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This complimentary newsletter addresses current regulatory concerns around the world and provides broker-dealers, investment advisers, and insurance companies with tips and suggestions for meeting regulatory obligations.



## United States

### Effective Complaint Handling

LIMRA recently held a seminar on how to effectively handle regulatory and customer complaints. Attended by personnel from both broker-dealers and insurance-affiliated firms, the seminar covered:

- The initial intake and handling of complaints
- The investigation and documentation of the broker-dealer's response to such complaints
- Responding to complaints, including a case study
- Preparation for litigation and preservation of records
- Litigation holds
- Dealing with state and federal regulators

The goal of the seminar was to help firms improve the means and methods for successfully resolving complaints short of litigation, and included case studies and comparisons of firm practices on all the topics. Throughout the seminar, discussions focused on best practices to resolve complaints and/or how to preserve the firm's interests in case the complaint ends up in litigation. The topics below generated the most interesting discussions.

#### *When to Consult With the Law Department*

Most firms require that any registered representative or principal needing legal advice or responding to regulatory inquiries or potential litigation must

consult with the law department; and that no manager or other employee may refer any matter to outside counsel without the approval of the law department. Consulting with the law department at the earliest possible stage may provide employees with guidance to minimize liability exposure or help them attain their objective despite the apparent legal impediments. Moreover, the centralized legal function helps avoid duplication of effort by inside and/or outside counsel on matters of a similar nature and helps the firm monitor the cost and quality of outside legal services.

#### *Handling Regulatory Inquiries and Document Requests*

Similarly, many firms require that regulatory inquiries received by firm employees be immediately referred to the law department. "Regulatory inquiry" means any inquiry from any regulatory or law enforcement agency, including the SEC, FINRA, state securities agencies and federal, state, or local law enforcement authorities. Regulatory inquiries also include subpoenas and requests for documents or information concerning any filing of or amendments to Forms U-4 and U-5, client complaints, securities trading, or any other customer-related matter.

One best practice: If a person outside the firm contacts an employee about events involving the firm or its employees, the employee should politely inform them of the firm

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## NOTABLE

- ▶ LIMRA introduces high-level advisory reviews focused on your primary AML/BSA/OFAC concerns. Contact us at [compliance-regsvs@limra.com](mailto:compliance-regsvs@limra.com) to learn more.
- ▶ To subscribe to *LIMRA Regulatory Review* or read previous issues, please [visit us online](#).

## COMING SOON

- ▶ **Asia Compliance Seminar**  
Hong Kong, March 11-12, 2010  
[Learn more.](#)
- ▶ **Compliance & Market Conduct Exchange**  
Orlando, FL, March 24-26, 2010  
[Learn more.](#)
- ▶ **Webinar: The Future of Target Date Investing in Participant-Directed Retirement Plans**  
April 7, 2010  
[Learn more.](#)
- ▶ **Development: Managing in a Virtual World**  
How to recruit, select, develop, and manage staff working remotely  
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## SERVICES AND PRODUCTS

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## Effective Complaint Handling

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policy prohibiting statements, and refer the contact to the appropriate department. The employee should then immediately report that conversation to the appropriate firm principal or law department.

***Dos and Don'ts for Fielding the Initial Complaint***

Your firm's process for fielding the initial complaint should involve:

(1) quickly gaining an understanding of the nature of the claim, (2) appropriate and timely reporting within the firm, and (3) working with the appropriate supervisor and gathering documentation from all sources that may bear upon the allegations of the complaint. The process and response must simultaneously preserve the maximum protection for the firm of privilege, and fully comply with all required reporting and disclosure to regulators. Complaints generally come either directly from the customer or from a securities regulator which may or not reveal the source. A complaint from a securities regulator frequently includes a document request. The procedures for handling such a request set forth above would apply. Early, direct contact should be made with the regulator, in consultation with a firm principal or in-house or outside counsel, in order to narrow any overly-broad document requests, and determine the background and nature of the complaint itself. This will also allow for agreement on time frames and protocols for moving forward with consideration of the allegations and a view toward resolving the regulatory complaint.

