

From: Matt Gannon [mailto:matt.gannon@farmersinsurance.com]
Sent: Friday, July 24, 2015 4:40 PM
To: EBSA, E-ORI - EBSA
Subject: Conflict of Interest Rule Hearing

Good afternoon -

Please accept this email as a Request to Testify at the Department's public hearing on the proposed Conflict of Interest Rule.

Thank you for your consideration of our views. We hope to speak with your panel in person at the hearing.

1. **Name of Witness** – John Mueting - Farmers Financial Solutions
2. **Organization represented** - Farmers Financial Solutions (on behalf of Farmers Insurance)
3. **Contact** – Matt Gannon, Head of Federal Affairs, Farmers Insurance – [1201 F Street NW, Suite 950, Washington, DC 20004. \(202\) 585-3122](#) – Direct. Matt.Gannon@farmersinsurance.com.
4. **Comments Submitted** - Farmers Insurance submitted a comment letter signed by John Mueting, President of Farmers Financial Solutions, dated July 21, 2015.

Testimony Outline

- I. Farmers Insurance and Farmers Financial Solutions Background
 - a. Farmers Insurance Business Overview
 - i. Insurance Products – Home, auto, small business, life.
 - ii. Exclusive Agency Structure – 14,000+ exclusive agents, small business owners
 - b. Farmers Financial Solutions (FFS) is a registered broker dealer owned by the Farmers Insurance Exchanges.
 - i. FFS was formed in **2000**.
 - ii. **5,400** FFS registered representatives of the broker-dealer
 - iii. **Approximately 24,000** Customer Accounts Opened Per Year
 - iv. **\$600,000,000** of Assets Are Invested using FFS Each Year
 - v. Currently Serves Over **200,000** Households
- II. Farmers Customers Rely on Personalized Advice from Farmers Agents
 - a. **FFS serves working class and middle income customers** that rely on their Farmers Agents as trusted advisors. Existing business relationship makes it economically possible to service smaller accounts.

b. FFS Customer Retirement Savings Stories – Farmers will present numerous stories of customers who have benefited from the personalized advice receive from Farmers agents, and would otherwise have had inadequate or no investment advice.

c. FFS Agents Cannot be Replaced by Online Services- While new and existing online investment advisory services will work for some savers, they cannot come near replacing the trusted advisor relationship present in the face-to-face contact between Farmers agents and customers.

i. In the insurance world Geico, Progressive and other direct insurers work for some customers, but oftentimes the lack of agent expertise leaves insurance customers with coverage that is not in their best interest. This would also be the case with retirement investors, with one major difference – online advisory services don't have the mandatory coverage requirement that exists with auto insurance.

ii. Therefore, only the most proactive savers would ever visit online advisers. Once there, they still must navigate the investment world without personalized advice.

iii. This solution still does nothing for the millions, likely the majority of older Americans closer to retirement age, who will never trust a web service or 800-number as a trusted adviser for their retirement security.

III. Farmers Customers Best Interests are already aligned with Farmers Agents Best Interest.

a. The FFS model stands out among other broker-dealers, and even some other property casualty insurers, because of our blended compensation structure and our variety of retirement products offered.

b. The vast **majority of agent compensation is from insurance products**, not retirement products. Primary incentive of FFS products is customer satisfaction and loyalty. The opposite will occur with a bad investment product, resulting in the agent losing all business from a customer.

c. **FFS offers a variety of investment products** and has selling agreements with well-known mutual fund families including American Funds, BlackRock, AXA, Franklin Templeton, ING and Oppenheimer. Farmers agents are not beholden to a small menu of investment products. By serving our customers with these diverse investment options we are better able to provide objective advice and meet our customers' needs as compared to other financial advisors.

IV. Farmers supports a Best Interest Standard, but we are concerned with the Unintended Consequences of the Current DOL Rule.

V. The current DOL proposal is well-intended but it will not work. If unchanged, it will actually reduce consumer access to personalized advice

VI. Farmers Recommended Changes to Conflict of Interest Rule

a. **Clarify Distinction between Education and Advice** - The final rule should clarify that general investment education and distribution advice does not give rise to a fiduciary status. Only when advice leads to a financial transaction should fiduciary status be assigned to the adviser.

b. **Amend the Best Interest Contract Exemption (BICE) to Allow Workable Advisory Model, including:**

i. **Clarify how BICE applies to existing customers**– Duplicative or confusing disclosures could serve to undermine the trust existing customers have in their Farmers agent. A sensible transition process must be allowed, either by a grandfather clause or an addendum to existing disclosures.

ii. **Fix the timing of the BICE contract** to be entered at the point of a financial transaction, and not during the education and advice phase.

iii. **Allow for Unilateral Contract to the BICE**, either by the adviser or the broker-dealer.

iv. **Harmonize with Financial Regulations** and existing securities law to ensure a coordinated uniform standard when and if the SEC and/or FINRA move forward. Harmonization would only be adequate if it addresses enforcement of the BICE, compensation and fee disclosures, as well as performance projections.

v. **Remove private right of action** to reduce the high risk of frivolous litigation.

c. **Provide a Disclosure Based Exemption for Advisers that Act in Best Interest** - The rule should provide a clear disclosure-based exemption from prohibited transaction rules based on the principle that an adviser is required to act in the client's best interest. This exemption could also give weight to the product diversity offered by advisers and to the share of their overall compensation derived from retirement investments.

Matt Gannon

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