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From the desk of…
John Thomas
President

September 5, 2008

SEC Headquarters
100F Street, NE
Washington, DC 20549

RE: Comments on S7-14-08

To Whom It May Concern:

As someone who as worked in the independent agent market for over 30 years I would like to offer my comments on the above referenced proposed rule change. I base these comments on working with agents as a senior executive at various insurance companies including Pan American Life, John Alden Life, Continental Life, Pioneer Life, and most recently at Allianz Life Insurance Company of North America. I opened my own company over 6 years ago.

Indexed Annuities are fixed annuities that, like traditional declared rate fixed annuities, guarantee a minimum interest crediting rate and provide the opportunity to earn interest credits in excess of that guarantee. With a traditional fixed annuity, the crediting of excess interest depends upon the performance of the company's overall investment portfolio. Similarly, an indexed annuity provides the opportunity for excess interest credits based upon the measurement of an external stock or bond market index. While both products expose the consumer to fluctuating levels of annual excess interest credits, in both cases the consumer has no risk of loss or premium or prior credited interest (unless the policy is surrendered during the surrender period in which case a surrender charge may apply). The indexed product offers the consumer a strong minimum guarantee backed by the insurance company along with the opportunity to earn excess interest that is hopefully higher than traditional principal-protection products.

Both the design and sale of annuities are highly regulated by state insurance departments as are the companies who manufacture and sell them. State insurance regulations cover, among other things, suitability of insurance agent recommendations regarding annuities, annuity disclosure and advertising, agent licensing and training, unfair trade practices including misrepresentation of product terms and conditions, and enforcement actions and penalties for noncompliance with sales practices requirements. In addition, guaranteed minimum values for annuities are regulated through the Standard Nonforfeiture Law and are applicable to all fixed annuities.

The securities regulation will add little benefit to consumer protection. Many states have already adopted the NAIC Annuity Disclosure Model Regulation and most, if not all, of the major index annuity carriers have mandated the use of a disclosure statement or certificate describing all important terms and conditions of the annuity contract, including prominent disclosure of surrender charges. Many, if not all, major indexed annuity carriers conduct suitability reviews of all sales in all states. Suitability reviews required of brokers under FINRA rules would not add any meaningful protections over and above what is already being done.

The guarantees provided by an indexed annuity offer consumers significant protection against investment risk. The DJIA has suffered a decline this year in excess of 20% from its October 2007 record, yet a fixed index annuity purchaser will not lose any principal due to such market performance, unlike a consumer of an equity security or a stock mutual fund, or a variable annuity. The annuity interest crediting formula protects the owner against loss due to drops in the index over the crediting period and while the guarantees provided certainly come at a price, this is fully disclosed to the purchaser.

In my over 30 years I have experienced many instances in the industry having to self regulate. Since the changes in the distribution of insurance products over the last 20 years has all but eliminated the "agency system" I would submit that sometimes the industry is slow to regulate, but once they do and the agents understand the changes, the consumer is protected. If the proposed rule is adopted the sale of a very valuable consumer product will be vastly curtailed because a great majority of agents will not obtain the necessary licensing to sell FIA's.

Thank you for offering me the opportunity for input.

Sincerely,

John Thomas

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