***Sensitivity to Written Supervisory Procedures***

It is essential that registered representatives and principals be thoroughly familiar with the firm's WSPs. Familiarity with supervisory procedures goes a long way toward guiding the registered representative or principal as to the protocols to follow upon receipt of a private customer or regulatory complaint. This sensitivity particularly applies to representatives who sell both insurance and securities; although the need for familiarity with WSPs is no less, even for those whose principle job is to sell insurance. Many times a firm will get into trouble because of the lack of familiarity of the registered representative regarding securities compliance issues.

***Creating the Complaint File***

When a firm receives either a regulatory or private customer complaint, documents need to be gathered and relevant personnel interviewed. All account and transaction documents involving the purchase or sale of securities should be gathered and segregated. In the case of regulator document request or discovery requests during litigation, firms often get into trouble for not doing an appropriate search for electronic data and this can have adverse consequences in litigation or arbitration. In larger cases, firms frequently retain an outside consultant to help identify and gather electronic data. Not producing all relevant electronic data can mean preclusion of certain issues and evidence in connection with an arbitration or litigation. This includes incoming and outbound customer correspondence.

The registered representative, or other personnel involved with the complaint, should be interviewed. It is not recommended that formal statements be taken from these personnel, unless the statements are obtained by outside legal counsel where attorney client privilege would apply. Written statements obtained by compliance personnel within the firm would not be subject to the attorney client privilege and that privilege may not apply even to statements taken by in-house firm

counsel. The complaint should be reviewed with appropriate decision makers, such as compliance staff principals and the law department to determine whether a pre-arbitration or pre-litigation offer of settlement should be made, and in order to assess the case in terms of damages. This decision should obviously be reviewed with appropriate senior staff, including in-house counsel. In the case of a settlement, strong procedures should be in place to assure prompt and appropriate reporting into the firm's complaint database, and the registered representative's U-4/U-5 should be updated. Form BD may also need updating for certain complaints.

Of course, in representing a broker-dealer, outside counsel ideally wants to see a very organized customer file that contains all information necessary under relevant regulatory requirements. This includes fully documented correspondence with customers; a fully documented account relationship; fully documented confirmations with respect to securities transactions; and documentation of any previous problems with the customer, including the suitability issues discussed above. If firms maintain their customer files in accordance with regulatory requirements, outside counsel's job is made much easier. Maintaining an appropriate file also makes responding to discovery requests in litigation or arbitration much easier as does the appropriate maintenance of electronic data.

## The Future of Target Date Fund Investing in Participant-Directed Retirement Plans

We are in the midst of a public policy debate over the future of participant-directed retirement plans. How should they be structured, and what should their role be in helping American workers achieve financial security in retirement? An important part of this debate concerns target date funds.

As the use of target date funds expands across the retirement plan landscape, policymakers, retirement service providers, plan sponsors, and participants have all started to pay closer attention to target date investing. The pros and cons of target date funds, the formulas that managers use to allocate the proportion of equity to fixed income in these funds, and the process for choosing one target date fund over another, are coming under greater scrutiny from Congress. To their supporters target date funds represent the future — making it much easier for workers to invest for their retirement. To their opponents, target date funds are the investment equivalent of a too-good-to-be-true diet food — with potentially higher costs, hard to discern ingredients, and highly variable results.

Target date fund investing has already had a significant impact on the retirement industry — along with the use of default programs for enrollment and rate-of-savings. Collectively these developments share the idea that participant decision-making is best left to someone other than the participant. This may be particularly true when it comes to investing. Why not default all plan participants into a target date fund investment program?

