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Regulatory Bulletin

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REGULATORY BULLETIN 2008-06¹

DATE: September 30, 2008
TO: All Life & Annuity and Property & Casualty Insurers and Producers
FROM: Christina Urias, Director of Insurance
RE: AIG Insurance Replacements

In light of the recent and ongoing events in the financial markets, including the Federal Reserve's \$85 billion credit facility established to assist the AIG holding company through its liquidity crisis, the Arizona Department of Insurance (ADOI) wants to take this opportunity to remind all life, annuity, property and casualty insurers and producers of their obligations to Arizona consumers and policyholders.

State regulations protect, and AIG insurance subsidiaries continue to comply with, all applicable solvency regulations. The AIG insurance subsidiaries, including the life and annuity and property and casualty insurers, continue to function as viable insurance operations.

Please be advised that you are legally obligated to ensure that AIG policyholders are **not** subject to misleading, or unsuitable, replacement solicitations. ADOI encourages you to review Arizona life and annuity laws specific to replacements, free-look requirements and disclosures as well as other laws related to how you may represent the financial condition of insurance companies. Also:

1. Arizona law requires annuity insurers to supervise its insurance producers to ensure that the producers do not make inappropriate and improper solicitations. Annuity insurers are fully aware of the current market environment and the danger of fear induced sales. The law obligates annuity insurers to immediately take proactive steps to prevent improper solicitations.

¹This Substantive Policy Statement is advisory only. A Substantive Policy Statement does not include internal procedural documents that only affect the internal procedures of the Agency, and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona Administrative Procedure Act. If you believe that this Substantive Policy Statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes Section 41-1033 for a review of the Statement.

2. The same legal obligations extend to insurance agencies – agencies are subject to the same legal obligation to supervise its insurance producers to prevent improper annuity solicitations and take immediate preventive measures.
3. Arizona law prohibits an insurance producer from making improper solicitations and requires insurance producers to document suitability on any AIG life or annuity policy replacement recommendation and to make proper representations of AIG insurer status.
4. Arizona law specifically prohibits insurers and insurance producers from making misleading statements regarding the financial condition of an insurer. The law requires insurers to approve, prior to use, all advertisements for solicitation of life or annuity sales. Insurers should immediately implement measures to remind insurance producers of this requirement and review proposed advertising for proper content before release to the public.

The ADOI will carefully monitor replacement activity affecting the AIG life and annuity insurers and will review the measures you implement to prevent improper solicitation of AIG life and annuity policyholders. ADOI monitoring, through data calls, examination or complaint review, that identifies an insurer's or insurance agency's failure to implement appropriate supervisory measures, or disproportionate AIG life or annuity replacements, may lead to an enforcement investigation. Any replacement strategy for AIG life and annuity products based primarily on the fact that *they are AIG products* is unsuitable. ADOI will not tolerate misrepresentations about the status of these companies in order to induce fear into consumers and we will take appropriate enforcement action against anyone who engages in improper replacement activity.

Also, producers should not unduly pressure other AIG policyholders—automobile, homeowners, worker's compensation, and other commercial policies—to switch companies without fully disclosing the possible ramifications of such policy changes to consumers. For instance, automobile or homeowners policyholders who switch will be subject to a new 60-day underwriting period during which insurers may cancel their policies. They may also receive a short-rated premium refunds, thus, forfeiting some of the premium already paid and automobile policyholders could lose certain discounts and longevity benefits.

Of course, suitable policy and product replacements are acceptable when properly executed in compliance with replacement standards.