life annuity specialist

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Experts Warn of Damage to Transamerica Brand After SEC Action

By Warren S. Hersch August 29, 2018

The Transamerica Pyramid

Transamerica's latest misstep is the latest in a months-long series of announcements that threaten to tarnish the insurer. What's important now are the company's next moves, brand consultants say.

On Monday, the Securities and Exchange Commission said affiliates of Baltimore-based **Aegon USA** — Transamerica's corporate parent and a subsidiary of the Dutch insurance giant Aegon N.V. — will have to shell out more than $97 million because of faulty investment models used in variable annuity and life insurance contracts, among others.

Transamerica has also faced scrutiny over the past year for lawsuits by policyholders stemming from cost of insurance increases, an outsourcing of its workforce, and fines imposed on the carrier by New York's regulator. Failing to take action to counter bad headlines could lead to depressed sales and challenges acquiring and retaining customers, the consultants warn.

"Incidents like this do matter, particular a string of incidents in the insurance business, where trust is paramount and mistrust is already rampant," said **Michael Khoury**, strategy director at Landor, a brand consulting and design firm. "It all adds up to eroding the brand value over time. That erosion can also happen quickly."

Dealing with the Fallout

The SEC claims that Transamerica relied on faulty, untested investment models designed by an unqualified analyst. The 15 affected products also include mutual funds and separately managed accounts, **according** to the regulator. The settlement is made up of more than $36 million in civil penalties, as well as disgorgement and interest.

“While the models at issue are no longer in use, we recognize we must do better, and we have taken steps to enhance our policies, procedures and disclosure processes,” says a Transamerica spokesperson in a statement. “We remain confident in our investment process and are committed to continuously improving our business.”

Michael Khoury, strategy director at Landor.

Companies with wounded brands need to “take corrective action immediately and decisively,” Khoury says. Messages, campaigns and ads will only take a company so far, according to Khoury.

“It’s really about real actions and behaviors to demonstrate that you’re doing things differently,” he says. “That’s what’s going to move the needle in times like these.”

In fact, “the best thing a life insurer can do is to reiterate their values stance, code of ethics, and approach with their customers in a statement,” says **LaKisha Greenwade**, a strategic brand manager at **Lucki Fit**. “The company should also begin an internal review, she adds.

“Never take the approach to sweep heavy accusations or lawsuits under the rug,” she says. “The company's reputation is at stake and this matters even more when doing business with families led by Millennials and Gen Z."

A String of Bad News

The SEC fine follows a settlement that Transamerica and **Aflac** concluded last month with **New York’s Department of Financial Services**, which slapped an aggregate $2.5 million fine on the two insurers.

The violations — including substandard training of agents and failures to make disclosures in life insurance ads — resulted in Transamerica Financial Life Insurance making restitution of $582,000 to New York policyholders and paying a civil penalty of $763,000.

Last June, Transamerica was sued for dramatically hiking premiums on universal life policies by 47% to 58% in August 2017 as well as increasing rates for some policies multiple times, allegedly resulting in an aggregate 169% increase.

This action followed the disclosure in September in 2017 that a federal jury awarded $5.6 million in damages to an investment group that purchased Transamerica life insurance policies on behalf of 2,000-plus churchgoers. The lawsuit claimed that Transamerica used race-based data when it raised rates by 50% in 2013.

LaKisha Greenwade, a strategic brand manager at Lucki Fit.

Last March, Transamerica also announced plans to outsource 2,200 jobs to **Tata Consultancy Services** to secure cost savings and efficiencies. The insurer subsequently reported that most of the affected employees received and accepted new positions at Tata.

But Transamerica's association with the outsourcing firm could prove nettlesome for the carrier. Tata Consultancy's India-based parent, **Tata Group**, has had its own issues since 2017 regarding alleged mismanagement and, as the *Financial Times* reported on Aug. 5, is currently the focus of investigations involving bribery.

Lack of Transparency

In the latest incident, the SEC released Monday an administrative and “cease-and-desist” order stating that Transamerica affiliates in the U.S. built out “volatility guidelines” or “volatility overlays” to portfolios “without disclosing to investors” that the overlays “would control and determine the portfolios’ asset allocations." The units include AEGON USA Investment Management, its affiliated investment advisor, Transamerica Asset Management, Transamerica Financial Advisors and its affiliated broker-dealer, Transamerica Capital.

Transamerica fund trustees were also apparently kept in the dark about the practice, the regulator claims. Because of the flawed models, the portfolios’ equity market exposure could in certain circumstances “fall below stated target percentages,” generating less-than-expected investment returns.

The Transamerica investment affiliates didn't take reasonable steps to check the accuracy of the volatility overlays, the commission states in the order, referring to two investment companies.

Debra Russell, a certified business coach.

The offerings scrutinized by the commission included “AAA Conservative” and "AAA Moderate Growth” portfolios and strategies, as well as others that had conservative, moderate and growth-oriented asset allocations, according to the commission.

The SEC started to probe the firms in 2016, finding several legal violations of securities laws in a four-year period starting in July 2011. The Transamerica affiliates allegedly added the flawed models to products without conducting due diligence on whether the portfolios would work as planned, the regulator charged.

When a Transamerica affiliate did test the models in 2013, it discovered more than 50 errors within the quantitative models. The breaches encompassed "incorrect calculations, inconsistent formulas, and the use of whole numbers where percentages were intended (such as 1.77 instead of 1.77%)," the commission wrote.

The Transamerica affiliates ended the use of the models in March 2014 once Aegon staff became fully aware of the breakdowns, according to the order.

Top Execs Flagged by the SEC

As part of the SEC's complaint, the regulator issued orders against **Bradley Beman**, Aegon USA's ex-global chief investment officer, and **Kevin Giles**, the company's former director of new initiatives. Beman was ordered to pay a civil penalty of $65,000, and Giles a total of $25,000, according to the regulator.

"They need to figure out what in their structure allowed these mistakes to happen, and close those gaps, whether it's a training gap or due diligence gap," says **Debra Russell**, a certified business coach, who also suggested bringing in an external auditor.

She says bad headlines need to be taken seriously, and that Transamerica needs a strategy to reach out to people on social media. They should "walk a tightrope," responding with transparency to the problems and taking responsibility while looking forward.

Negative publicity "is hugely a problem because in today's world, a prospect is going to research companies and look for bad news," she says. "It should be a huge concern for Transamerica."