*By David Elliott, Esq., Partner, Day Pitney, LLP, and Larry Niland, LIMRA Senior Regulatory Consultant and former CCO of the John Hancock Financial Network. Mr. Elliott leads the firm's Securities Litigation Practice Group and spoke at LIMRA's recent Effective Complaint Handling Seminar. He can be reached at [djelliott@daypitney.com](mailto:djelliott@daypitney.com).*

*If you need assistance improving your firm's procedures including complaint handling and/or would like to be invited to the next Effective Complaint Handling Seminar, please contact Larry Niland at 877-843-2641 or [lniland@limra.com](mailto:lniland@limra.com).*

LIMRA's Customer Assurance Program (CAP) can help your company uncover customer concerns early, before they become complaints. This brief post-purchase survey system proactively monitors sales practices to reduce the risk of legal penalties, damaged public image, and copycat claims. For more information about how our arm's-length, independent service can help your firm, please contact us at 877-843-2641 or [compliance-regsvs@limra.com](mailto:compliance-regsvs@limra.com).



Even as target date funds offer the promise of simplified investment decisions for plan participants, they also create new challenges for plan sponsors and plan investment providers. Target date fund investing provides an easy way for participants to direct their 401(k) investments. However, the requirement that a plan sponsor bear responsibility for determining the suitability of those funds in their plans, and the very different volatility standards and performance returns among funds with the same target dates, may prove a tipping point that causes plans and policymakers to revisit the matter.

The Pension Protection Act of 2006 gave regulatory sanction, and considerable impetus, to the use of target date funds in defined contribution plans. The target date funds phenomena demonstrates that participants like the concept, its ease of use, and the notion that investment decisions are being made for them by someone else, presumably in accord with generally accepted investment theories. This was true at least until participants at or near retirement saw their target date fund values plummet in the recent market downturn.

Where does that leave the public policy debate? Legislators, plan sponsors, and their advisors should be asking themselves two questions: (1) Do we believe that target date fund investing is a preferred way to help participants achieve their investment objectives within defined contribution plans? and (2) If target date fund investing is the right approach, what is the best method to incorporate this option in the design of a retirement plan?

If target date investing is the preferred approach then what guidelines should be used to determine which funds are used by a particular plan and how can the “surprises” recently experienced by target date fund investors be avoided in the future? Using a fund approach to deliver target date outcomes can falter if there are higher fees (an added layer of management fees) and/or a misalignment with investor expectations (investing ‘to’ or ‘through’ retirement). In addition, the lack of target date fund transparency and benchmarks can cause the most intrepid fiduciary to have qualms. Clearly, many plan sponsors, and perhaps even some advisors, do not understand some of the securities inside the target date funds that they have made available to participants. Should plan sponsors or their advisors go through the complex and time consuming process of evaluating, selecting, and monitoring target date funds when an alternative, and potentially better, approach exists?

Virtually every plan utilizes a process for selecting and monitoring the investment options it makes available to participants. Why add another five target date funds to the menu when instead a plan can use its existing investment options to create target date fund model portfolios? With Web-based software, plan sponsors or their advisors can easily and quickly create such model portfolios that will automatically allocate participant contributions across existing plan investments according to each participant’s target retirement date.

The target date fund model portfolio approach offers several advantages over funds:

- There is no second layer of fees, as typically occurs with a fund-of-funds.
- Automatic allocation of all contributions is based on a target retirement date (easy for participants to understand) which also helps to avoid the tendency to use target date funds for only a portion of the participant’s contributions.
- Performance is a reflection of allocations to the underlying holdings of the plan’s existing investment options, and is not dependent on the management expertise of a single fund manager or fund family (i.e., open architecture in a target date context)
- Plan fiduciaries can leverage the due diligence and monitoring they already perform on plan investment options which can then be customized to their own plan objectives and participant demographics, and then clearly communicated to participants.

In the evolving world of public retirement policy, target date fund investing is an idea whose time has come. When the target date fund investing is combined with a plan design that automates enrollment and savings rates we have a powerful formula that is more likely to lead to successful outcomes for participants; and by extension, plan sponsors, their service providers, and society as a whole. In the great target date funds debate we need to learn from the past, recognize what today’s consumers embrace and value, and use new technologies to put participants on the path to financial security in retirement. Target date fund model portfolios can do just that.

