

NYSID Regulation 194
 Producer Compensation
 Transparency

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Initial 'General' Disclosure

■ **NYSID Regulation 194, section 30.3(a)**

"...an insurance producer selling an insurance contract shall disclose the following information to the purchaser....at or prior to the time of application for the insurance contract:

- 1) A description of the role of the insurance producer in the sale;
- 2) Whether the insurance producer will receive compensation from the selling insurer or other third party based in part or in whole on the insurance contract the producer sells;
- 3) That the compensation paid to the insurance producer may vary depending on a number of factors....
- 4) **That the purchaser may obtain information about the compensation expected to be received by the producer by requesting such information from the producer."**



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Initial Disclosure – Draft

Disclosure of Producer Compensation
 as required by
 New York State Insurance Department Regulation No. 194
 Section 30.3(a)

I am an insurance producer licensed by the State of New York. Insurance producers are authorized by their license to confer with insurance purchasers about the benefits, terms and conditions of insurance contracts; to offer advice concerning the substantive benefits of particular insurance contracts; to sell insurance; and to obtain insurance for purchasers. The role of the producer in any particular transaction typically involves one or more of these activities.

Compensation will be paid to the producer, based on the insurance contract the producer sells. Depending on the insurer(s) and insurance contract(s) the purchaser selects, compensation will be paid by the insurer(s) selling the insurance contract or by another third party. Such compensation may vary depending on a number of factors, including the insurance contract(s) and the insurer(s) the purchaser selects. In some cases, other factors such as the volume of business a producer provides to an insurer or the profitability of insurance contracts a producer provides to an insurer also may affect compensation.

The insurance purchaser may obtain information about compensation expected to be received by the producer based in whole or in part on the sale of insurance to the purchaser, and (if applicable) compensation expected to be received based in whole or in part on any alternative quotes presented to the purchaser by the producer, by requesting such information from the producer.



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Detailed "Numerical" Disclosure

■ NYSID Regulation 194, section 30.3(b)

"If the purchaser requests more information about the producer's compensation, ...the producer shall disclose the following information to the purchaser...."

- 1) a description of the nature, amount and source of any **compensation** to be received by the producer or any parent, subsidiary or affiliate based in whole or in part of the sale...."

■ NYSID Regulation 194, section 30.2

- a) "**Compensation** means anything of value, including money, credits, loans, interest on premium, forgiveness of principal or interest, trips, prizes, or gifts, whether paid as commission or otherwise."

AXA Equitable's Approach to Support Producers

- Assist agent in the process by providing detailed 'numerical' disclosure documents (via .pdf format) for proprietary products
 - guidance represents best judgment about interpretation of regulation
 - standardization of practice within sales operation
- .pdf's may not always meet the individualized need in unconventional cases – agents will be provided a contact for such situations
- We are considering disclosures for our "controlled brokerage" products on a generalized basis – although the recent NYSID Circular Letter may complicate this (to be discussed)

Considerations

- Elements of Compensation
- Total \$ amount of compensation –OR-- % of premium
- Number of years to spread compensation ("average duration")
 - NYSID Circular Letter: "Unlike other kinds of insurance, life insurance policies and annuity contracts last for a number of years, but compensation is typically greater in the early years Accordingly, a producer may disclose the known compensation as a percent to total premium paid **over the expected duration of the policy** or contract."

"Known" compensation – commissions, service fees, trail

- Assumptions still required, e.g.
 - Premium payment patterns on flexible premium/deposit contracts
 - > one target premium each year, or based on company results?
 - > one unit of annuity deposit each year, or first year only?
 - Asset earnings (to calculate trail)
 - > Loads
 - > Assumption for increase/decrease in asset value

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"Average Duration:" Definition

- NYSID Circular letter: "...a producer may disclose the known compensation as a percentage of the total premium paid over the expected duration of the policy or contract [the disclosure] must state the expected duration used (which must take account of appropriate mortality and termination rates for the kind of policy being sold)...."
- LICONY letter to NYSID: "We recommend producers be permitted to use *industry average durations*:"

Term Insurance	13 Years
Permanent Insurance (includes Whole Life, Universal Life, Variable Universal Life, Variable Life)	20 Years
Annuities (Fixed and Variable)	12 Years
Disability Income	16 Years
Long-Term Care	15 Years

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NYSID Definition of Average Duration: Implications

- Differences in expected durations among different companies' products
- Additional client requests for compensation information at other durations
- This parameter may be considered a pricing assumption
- Compliance challenges for independent agents
- Providing information for controlled brokerage products
- Consumer focus on producer compensation over policy values

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