



March 12, 2019

Vanessa Countryman, Acting Secretary
Securities and Exchange Commission
100 F Street, NE Washington, DC 20549-1090

Dear Secretary Countryman,

In this letter, Donnelley Financial Solutions (DFIN) responds to the Commission's Request for Comment on Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts, File Number S7-23-18. We support Commission efforts to enhance the disclosure framework in order to improve investment decisions regarding variable annuity and variable life insurance contracts. We believe DFIN's 30-year experience in innovation related to SEC disclosure creation, distribution, and our decades of service to the variable products industry qualifies us to comment on innovations in summary disclosure that leverage technology to improve the next generation of disclosures.

Background on DFIN: With the right solutions in moments that matter, DFIN delivers risk and compliance solutions that fuse deep industry experience, unparalleled service, and elegant technologies to provide our clients with insights that power their decisions and shape global markets. The company has 3,100 employees in 59 locations across 17 countries, serving thousands of clients globally.

DFIN is the largest regulatory filer in the US, and has developed one of the largest industry customer databases for modern taxonomies for registered funds. We are a leading provider of compliance communication solutions for the retirement income industry serving insurers, asset managers, broker-dealer/distributors and financial professionals. We have learned that automation and data aggregation allows for significant gains in regulatory efficiency.

SEC's stated purpose of disclosure: The Commission's objective with this Request for Comment is to build upon innovations in summary disclosure, in order

to improve investors' use of the prospectus and make informed financial decisions. The Commission is committed to gain insights from retail investors and industry participants to make disclosure regulation more efficient, effective and appropriately tailored. The Commission is committed to understand investor behavior of current and next-generation investors, and to consider technologies that support communications that go beyond e-mail and pdf attachments.

Recent changes: In the past few years, there has been a significant industry-wide shift in that digital technology now enables multi-channel layered disclosure. In terms of how this industry discloses financial information, the future will include an evolution of content from documents to data. This is a trend that started with the e-Delivery Interpretive Releases of 1995 to 2000, evolved towards layered disclosure with the 2005 Notice and Access Rule, followed by the Mutual Fund Summary Prospectus Rule of 2009, and the e-Delivery Rule 30e-3. Today, the proposed Rule 498A continues this trajectory.

We support the Commission's efforts to build upon these positive lessons and, at the same time, consider a wider range of communication channels to digitize information and make disclosure more accessible in the future.

DFIN's Comment Letter focuses on 3 recommendations in response to Director Dalia Blass's request for improvements to "future-proof" the proposal:

1. **Implement Prospectus Format Transition Period:** To be consistent with rule 30e-3, there should be a two-year transition period when annuitants should be notified that the variable annuity prospectus will transition from statutory to summary format. During that time, they will be able to choose perpetual print delivery of variable annuity prospectuses in summary or statutory form. After the two-year period, annuitants will receive the Initial and Updating Summary Prospectus as proposed in 498A.
2. **Transparency into Investor Holdings:** The Updating Summary Prospectus should include a list of the individual investor's holdings, so the annuitant can compare their active holdings with alternative underlying funds available in the contract.
3. **Mobile App Disclosure Development:** Rule 498A should allow for use of apps to deliver variable annuity and variable life prospectus data, amend existing relevant rules and add language to 498A that would encourage development of flexible disclosure designs for documents, that can be viewed on mobile devices and tablets.

Implement Prospectus Format Transition Period

The Commission should establish a two-year migration period for adoption of Summary Variable Annuity prospectuses that encourages investors to accept replacement of the statutory with the Summary Prospectus, and to promote online delivery in place of print. During this period, annuitants should be notified that the variable annuity prospectus will transition from statutory to summary format, and during that time, they will be able to choose perpetual print delivery of variable annuity prospectuses in summary or statutory form. After the two-year period, if annuitants have not elected to receive perpetual print, they will receive the Updating Summary Prospectus as proposed in 498A. As a result, expense burdens of printing and mailing statutory prospectuses will be reduced, and adoption of layered disclosure and online delivery of content will be encouraged.

Early Commission initiatives beginning in October 1995 encouraged e-Delivery, and since then, many insights into investor behavior have been determined. Providing notice to investors about an issuer's intent to change from print to electronic delivery, determining internet access, and offering the choice to move the default from print to online delivery has prompted a majority of American investors to consent to e-Delivery today.

However, when we consider annuitants as a subset of the investing public, only 15 percent of variable contract prospectuses and portfolio company summary prospectuses today are delivered electronically.¹ Given that the average age of an annuity investor is 70², and 34 percent of this group do not use the internet³, it makes sense to implement 498A with a two-year notice period similar to that of 30e-3. This would offer annuitants the choice of receiving print perpetually instead of forcing them to switch without notice. We believe that this notice period allows annuitants time to accept the change.