*By Paul Henry, LIMRA Managing Director for Retirement Clients and Products. For questions on this topic, contact Paul at 877-843-2641 or phenry@limra.com.*

Please join us on April 7<sup>th</sup> for the free Webinar [The Future of Target Date Fund Investing in Participant-Directed Retirement Plans](#). LIMRA’s Paul Henry and Larry Niland will discuss the supervisory and suitability issues related to target date fund investing. Seating is limited to the first 100 registrants: [register today](#).

## Asia

### Taiwan Regulatory Concern: Sales Practices

Taiwan may have a relatively small population of 23 million people, but from an insurance perspective it looms large, with an insurance penetration ratio (i.e., insurance premium to GDP) ranked number one in the world in 2007. In 2008, Taiwan had 30 insurance companies and Taiwanese people held 2.03 policies per person on average. The ratio of prevalence (i.e., the ratio of the total face amount of in-force life and annuity policies to the national income) reached 333.38%. The average insurance coverage in Taiwan is about 3.3 times annual income.

Because of this active insurance market, the non-claim complaints filed by policyholders with Taiwan’s insurance regulator — the Financial Supervisory Commission (FSC) — have increased significantly in the past few years. The FSC accepts only those complaints that policyholders have filed with insurance companies without receiving satisfactory results.

According to FSC statistics, there were only 841 non-claim complaints in 2006. The number grew to 1,577 complaints in 2007 (an 88% annual increase) and 2,197 complaints in 2008 (a 40% increase over 2007). In the first half of 2009, the number reached 1,298 complaints.

Among those non-claim complaints, sales-practice-related complaints accounted for 45%, 62%, 71% and 66% of complaints received in 2006, 2007, 2008, and the first half of 2009, respectively. The FSC defines sales practices as an insurance agent’s misconduct in the process of soliciting sales of an insurance contract (e.g., commingling funds, soliciting sales without the consent of the insured or the legal representative, unsigned application, policy or premium receipt not delivered to the applicant).

Variable products have contributed significantly to the growing number of complaints. In 2005, only 12% of complaints involved variable products. That percentage grew to 27% in 2006 and reached 37% in 2008. This trend aligned with the growth of variable product sales in Taiwan market. The growth rates, in terms of the number of new variable policies over the previous year, were 15% in 2005, 23% in 2006, and 62% in 2007.

The most famous sales practice case in Taiwan came from an insurance broker who sold variable policies as savings and investment vehicles during 2007 and 2008 by claiming “deposit your money and get insurance free.” This broker generated several hundred complaints when the policyholders received their renewal premium notice one year after they “deposited money” and realized they had actually purchased a variable insurance product. When policyholders applied for a surrender they were shocked that they would get so little money back. Many people suffered significant losses and complained to legislators who in turn complained to the FSC. The FSC then took a series of actions to strengthen consumer protection. It is no surprise that the FSC decided to focus their supervisory activities on the sales of variable products, especially those linked to structured products.

According to the FSC’s analysis, the most common ways variable products are mis-sold include:

- Agent did not inform customers that they were selling variable insurance products.
- Agent solicited insurance sales using inappropriate methods (e.g., comparing insurance product’s pricing interest rate with bank CD rate or pricing rates of other insurance products).
- Agent solicited insurance sales in the name of savings products, mutual funds, or structured notes.
- Policies were sold by unlicensed agents.
- Policies were sold without considering the customer’s risk profile, without establishing the product’s suitability, or whether the product met the customer’s needs.
- Agent exaggerated investment return rate.
- Agent embezzled premiums.

