



The Best Interest Barista

Helping You and Your Clients Navigate Insurance Planning With Confidence

As a financial professional offering life insurance and annuities, you understand the power of matching your clients to products designed to meet their needs. Like the first time in a new coffee shop, your clients may be overwhelmed by a menu brimming with choices. This is your opportunity to step in as their insurance planning barista, educate them on what is available, and help them determine the best fit. As their barista, they rely on you to navigate the best interest regulations and to ensure the suitability of the products you recommend.

Although something as straightforward (or seemingly simple) as ordering a cup of coffee might not hold the same stakes as proper insurance planning, relying on a barista to explain options and tailor preferences is similar to how your clients depend on you. And if you are looking for somewhere to turn for guidance on how to document insurance and annuity recommendations to ensure your clients have the products suitable to meet their financial needs—let Crump help you review “the menu” so you are ready to provide simplified, transparent recommendations to your clients.



22% of life insurance owners believe they **do not have adequate coverage**,¹ and a quarter of the three **younger generations** point to a **lack of product knowledge**.²

Looking Over the Menu

Financial professionals must guide clients through available options, ensuring each recommendation aligns with the clients' best interest. To better illustrate this, let's compare ordering a coffee in an unfamiliar place to selecting a life insurance or annuity product suitable for clients' financial needs. Awareness of the common areas of confusion or hesitancy will help you take the proper steps with your clients when recommending life insurance or annuity products and ensure you meet regulations.



Understanding Preferences (Suitability Requirements)

As a barista asks about a customer's taste preferences, financial professionals must assess a client's financial goals, risk tolerance, and other relevant factors to recommend suitable products.



Explaining Options (Simplifying Jargon)

Coffee menus can be confusing, with unfamiliar terms and options. Similarly, insurance products often come with complex terminology. Financial professionals must break down these terms and explain them so clients can easily understand them.



Choosing Add-Ons (Product Options and Riders)

In a coffee shop, customers might add flavors, extra shots, or different types of milk. In the financial world, these are akin to selecting riders or additional features for an insurance policy—choices that can enhance or complicate clients' plans to match their needs.



Disclosing Costs (Source of Funds and Disclosures)

Just as a customer needs to know the cost of their coffee, clients must understand the financial implications of their insurance purchase and consider the source of funds and any fees or charges associated with the product.



In January 2024, nearly 6 in 10 Americans indulged in a specialty beverage within the past week.³



Cold brew and nitro coffees were virtually unknown in 2015; now, 1 in 5 Americans under age 40 consumes at least one every single week.³

The Types of Best Interest Regulations

Staying compliant with multiple best interest regulations covering similar topics—but including different requirements and obligations—requires financial professionals to understand many details that sometimes can be overwhelming and cause frustration. This compliance confusion can result in the need to return to clients for additional requirements and processing delays. Whether you're selling to a New York resident and need to comply with NY Regulation 187, selling an annuity in an NAIC-regulated state, or making a qualified annuity recommendation, breaking down the requirements of each best interest regulation will help you manage through these various requirements meant to protect both you and your clients.

Let's break down the key regulations in the best interest environment, helping you better guide your clients through their financial decision-making process.

New York Regulation 187 (NY Reg 187)	SEC Regulation Best Interest (Reg BI)	NAIC Suitability in Annuity Transactions Model Regulation
<ul style="list-style-type: none"> • Applies to policies delivered or issued for delivery in New York • Covered products include annuities AND life insurance, including term insurance • Effective August 1, 2019, for annuities and February 1, 2020, for life insurance 	<ul style="list-style-type: none"> • Applies to securities recommendations • Covered products include variable life and variable annuities • Effective June 30, 2020 	<ul style="list-style-type: none"> • Applies to annuity recommendations (including hybrid long term care on an annuity chassis) • Covered products: fixed, fixed indexed, variable annuities • Effective as adopted by each state (currently in 47 states)
Best Interest Requirements:		
<ul style="list-style-type: none"> • Must reflect the care, skill, prudence, and diligence that a prudent professional would use when making a recommendation • Can only consider the interests of the consumer in making a recommendation • Replacements require that consumers benefit from policy enhancements or improvements • There is a reasonable basis to believe the client can meet the policy's financial commitments 	<ul style="list-style-type: none"> • Disclosure Obligation: provide disclosures about the recommendation and the relationship with the retail customer • Care Obligation: exercise reasonable diligence, care, and skill in making the recommendation • Conflict of Interest Obligation: establish, maintain, and enforce written policies and procedures to achieve compliance 	<ul style="list-style-type: none"> • Care: Financial Professional must exercise reasonable diligence, care, and skill • Disclosure: Before recommendation, Financial Professional must complete required disclosure, Appendix A • Conflict of Interest: Financial Professional shall identify and avoid, manage, and disclose material conflicts of interest • Documentation: Record recommendation and basis for this, including Appendix B and/or C, if applicable
Unique Financial Professional Requirements:		
<ul style="list-style-type: none"> • Do not use the title or designation "financial planner," "financial advisor," or similar unless licensed or certified to do so • Must be adequately trained to make a recommendation: both one-time BI and product training • Must prominently disclose in writing any limitations on the range of products that are offered, based on captive or affiliation agreements, before making a recommendation 	<ul style="list-style-type: none"> • Must be adequately trained by completing required Reg BI training • Must provide firm's Form CRS disclosure describing the relationship between the client and the registered representative 	<ul style="list-style-type: none"> • Additional Best Interest Training if already licensed, or added to standard training for agents who are licensed after the regulation is adopted. • Additional suitability criteria to collect (need for coverage) • Must complete Appendix A for every recommendation • Completed Appendix B and/or C required as needed—most carriers will not issue coverage if used

