

**ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION**

**CHAPTER 482-1-137
SUITABILITY PROTECTION IN ANNUITY TRANSACTIONS**

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482-1-137-.01 Authority. This chapter is issued under the authority of Sections 27-2-17 & 27-12-1, et seq., Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.02 Purpose.

(1) The purpose of this chapter is to set forth standards and procedures for recommendations to consumers that result in a transaction involving annuity products so that the insurance needs and financial objectives of consumers at the time of the transaction are appropriately addressed.

(2) Nothing herein shall be constructed to create or imply a private cause of action for a violation of this chapter.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137.03 Scope. This chapter shall apply to any recommendation to purchase or exchange an annuity made to a consumer by an insurance producer, or an insurer where no producer is involved, that results in the purchase or exchange recommended.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.04 Exemptions. Unless otherwise specifically included, this chapter shall not apply to recommendations involving:

(a) Direct response solicitations where there is no recommendation based on information collected from the consumer pursuant to this chapter.

(b) Contracts used to fund any of the following:

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(1) An employee pension or welfare benefit plan that is covered by the Employee Retirement and Income Security Act (ERISA).

(2) 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.

(3) 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.

(4) A nonqualified deferred compensation arrangement established or maintained by an employer or plan sponsor.

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

(6) Formal prepaid funeral contracts.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.05 Definitions. The following definitions shall also apply in this chapter:

(a) **ANNUITY.** A fixed annuity or variable annuity that is individually solicited, whether the product is classified as an individual or group annuity.

(b) **INSURER.** A company required to be licensed under the laws of this state to provide insurance products, including annuities.

(c) **INSURANCE PRODUCER.** A person required to be licensed under the laws of this state to sell, solicit or negotiate insurance, including annuities.

(d) **RECOMMENDATION.** Advice provided by an insurance producer, or an insurer where no producer is involved, to an individual consumer that results in a purchase or exchange of an annuity in accordance with that advice.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

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482-1-137-.06 Duties of Insurers and of Insurance Producers.

(1) In recommending to a consumer the purchase of an annuity or the exchange 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.

(2) Prior to the execution of a purchase or exchange of an annuity resulting from a recommendation, an insurance producer, or an insurer where no producer is involved, shall make reasonable efforts to obtain information concerning all of the following:

- (a) The consumer's financial status.
- (b) The consumer's tax status.
- (c) The consumer's investment objectives.

(d) Such other information used or considered to be reasonable by the insurance producer, or the insurer where no producer is involved, in making recommendations to the consumer.

(3)(a) Except as provided under Rule 482-1-137-.06(3)(b), neither an insurance producer, nor an insurer where no producer is involved, shall have any obligation to a consumer under Rule 482-1-137-.06(1) related to any recommendation if a consumer:

- 1. Refuses to provide relevant information requested by the insurer or insurance producer.
- 2. Decides to enter into an insurance transaction that is not based on a recommendation of the insurer or insurance producer.
- 3. Fails to provide complete or accurate information.

(b) An insurer or insurance producer's recommendation subject to Rule 482-1-137.06 (3)(a) shall be reasonable under all the circumstances actually known to the insurer or insurance producer at the time of the recommendation.

(4)(a) An insurer either shall assure that a system to supervise recommendations that is reasonably designed to achieve compliance with this chapter is established and maintained by complying with Rule 482-1-137-.06(4)(c)to(e), or shall establish and maintain such a system, including, but not limited to:

- 1. Maintaining written procedures.

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2. Conducting periodic reviews of its records that are reasonably designed to assist in detecting and preventing violations of this chapter.

(b) A general agent and independent agency either shall adopt a system established by an insurer to supervise recommendations of its insurance producers that is reasonably designed to achieve compliance with this chapter, or shall establish and maintain such a system, including, but not limited to:

1. Maintaining written procedures.

2. Conducting periodic reviews of records that are reasonably designed to assist in detecting and preventing violations of this chapter.