In order to better protect consumer interests, the FSC has taken various supervisory actions, including:

- Held several meetings to discuss sales practice issues face-to-face with CEOs, Chief Compliance Officers, and Chief Auditors.
- Requested the Taiwan Life Insurance Association to develop and implement standard disciplinary actions for improper sales practices and asked insurers to discipline agents accordingly and bring criminal proceedings against agents when appropriate. The supervisors of the agents should also be disciplined for failing to provide proper supervision.
- Severely disciplined those companies that violated laws and regulations, with sanctions like banning the sales of specific products, shutting down agencies, restricting recruitment of new agents, restricting investment options, and suspending individuals’ licenses (e.g., Appointed Actuary).
- Made it mandatory that the solicitation process be included in a company’s annual audit plan.
- Revised the educational requirements for agents from junior high school to high school which will become effective in 2011.
- Issued news releases to educate consumers on how to buy insurance products.

- Publicized regulatory fines and sanctions through news releases. Since 2006, 23 of the 30 Taiwan insurers have been fined or sanctioned.
- Reinforced disclosure requirements and required insurers to make post-sales suitability calls and conduct quality checks by mailing sales quality survey questionnaires to applicants before their free-look period expires.

However, despite the FSC’s efforts, the statistics and trends still look unfavorable. Therefore, the FSC is implementing even stricter supervisory actions and is levying more severe fines and sanctions against those insurers that do not pay sufficient attention to compliance and sales supervision.

In early 2009, a major Taiwan insurer was fined and its variable products were banned for three months. It was also ordered to discipline the responsible sales management and enhance internal control and compliance programs since one of its agencies used inappropriate sales and marketing materials to sell variable products by promising a guaranteed return. The agency misled many customers by steering them to purchase variable universal life products and even induced them to finance the purchase of variable products through the insurer’s special housing loan program. The insurer eventually refunded 1.3 billion New Taiwan Dollars (approximately US\$40.5 million) in premiums to about 1,000 customers and allowed them to surrender their policies.

The FSC has demonstrated its determination to improve business quality by strengthening supervision and implementing severe fines and sanctions. Insurance companies need to pay close attention to the consequences for non-compliance. The FSC has declared that it would start using Article #149 of the Insurance Law to sanction those insurers that “care only about quantity and do not pay attention to quality.” Article #149 gives the FSC the right to: (1) restrict the scope of an insurer’s operations and investments, (2) ban the sales of existing products and new product launches, (3) order the insurer to increase paid-up capital, and (4) remove the insurer’s managers and employees from their posts if the sales practices are deemed to be the result of poor management or improper company policies.

The message is clear. Insurers should change their mindset, and not treat regulatory fines as “operational costs” as some companies have done in the past, because the FSC has the regulatory authority to order an insurer’s CEO and senior officers to step down and, in the worst case scenario, revoke the insurer’s business license.

Below are practical suggestions for Taiwan insurers not only to meet the FSC’s expectations and requirements, but also to improve business quality and provide better service to prospects and customers over the long term.

- Enhance compliance structure by appointing an executive-level officer to the Chief Compliance Officer post. Although Taiwan’s regulation only requires a manager-level CCO, it is not practical to expect a low ranking individual to effectively influence the company management team and successfully implement compliance programs.

