

SEC Targets Variable Insurance Products

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Gary O. Cohen

Once again, the SEC's Office of Compliance Inspections and Examinations (OCIE) has made variable insurance products an exam priority.

The SEC announced this priority on February 7 in a 10-page booklet of OCIE's 2018 priorities that was at least twice as long as the booklets for the last four years. However, the additional length doesn't shed much more light on OCIE's precise interest in variable insurance products. Generally, OCIE says it will conduct exams of "investment advisers and broker-dealers that offer services and products to investors with retirement accounts." More specifically, OCIE says it "will focus on ... sales of variable insurance products."

For 2012 and the following years, OCIE announced that variable insurance products — or, at least, variable annuities — were an exam priority. The only exception was for 2015.

Regarding variable insurance products, OCIE's focus has shifted over the years. For 2012, OCIE said it was interested in "growth in variable insurance product assets and the emergence of new channels of distribution." In 2013, the focus was on "the growing use of alternative and hedge fund investment strategies in ... variable annuity structures."

In 2014, OCIE was concerned about life insurance company "buybacks" of variable annuities. It examined "whether registered representatives are recommending that customers accept the buyback terms and, if so, whether such recommendations are suitable and what types of disclosure are made to the customer."

In 2016, OCIE examined "the suitability of sales of variable annuities to investors (e.g., exchange recommendations and product classes) as well as the adequacy of disclosure and the supervision of such sales." Similarly, in 2017, OCIE reviewed "registrants' recommendations and sales of variable insurance products."

Looking back, OCIE has principally been interested in the distribution of variable insurance products, particularly suitability of recommendations and disclosure of pertinent information. However, OCIE hasn't identified any dominant concern, much less undertaken any enforcement initiative.