after August 1, 2019. Please follow the directions of your agency on where to take training, but be aware that AIG and our issuing life insurance companies are working with the following vendors:

- RegEd
- Success CE
- Quest CE
- Kaplan

If you plan on taking training through a vendor not listed here, please notify us by emailing AnnuityCompliance@aig.com and/or your agency to ensure we are prepared to receive information from the vendor regarding training completion.

Annuity Application

The Licensed Agent Information and Signature(s) section on the application has been updated to include attestations regarding compliance with the Best Interest Rule. Any annuity application signed and dated on August 1, 2019 or after must include this attestation.

Product Disclosures

You are required to inform the client of various features of the annuity and potential consequences of the recommended transaction. We have a number of resources available to assist in understanding our annuity products and conveying this information to clients. In addition to product training and client-approved marketing materials, the Owner Acknowledgement and Disclosure Statements for fixed index and fixed annuities provide information regarding our products.

Compensation Disclosures

You are required to disclose the manner in which you are compensated for the sale and servicing of the annuity. As a continued requirement under New York Regulation 194, you are required to provide a State of New York Compensation Disclosure Form to the client at or prior to the time of the application. If the client requests additional information about your compensation after the issuance of the contract, but less than 30 days after issuance, you must provide your client the State of New York Additional Compensation Disclosure Form.

We will not require a copy of these compensation disclosures to be submitted to us at the time of the application, but they must be made available upon request. The State of New York Compensation Disclosure Form can be downloaded by logging into Forms Depot via www.aig.com/Connex and searching for form number USL260 and/or The State of New York Additional Compensation Disclosure Form USL260A.

Suitability Supervision

Updated Client Profile Form: We have created a New York version of the Client Profile Form. Only this New York version of the Client Profile Form will be accepted for New York sales with any applications signed on and after August 1, 2019. The New York Client Profile Form is designed to collect the additional suitability information¹ that needs to be considered at the time of the recommendation, and asks questions to ensure the agent has fulfilled the best interest obligations.

The revised New York Client Profile Form will be available in time for the August 1, 2019 annuity effective date by logging into Forms Depot via www.aig.com/Connex and searching for form number UA1005CP (for individually owned accounts), and UA1005CPT (for trust owned accounts). The revised form has questions related to your best interest analysis. On the New York Client Profile Form, you will be asked to provide the basis for the recommendation. Consider including the following information:

- Description explaining why this transaction is suitable and in the client's best interest
- A description tying the client's suitability information, like financial goals, to the relevant contract features or benefits, if applicable
- If a replacement, explain why this product is being recommended over the product they currently own, taking all relevant factors into consideration; e.g., the comparative features and cost of the transaction, or comparison to annuitization of the current contract.

Note: The rationale for the replacement should also be detailed in the Reg. 60 Disclosure Statement.

Monitoring of New York Reg 187 Compliance

As we have done previously, we will perform post-issue audits of certain sales transactions. After the applicable effective date, we will begin auditing for compliance with the New York Reg 187's best interest requirements for

¹ The suitability information required by the Best Interest Rule is listed below with new requirements called out in italics: age; annual income; financial situation and needs, including the financial resources used for the funding of the policy; financial experience; financial objectives; intended use of the policy, *including any riders attached thereto*; financial time horizon, *including the duration of existing liabilities and obligations*; existing assets, including investments and insurance holdings; liquidity needs; liquid net worth; risk tolerance; *willingness to accept non-guaranteed elements in the policy, including variability in premium, cash value, death benefit, or fees*; tax status; *and any other information provided by the consumer which in the reasonable judgment of the producer, or the insurer where no producer is involved, is relevant to the suitability of the transaction relevant to the sale.*

producers recommending sales transactions, including a review of documentary evidence for the case file, which could comprise:

- evidence of the required commission disclosures
- documentation of all relevant suitability considerations, including basis for recommendation
- verification of the methodology used to ensure that the transaction is in the best interest, including any financial analysis software, proprietary software, or another strategy to determine the product was in the client's best interest

If you are audited, you will be required to provide written evidence of meeting these producer obligations to us.

Transition Rules

Any applications signed August 1, 2019 or later must adhere to the requirements above or the new business will be considered not in good order. This adherence includes use of the updated application with the attestation, updated NY Client Profile Form, and prior completion of required agent training.

If You Have Questions

If you need help obtaining a form or have questions about the processes in place to ensure you are in compliance with NY Reg 187, please contact the agency to which you send your New York business.