- Establish an independent and professional compliance organization, instead of assigning compliance responsibilities to the law department or internal audit functions. According to the FSC's proposed amendments, the CCO should report to the President and internal audit members are not allowed to perform the CCO's role.
- Strengthen the sales and marketing "materials review" function by promoting the awareness of the relevant laws and regulations, as well as the consequences of improper and inappropriate materials. All violations should be referred to an internal disciplinary committee.
- Improve the quality of new agent recruitment. Business quality should start with recruiting quality and qualified agents. The FSC's new requirement for high school education should be seen as a minimum requirement and not a standard. All agents should also pass credit and criminal background checks before they become members of the financial services community.
- Hire full time professional agents. As insurance products become more and more sophisticated, consumers deserve the best services from well trained, full-time, professional agents. At the end of 2008, only 50% of Taiwan's 175,127 field agents worked full-time. The other half worked part-time.
- Properly supervise, monitor, and audit field operations. Many insurers do not require agency management to do regular self-audits and do not send their internal audit team to examine the agencies' control condition. Insurers must set clear expectations for field management and then inspect their compliance — you get what you measure.
- Monitor and manage replacements, policy loans, and financed insurance activities. Many sales practice problems are the result of inadequate sales supervision. Improper internal and external replacements and unsuitable sales can and must be managed. Many insurers still do not have these important programs.
- Link business quality to agent and field management compensation. A level commission schedule is ideal, but implementing a long-term plan that will encourage agents to provide the best service not only in the first year but also during renewal years, is essential.
- Management must lead by example. Due to low retention rates in the entire industry, there are always many rookies and around 50% of all employees work part-time. Rookies do what they are taught and what they observe and learn from management.
- Field incentive and recognition programs must have a good balance between quality and quantity and should not just be based on production/quantity. Good business is the business that stays. Insurers should reward those agents with reasonable production, but who enjoy high persistency rates, instead of those agents who sell many policies but who have a low persistency rate and are frequently the subject of customer complaints.

Taking these pro-active measures should not only improve a company's compliance, but also improve the image of the life insurance industry in Taiwan, or anywhere else such practices and controls are implemented.

*By Simon Lin, Chief Compliance Officer, Prudential Life Insurance Company of Taiwan, Inc.*

## Latin America

### Insurance and Reinsurance Monopolies — Is It Really the End?

As the G-20 grapple with how to change the global legal framework for financial services to ensure that there are no future financial crises, some countries have moved quickly to modernize their laws to accommodate the insurance needs of consumers and the business opportunities afforded thereby. Two such countries in Latin America present interesting case studies: Costa Rica and Brazil. This article addresses the evolving nature of insurance legislation in these countries and demonstrates the growing significance of the insurance market worldwide.

#### *Costa Rica*

Following adoption of the DR-CAFTA Free Trade Agreement and enactment of the required enabling legislation, 2010 will witness the actual opening of Costa Rica's insurance market to competition with the entry of four new participants, one local company, one U.S. company, and two Panamanian companies.

The four new participants that have been authorized by the General Superintendent of Insurance (SUGESE) are Seguros

del Magisterio for personal insurance; Aseguradora Mundial (subsidiary of a Panama insurer) for general insurance; ALICO (an AIG branch) for personal insurance; and ASSA (a subsidiary of Grupo Assa Panama) for personal and general insurance.

These companies, which are expected to begin operations in the middle of the year, will compete in the market with the Costa Rican, long-lasting National Insurance Institute (INS), which has had the monopoly on insurance since 1924, offering both personal and general lines of insurance. The entry of domestic and foreign insurers to the Costa Rican insurance market expands the market by exploring the needs of new segments of the population and improving the options available for Costa Rica's insured.

This radical change in the insurance environment in Costa Rica is the result of a long process that began in 2004 when Costa Rica signed the DR-CAFTA — which required signatories to open their insurance markets. This was followed by the adoption of the Insurance Market

Regulatory Law in 2008 and corresponding regulations in 2009, which afforded the legal framework governing authorization procedures, registration and operation requirements for the insurance companies along with the creation of the General Insurance Regulator (“SUGESE”).

SUGESE operates under the supervision of the Supervisory Board of the National Financial System (CONASSIF) and is empowered to authorize, suspend, cancel, and grant licenses and administrative authorizations to insurance entities in Costa Rica under its supervision as well as to regulate insurance agents and brokers.

From the enforcement perspective, with its comprehensive administrative supervision and investigative provisions, Costa Rica’s new insurance law provides a better mechanism to prevent unauthorized insurance business. Prior to enactment of the new insurance law, violations to the old monopoly insurance law were addressed through judicial means. Now, SUGESE, in its new enforcement role, can initiate investigations against persons engaged in unauthorized insurance activities in Costa Rica.