Transparency into Investor Holdings

The Updating Summary Prospectus should include a list of the individual investor's holdings so the annuitant can compare key information of their active holdings to alternative underlying funds available in the contract. Adding the existing portfolio holdings list is consistent with the Commission's expressed purpose of the Summary Prospectus as stated in the proposed rule: "This disclosure is intended to remind investors of one of the most important decisions

¹ Proposed Rule 498A ,III (B) (2)

² Ibid, III (B) (1)

³ Internet/Broadband Fact Sheet, Pew Research Center (Feb.5, 2018), <http://www.pewinternet.org/fact-sheet/internet-broadband/>

they face during the life cycle of a contract — that is, whether and where to allocate additional purchase payments and reallocate contract value among the portfolio companies or investment options available to them.”⁴ The Commission also states: “Additionally, the Updating Summary Prospectus would include certain of the information required in the Initial Summary Prospectus that we consider most relevant to investors when making additional investment decisions or otherwise monitoring their contract.”⁵ We believe providing a personalized list of active holdings is the best way to meet these SEC objectives.

Today, technology exists to cost-effectively add this personalized information to each Updating Summary Prospectus that will enable investors to assess and allocate payments among the available underlying fund options. Over the past decade, DFIN developed technology to customize delivery of underlying fund prospectuses so that investors only receive prospectuses for portfolio companies to which they have allocated payments. This existing technology can be modified to provide lists of individual investor holdings in the Updating Summary Prospectus. Given that approximately 15 percent of contract owners have consented to e-delivery⁶, our technology can incorporate these personalized lists for online, print, app or electronic delivery of the Updating Summary Prospectus. In response to the Commission’s question: “Is it appropriate to permit the Updating Summary Prospectus to include multiple contracts under the statutory prospectus to which the Updating Summary Prospectus relates? Would this approach promote operational efficiency?”⁷, we believe including the list of active holdings in the Updating Summary Prospectus would facilitate consolidation of multiple contracts in one Updating Summary Prospectus because it would focus the investor’s attention on a subset of holdings as opposed to the entire set of possible choices. We agree with the Commission’s position on the advantages and disadvantages of aggregating content in the Summary Prospectuses. For the Updating Summary Prospectus, “...we believe permitting registrants to combine multiple contracts would not cause investor confusion in the same way that combining disclosure about multiple contracts in the initial summary prospectus might.”⁸ “Aggregating disclosures for multiple contracts [...] can hinder investors from distinguishing between contract features and options that apply to them and those that do not.”⁹ In 2017, the average number available underlying funds in a

⁴Proposed Rule 498A (II)(A)(2)(c)

⁵ Ibid (II) (A)(2)(a)

⁶ Ibid (III) (B) (2)

⁷ Ibid (II)(A)(1)(b)

⁸ Ibid (II) (A)(2)(b)

⁹ Ibid (II) (A) (1) (b).

variable contract were 59 choices¹⁰. Multiplying this number by the number of contracts in a consolidated Updating Summary Prospectus would create a daunting fund list in which all funds appear the same way. By including the active holdings, the annuitant can clearly focus on the current position. Investors' account values change depending on performance or these investment options selected, so we propose that a list of existing allocated portfolios be included in single and multiple contract Updating Summary Prospectuses.

We also propose that the active holdings list should be included in the Updating Summary Prospectus between the key information table and the section entitled APPENDIX: Portfolio Companies Available under the Contract as appears in the proposed Hypothetical Updating Summary Prospectus.¹¹ This will encourage investors to compare performance of existing holdings to other investment choices in the contract. In the proposed rule, the Commission cites that individuals are generally able to make more efficient decisions when they have comparative information that allows them to assess relevant trade-offs.¹² Locating the existing allocation list “side-by-side” with the complete list of available investment choices will allow annuitants to compare performances and make decisions that better align with their goals. Since variable contracts generally offer exchange privileges that permit annuitants to reallocate investments from one underlying portfolio to another, it is critical that the list of existing allocations be located adjacent to the complete list of all underlying portfolios. This will facilitate performance comparison and effective reallocation.

