

Variable Annuity Industry Initiatives

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NAVA Whitepaper

- “Building an Industry-Standard for an Electronic Signature Associated with Straight through Processing (STP) of Annuities” – Draft 11/15/03
- Reviewed Use of Electronic Signatures to Replace “Wet Signatures” for Annuity STP
- Major conclusion: Necessary Hurdle ROI can be achieved, but only if E-Signature is Combined with Electronic Documents Delivery
- Also recommended use of SPeRS Methodology to meet legal standards for use of electronic signatures and processes

Current Status of Annuity Processing

- Many carriers and distributors have enabled on line application processing and data exchange
- Agent electronic identifiers are commonly accept as their “signature”
- However, need for “wet signature” by the client/customer breaks the e-process
- In 1035 exchanges – need for “wet signature” by the replaced carrier creates further breaks and delays

STP FLOWCHART - Electronic Signatures at Almost Every Step

NAA Creating a Straight Through Process for Annuities

WORKING DRAFT
VERSION 1.0 AUGUST 07, 2008

Goals

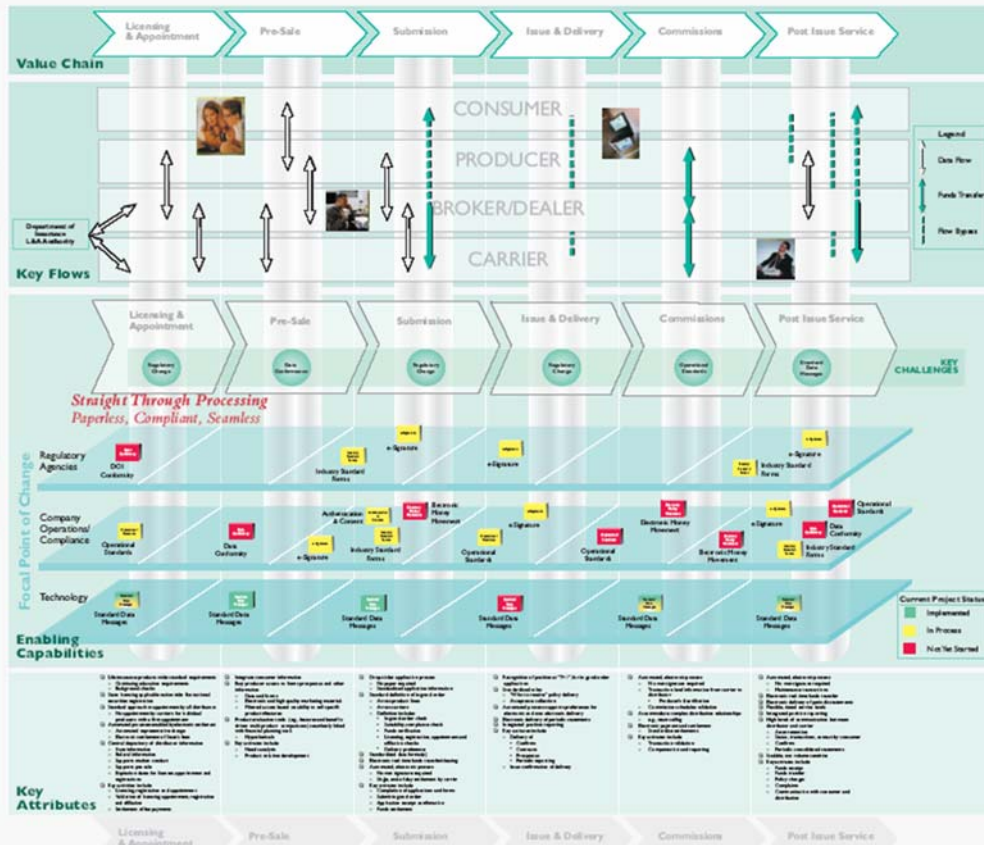
- Goal
 - Maximize and grow the probability and rate of annuity
 - Grow the breadth and depth of distribution
 - Increase the number of producers selling annuity products
- Objectives
 - Faster processing from submission to commission
 - Easier to do business with
 - Actively processing on par with competing products from both the consumer and producer's perspectives
 - Lower overall cost and risk

Trends

- Increasing product complexity
- Shorter product life-cycle
- Increasing rate of service in competitive differentiation
- Increasing producer-based demands and expectations
 - Consumer
 - Producer
 - Finance
- Increasing sophistication and use of information (e.g., segmentation)
- Aging demographic is driving changes in product (e.g., to more people without accumulation versus production) and increasing service requirements (e.g., higher involvement in driving increases)
- Maturing of the annuity product category is driving increased competition and need for specialization
- Increasing competition for distribution shelf space
- Consolidation among carriers and distribution
- Increasing legislative and regulatory requirements (e.g., compliance)