The new law requires that insurance policies offered in Costa Rica must be previously approved by SUGESE and sold only by authorized insurance companies through licensed brokers. The law also regulates offers to the public that are made through phone calls, websites, or fax, among others. Recently, alleged violations were reported to SUGESE in connection with the sale by unlicensed brokers of insurance policies issued by insurance companies not authorized in Costa Rica, and SUGESE is gathering information relative to alleged violations, which could lead to the first of many investigations. It would appear that SUGESE intends to act as an aggressive regulator to protect the insurance markets from unauthorized participants, and with significant monetary penalties (fines up to an amount of US\$215,000) in the new law, SUGESE seems to have the necessary regulatory muscle to protect the insurance market from unauthorized participants, thus facilitating the growth of the authorized insurance market.

### **Brazil**

In the first quarter of 2010, Banco do Brasil is expected to assume control of the Brazilian Institute of Reinsurance (IRB Brasil-Re) by acquiring a 30%-50% of its voting stock. The IRB Brasil-Re was wholly owned by the Government and had held the reinsurance monopoly since 1939. On January 15, 2007, Complementary Law 126 eliminated the state insurance monopoly. Today, IRB Brazil Re is organized as an equally owned partnership between the federal government and three insurance companies.

Once the proposed acquisition transaction is completed, Banco do Brasil plans to negotiate with IRB Brasil-Re’s principal private stockholders, Itau Unibanco and Bradesco, to create joint management of the reinsurance entity and a possible partnership. This partnership would ensure the technical and professional management of the IRB and the right of a shareholder to “veto” the principal decisions of IRB Brasil-Re.

Because the majority stock of Banco do Brasil is owned by Brazil’s Treasury, the acquisition of control of IRB Brasil-Re by Banco do Brasil would not result in the immediate privatization of IRB Brasil-Re. However, at such time as the ownership participation of the Government is diluted through an increase in IRB’s capital stock and the acquisition thereof by the three private stockholders, (i.e., other than the Government), the Government would reduce its participation in IRB Brasil-Re’s — which would then become a private company.

The potential privatization of IRB Brasil-Re, in addition to the new participants in the reinsurance market, have made visible the openness of the sector for new entities willing to offer reinsurance services. Currently there are four authorized reinsurers: J. Malucelli, Mapfre, XL, and Munchener Ruck do Brasil. Brazil has some measures in place to guarantee that reinsurance business remains in the country. For example, the Brazilian reinsurance law guarantees national companies to get at least 60% of the reinsurance contracts entered into Brazil, but such percentage may be reduced by up to 40% in 2010, a sign that these measures may eventually disappear.

Brazil’s reinsurance market has great potential for growth in the next few years. The constant expansion of Petrobras and having Rio de Janeiro host the World Cup in 2014 and the Olympic Games in 2016, will undoubtedly cause investments on infrastructure projects and will likely enhance the needs for insurance and reinsurance.

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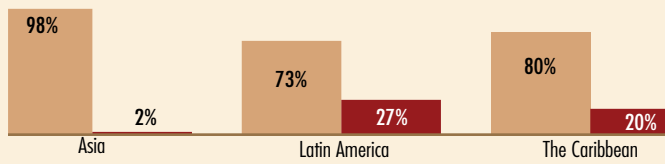
## **Global**

### **Compliance Training Programs in Asia, Latin America, and the Caribbean**

In the wake of the global recession and well-publicized misdoings, regulators around the world are stepping up rule enforcement and developing new regulations to protect consumers. Compliance issues such as fraud, improper sales practices, and money laundering are still major issues in Asia, Latin America, and the Caribbean. As insurance companies strive to adhere to government regulations, LIMRA has identified compliance training best practices that insurance companies in Asia, Latin America, and the Caribbean are embracing to educate field personnel.