DOL Improving Investment Advice for Workers and Retirees
<ul style="list-style-type: none"> • Applies to qualified recommendations that meet the Five-Part Test • Covered products include annuities and life insurance • Became effective February 16, 2021 • This 2021 version remains in effect after the 2024 version of the Rule was put on hold by preliminary court decisions in two cases.

Fiduciary Requirements:

Are you providing investment advice when recommending life insurance or annuities?

- Is the source of funds derived from a qualified source?
- Is the coverage held in a qualified account?

Does the recommendation meet the Five-Part Test?

The Five-Part Test, in part says a person is acting as an investment advice fiduciary when they (with respect to an IRA or Plan):

- Render advice as to the value of securities or other property or make recommendations as to the advisability of investing in, purchasing, or selling securities or other property on a regular basis.
- Renders such advice on a regular basis

Compensation:

Will sales commission be received for the recommendation?

If yes to all the above, the recommendation is prohibited and requires a Prohibited Transaction Exemption (PTE).



In a new LIMRA study, **9 in 10 financial professionals** agree that **wholesalers deliver** value-added **services beyond product** expertise.⁴

Bottom Line

Like a fancy cup of coffee, life insurance and annuity recommendations can be obscured by jargon and multiple choices—leading to consumer confusion, reluctance to ask questions, and dissatisfaction with purchases. Acting in the best interest of your clients and being the financial professional to provide clear, concise guidance—just as a skilled barista would—can ensure your clients leave the financial planning process feeling confident and satisfied with their choices.

In today's regulatory environment, financial professionals often face the challenge of balancing multiple, overlapping regulations. The key to success lies in breaking down these requirements into manageable steps to help clients make informed decisions that align with their financial goals and objectives. Crump is here to guide you on making and documenting insurance and annuity recommendations to protect your business. We are here to answer questions and explain details to understand today's best interest regulatory environment and how you can use your knowledge—with support from Crump—to provide simplified, transparent recommendations to clients.

Contributor

Joy Dawe is the Senior Vice President of Market Conduct for Crump Life Insurance Services. She joined Crump in 2008, and she and her team manage Crump's compliance and regulatory risk. She understands the importance of maintaining a culture of compliance while encouraging appropriate sales opportunities to manage regulatory, compliance, operational, and reputational risks to Crump and its partners. Joy is a member of the LIMRA/LOMA Regulatory Compliance Exchange Planning Committee and Finseca's Standards of Conduct Working Group, is registered with Crump's limited broker-dealer, P.J. Robb Variable, LLC, and currently holds a FINRA series 6 and 99.

End Notes

¹ Life Insurance Facts and Statistics 2024; Bankrate

<https://www.bankrate.com/insurance/life-insurance/life-insurance-statistics/#life-insurance-facts-and-statistics>

² 2023 Insurance Barometer Study; LIMRA

<https://www.limra.com/siteassets/research/research-abstracts/2023/2023-insurance-barometer/2023-insurance-barometer-study-report-1-rev.pdf>

³ Atlas of American Coffee; National Coffee Association USA

<https://www.ncausa.org/Newsroom/NCA-releases-Atlas-of-American-Coffee>

⁴ U.S. Wholesaler Series; LIMRA

<https://www.limra.com/en/newsroom/industry-trends/2024/limra-the-majority-of-financial-professionals-say-wholesalers-deliver-more-than-just-product-expertise/>

Contact your Crump representative to learn more about your best interest responsibilities and how we can help.



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