Enabling Capabilities

- Defined roles for industry players
- Industry standards
- Industry participation, buy-in, adoption and advocacy for recommendations
- Clear, well-comprehended process
- Regulatory change: Electronic/signature reduce signature requirements
- Electronic support for post-issue transactions
- Electronic signature standard
- Electronic funds/wire settlement facility
- Regulatory change: Multiple proprietary licensing and applications
- Common licensing rules
- System integration to enable single sign-on
- Electronic delivery of prospectus and materials
- Industry standard interpretation of legislative/regulation
- Integrated pre-sale support system e.g., hypotheticals
- Central repository for licensing, registration and appointments
- Insurholder delivery of contract documents
- Verification of funds from the customer
- Standard stability questionnaires
- Automated commission schedule
- Monitor for outsourcing process and solution service



Overall

- Easy to do business with
 - Seamless
 - Simple
 - Fast
- Cost-effective
- Scalable
- Automated, electronic process
 - Human-free processing
 - Paper-free processing
- Transactional
 - Supporting activities invisible to the consumer and producer
 - Flexible scaling capabilities
- Compliant by design
 - Legislative and regulatory compliance is seamlessly integrated into the process
- High level of access and communication
 - Seamless
 - Quality timely information
 - Available in real-time based format/channel
- Highly standardized processes, techniques and roles
 - Industry-wide in good order
- Minimize workarounds/human interventions
- Flexible to accommodate most channels and future requirements
 - Automated, non-standard, non-electronic information
- Enable easier, higher levels of customer service/interaction

Issues

- Achieving standardization of
 - Process
 - Roles
 - Technology
- Interpretation of legislative and regulation
- Consolidation progress could impede IES transfer automation
- Length and complexity of legislative and regulatory change
- Expectations to make annuity straight-through-processing like retail funds
 - Deliver products
- Scalability of distribution channel requirements
- Legacy systems and standards
- Payment system for higher service levels
 - eg. "concrete or pig"
- Designing the process to accommodate competitive differentiation

STATE LAW ASPECTS

- E-SIGN and UETA create a legal foundation for E-Signatures and STP but are relatively new with little case law interpretation
- Moreover, lack of state regulatory uniformity makes it unclear how state DOI's will react to electronic processing of annuities

STATE LAW ASPECTS

- NAIC Bulletin – Model bulletin on E-Commerce entitled “Regulatory Issues Associated with the Provision of Insurance”
- Unfortunately was not widely adopted by many states so does not do much to enhance clarity and uniformity

STATE LAW ASPECTS

- As noted there is little case law on UETA and ESIGN. This could allow state DOI's to take at least colorably meritorious positions that under a facts of a given case, e-signatures are not permissible.
- NAVA is eliciting member comment on actual "battle" experiences with state DOI's
- NAVA is also considering notice filings on behalf of the industry with state DOI's after standard processes and procedures are decided upon

Industry Standard Forms

- Standardize forms in a way that would eliminate different versions of the same form for different carriers and different states
- NAVA-sponsored working group established under ACORD

Industry Standard Forms

- The group completed a single, Transfer Form (1035) for life and annuity this year – eliminating three forms.
- Currently working on the state replacement forms
- Additional forms within scope are:
 - Application
 - DCA
 - Systematic Withdrawal
 - Electronic Funds Transfer Authorization
 - Telephone Withdrawal Authorization
 - Trust forms
 - Transfer forms
 - Rebalancing forms

Industry Standard Forms

- The initial reaction of State DOI's is that no separate filing will be required of electronic versions of the approved standard forms.
- This should save costs of separate filings of e-forms.

NAVA E-Signature Proof of Concept

- Anticipated Deliverables
 - Simulation of E-Signature process for electronic annuity applications
 - Biometric: Handwriting
 - Biometric: Voice
 - Click-Wrap (PIN secured)
 - Modified PKI
 - White-paper describing an overall recommended process and detailing measurements
- Three Phases of Deployment

NAVA E-Signature Proof of Concept

- Phase 1: Scope & Requirements
 - Determined effort scope & deliverables
 - Defined high level business requirements
 - Determined technical approach
- Phase 2: Solution Provider Reviews / Simulation Recommendations
 - Defined roles/responsibilities for Solution Providers
 - Gathered basic due diligence information
 - Validated use case scripts
 - Delivered simulation program recommendation that compared Solution Provider capabilities within the context of SPeRS deployment outline

NAVA E-Signature Proof of Concept

- Phase 3: Build & Run Simulation
 - At completion should have both overall effort deliverables
 - Simulation
 - Process White-Paper
 - Several NAVA Members committed to participation in this phase

Thanks!

- For NAVA Whitepaper Leave your Business Card
- If You Have Further Questions Contact:

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