Compliance training is prevalent in Asia, where 98 percent of companies participating in our recent research currently provide mandatory compliance training to their field personnel, compared with 73 percent in Latin America, and 80 percent in the Caribbean. Of the companies without compliance training, 75 percent have no plans to implement such programs in the future.

## What Percentage of Companies Have Compliance Training Programs?



### Delivering Compliance Training Programs

While most insurance companies still use traditional classroom methods, many are adopting modern training tools. For example, e-learning has become a popular training delivery method which provides just-in-time training, consistent instruction, and allows individuals to learn at their own pace. Due to the complexity of compliance training programs, an instructor may be necessary to foster interaction. Many forward-thinking companies now take advantage of blended learning, which combines e-learning with classroom instruction, to enjoy the benefits of instructor-led training and the flexibility of e-learning.

### Compliance Training Delivery

(Number of companies — columns are not exclusive)

	Instructor-Led Training	E-Learning	Blended Learning	Learning Management System	Textbooks
Asia	36	14	16	7	14
Latin America	14	12	7	3	4
Caribbean	5	0	2	0	1

Insurance companies that use instructor-led training typically employ dedicated staff to deliver effective and consistent training to field personnel. In Asia, most companies employ full-time trainers. In Latin America, many companies use their compliance managers to deliver training. In the Caribbean, however, companies commonly use both internal company trainers and home office managers to train field personnel.

### How Important Is Compliance Training?

Insurance companies are investing their resources in the promotion of compliance within their organizations using brochures, posters, and electronic displays to keep field personnel aware of the need maintain compliance. Continuing education requirements are being established to ensure that field personnel are equipped with up-to-date information to properly represent their companies. Companies are demonstrating their commitment to regulatory compliance by implementing punitive measures for failed or incomplete compliance training. Some companies simply require their field personnel to repeat the training. Other companies have more severe consequences, such as withholding commission, limiting authority, and even termination.

Because compliance training can be costly, it is important that companies evaluate the effectiveness of these training programs. Tracking competencies and behaviors is the best method to evaluate the effectiveness of a compliance training program, providing a tangible way to evaluate how field personnel are incorporating compliance training into their daily tasks. By tracking behaviors, misconduct can be identified and addressed before a minor breach becomes a major scandal. Some tracking methods include audits, written reports, annual inspections, and customer complaints.

### The Benefits of Compliance Training

Beyond the need to abide by the law, insurance companies with effective compliance programs reap direct benefits, including decreased complaints, standardized business processes, and reduced regulatory oversight. Misconduct is costly for insurance companies not only in the form of refunds, settlements, and the like, but also in terms of damage to their reputation, which may cost even more in the long run. When consumers view an insurance company's field personnel negatively they are likely to turn to another company. Insurance companies must ensure that their field personnel are not only trained to sell products, but also to do so with an awareness of the compliance requirements.

### Compliance Training Tips

- Develop blended learning training programs, which offer the benefits of instructor-led training and the flexibility of e-learning.
- Develop a method to evaluate the effectiveness of the training effort that is based on on-the-job performance.
- Engage personnel in ongoing training to achieve compliance with changing regulations in conjunction with the company's business objectives.
- Use a strategic rollout plan, refresher courses, and promotional campaigns to help keep field personnel aware of the need for compliance. Tangible reminders might include pens, magnets, and short pamphlets.
- Establish a sales monitoring team that utilizes an anonymous hotline and a complaint line.

This will help ensure that consumers understand the products they buy and are satisfied with their purchases.

It has been said that training is at the core of any successful organization, and compliance training is no exception. In today's competitive business environment, insurance companies that continually educate their sales forces are expected to grow, mature, and stay competitive.

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LIMRA and its strategic partners offer a broad range of training services to help you meet your objectives. From our industry-standard AML training program to custom course development consultation, we can help your firm meet its objectives. For more information, please contact us at 877-843-2641 or [compliance-regsvs@limra.com](mailto:compliance-regsvs@limra.com).