The cost for adding the existing holdings list will be minimal and represents a good investment. The Commission estimates that printing and mailing expenses for a typical statutory prospectus total \$0.53, and estimates these costs for the Initial and Updating Summary Prospectus would be approximately \$0.35 or a 34 percent savings. Although this new figure does not include costs associated with adding the list of existing portfolio holdings, in the overall analysis, the costs of

¹⁰ IRI Fact Book (2018), page 170

¹¹ Proposed Rule 498A APPENBIX B

¹² Ibid (III) (C) (1) Hsee C.K., Loewenstein G.F., Blount S, Bazerman M.H., *Preference reversals between joint and separate evaluations of options: a review and theoretical analysis*, 125 *Psychological Bulletin* 576–90 (1999); see also Kling J.R., Mullainathan S., Shafir E., Vermeulen L.C., Wrobel M.V., *Comparison friction: experimental evidence from Medicare drug plans*, 127 *Quarterly Journal of Economics* 199–235 (2012). In a randomized field experiment, some senior citizens choosing between Medicare drug plans were randomly selected to receive a letter with personalized, standardized, comparative cost information. Plan switching was 28% in the intervention group, but only 17% in the comparison group, and the intervention caused an average decline in predicted consumer cost of about \$100 a year among letter recipients.

data analysis and production of personalized documents would be negligible and far outweighed by improved decision making by investors.

Mobile App Disclosure Development

Encouraging development of presenting data on mobile devices and tablets is the next wave of flexible disclosure designs. The Commission has proposed Rule 498A at a time when people spend nine times more time on apps than websites, especially millennials. Today, mobile usage outweighs desktop usage, and millennials are poised to be that largest, most influential demographic in nearly every industry. The Commission is keenly aware of this trend and in the rule, asks: “Should we offer registrants greater flexibility to design Summary Prospectuses that can be viewed on mobile devices, are interactive, have video features, or otherwise make use of technology and research about effective disclosure methods?”¹³ We support the Commission’s initiatives that encourage registrants to develop flexible disclosure designs that are interactive and present data on mobile devices and tablets.

DFIN is the largest filer in the U.S., so we’re in tune with stakeholder needs and what makes their lives easier. An emailed PDF may not meet every investor’s expectations, and traditional e-delivery is not the only way to go. Apps and text messaging present the logical next alternatives to e-mail with PDF attachments that require maintaining e-Delivery consent databases. Convenience, ease of use, and reduced cost are key benefits as to why apps are best-suited disclosure channels for initial adoption and Updating use.

A large body of research shows the growth in active investor use of smartphones and financial apps. 63 percent of smartphone users have at least one financial app, and in Q2 2018, global app downloads and consumer spend hit a new record with over 28.4 billion app downloads globally across iOS and Google Play in the quarter, up 15 percent year over year. Consumers entrust their money to app use; they spent more money in apps than any quarter before at \$18.5 billion— this represents a growth rate of over 20 percent year over year.¹⁴ 64 percent of millennials and 59 percent for Gen Xers said they have at least one full-service banking app on their phone. This adoption of investing apps by people between the ages of 18 and 34 supports the DFIN strategy. The survey found that 31 percent say they have at least one investing app on their phone.¹⁵ We believe apps are the future framework for disclosure data.

¹³ Proposed rule 498A (II) (A)(2)(d)

¹⁴ <https://www.appannie.com/en/insights/market-data/global-app-downloads-grew-15-and-consumer-spend-20-in-q2-2018-versus-a-year-ago>

¹⁵ <https://www.bankrate.com/personal-finance/smart-money/americans-and-financial-apps-survey-0218/>

In the rule, the Commission asks: “How do we encourage insurers to make further use of innovative technology to enable more interactive, user-friendly Summary Prospectus disclosure, while still creating a short, easy-to-read document that includes the proposed content?”¹⁶ The Commission should amend language in existing rules that precludes apps as a disclosure delivery channel, and add language to 498A that specifically supports apps for delivery of content related to prospectus data for variable annuity and variable life contracts.

A modern app-based fund disclosure solution is the best technology to provide investors with streamlined, user-friendly technology that should include layered presentation, audio/visual capabilities, dynamic charting (barcodes have a wide range of functions and recent data shows 34 percent of U.S. smartphone users have scanned QR codes¹⁷), “roll-over” definition of terms that promote financial literacy, and features that meet the needs of Americans with disabilities (10.4 percent of Americans have vision challenges and 15.4 percent have hearing problems, yet 72 percent of adults with disabilities own a smartphone, and 70 percent use their smartphone to access mobile apps¹⁸).

Closing

We appreciate the Commission’s commitment to work with investors and industry participants to improve the investor experience with better disclosures. Rule 498A is a “forward-focused” proposal, and we hope our recommendations are consistent with your vision. Thank you for the opportunity to comment, and we are eager to continue discussions about how DFIN can contribute to the Commission’s objective for an improved Summary Prospectus for Variable Annuity and Variable Life Contracts.

Sincerely,



Eric J. Johnson
President, Global Investment Markets
DFIN

¹⁶ Proposed rule 498A (II) (A)(4)(f)

¹⁷ <https://www.forbes.com/sites/paularmstrongtech/2017/09/22/apple-just-made-qr-codes-a-must-have-for-your-strategy/#66e0953c50dd>

¹⁸ <https://www.disabled-world.com/disability/statistics/cbfff.php>