(c) An insurer may contract with a third party, including a general agent or independent agency, to establish and maintain a system of supervision as required by Rule 482-1-137-.06 (4)(a) with respect to insurance producers under contract with or employed by the third party.

(d) An insurer shall make reasonable inquiry to assure that the third party contracting under Rule 482-1-137-.06(4)(c) is performing the functions required under Rule 482-1-137-.06(4)(a) and shall take such action as is reasonable under the circumstances to enforce the contractual obligation to perform the functions. An insurer may comply with its obligation to make reasonable inquiry by doing both of the following:

1. The insurer annually obtains a certification from a third party senior manager who has responsibility for the delegated functions that the manager has a reasonable basis to represent, and does represent, that the third party is performing the required functions; and

2. The insurer, based on reasonable selection criteria, periodically selects third parties contracting under Rule 482-1-137-.06(4)(c) for a review to determine whether the third parties are performing the required functions. The insurer shall perform those procedures to conduct the review that are reasonable under the circumstances.

(e) An insurer that contracts with a third party pursuant to Rule 482-1-137-.06(4)(c) and that complies with the requirements to supervise in Rule 482-1-137-.06(4)(d) shall have fulfilled its responsibilities under Rule 482-1-137-.06(4)(a).

(f) An insurer, general agent or independent agency is not required by Rule 482-1-137-.06(4)(a) or (b) to:

1. Review, or provide for review of, all insurance producer solicited transactions;
or

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2. Include in its system of supervision an insurance producer's recommendations to consumers of products other than the annuities offered by the insurer, general agent or independent agency.

(g) A general agent or independent agency contracting with an insurer pursuant to Rule 482-1-137-.06(4)(c) shall promptly, when requested by the insurer pursuant to Rule 482-1-137-.06(4)(d), give a certification as described in Rule 482-1-137-.06(4)(d) or give a clear statement that it is unable to meet the certification criteria.

(h) No person may provide a certification under Rule 482-1-137-06(4)(d)(1) unless:

1. The person is a senior manager with responsibility for the delegated functions; and

2. The person has a reasonable basis for making the certification.

(5) Compliance with the National Association of Securities Dealers Conduct Rules pertaining to suitability shall satisfy the requirements under this Rule for the recommendation of variable annuities. However, nothing in this Rule shall limit the insurance commissioner's ability to enforce the provisions of this chapter.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.07 Mitigation of Responsibility.

(1) The commissioner may order any of the following:

(a) 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 chapter.

(b) An insurance producer to take reasonably appropriate corrective action for any consumer harmed by the insurance producer's violation of this chapter.

(c) A general agency or independent agency that employs or contracts with an insurance producer to sell, or solicit the sale, of annuities to consumers, to take reasonably appropriate corrective action for any consumer harmed by the insurance producer's violation of this chapter.

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(2) Any applicable penalty under Section 27-12-1 et seq. Code of Alabama 1975 for a violation of Rule 482-1-137-.06(1),(2) or (3)(b) of this Chapter may be reduced or eliminated if corrective action for the consumer was taken promptly after a violation was discovered.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.08 Recordkeeping.

(1) Insurers, general agents, independent agencies and insurance producers shall maintain or be able to make available to the commissioner records of the information collected from the consumer and other information used in making the recommendations that were the basis for insurance transactions for three (3) years after the insurance transaction is completed by the insurer. An insurer is permitted, but shall not be required, to maintain documentation on behalf of an insurance producer.

(2) Records required to be maintained by this chapter may be maintained in paper, photographic, microprocess, magnetic, mechanical or electronic media or by any process that accurately reproduces the actual document.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.09 Separability. If any portion of this chapter or its applicability to any person or circumstance is held invalid by a court, the remainder of the chapter or the applicability of the provision to other persons or circumstances shall not be affected.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

History: New May 19, 2006, Effective January 1, 2007

482-1-137-.10 Effective date. This chapter shall be effective January 1, 2007, upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.

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Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17 & 27-12-1, et seq.

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