

# The Strength of Our Due Diligence

## Morgan Stanley's Insurance Company Review Process

At Morgan Stanley, we recognize that preserving your trust is critical to our success. Therefore, we are committed to providing a comprehensive suite of quality insurance and annuity products that can help meet diverse investor needs.

### Overview

The products available at the firm are offered by insurance companies which receive ongoing monitoring through our due diligence process.

The Investment Solutions Annuity and Insurance Product teams review, approve and monitor all companies whose annuity and insurance products are offered by the firm.<sup>1</sup> The teams use information from several sources to assess the overall financial health of insurance and annuity companies:

- Analytical reports and other services from ALIRT Insurance Research, LLC
- Financial strength and credit ratings from four independent public rating sources and other internal financial resources: A.M. Best Company, Standard & Poor's, Moody's Investor Service and Fitch, Inc.
- Various financial periodicals to assess insurance companies' business platform, reputational and industry risks.

### The Review Process

All insurance companies must pass an initial review and approval and submit to ongoing monitoring in order to remain an approved provider at Morgan Stanley.

**INITIAL REVIEW AND APPROVAL.** Our review and approval process includes:

- An understanding of the insurance company's ownership structure, which may include stock, and private equity structures. We also consult with internal firm financial resources as well as utilize independent public rating sources.

- A detailed review by ALIRT (See Analysis of Insurance Company Risk).
- An on-site visit to the insurance company's home office and operations area. Although ALIRT conducts their own on-site visits with insurance companies, a firm visit gives the Annuity and Insurance product analyst an opportunity to meet with company officials and view the company's operations. In addition, the analyst can use the on-site visit to review how the insurance company will interact with the firm to address any outstanding issues or concerns raised throughout the analysis.
- Review and approval by the members of the firm's Annuity and Insurance Product Due Diligence Committee.

**ONGOING MONITORING.** In order to remain an approved company at the firm, internal and external resources are utilized to continuously monitor the financial condition of the insurance company. As part of this process, insurance companies must do the following:

- Maintain financial ratings from ALIRT and the independent rating agencies that are satisfactory to the Investment Solutions Annuity and Insurance Product teams.
- Report any changes to their ownership structure due to mergers and acquisitions or other reasons.
- Submit to ongoing monitoring by ALIRT.
- Submit to ongoing review by our Due Diligence analysts and product managers.

## Product Due Diligence

In addition to a review of the insurance company, the Annuity and Insurance Product teams also evaluate the individual insurance and annuity products offered at the firm.<sup>1</sup> The product review process includes:

- An examination of the contract, illustrations, prospectus, riders and all materials that promote the product to determine if all aspects of the product and its features are clearly disclosed.
- A comparison of the product with products currently offered.
- A review of the product's design with a focus on cost and suitability.

**PRODUCT ENHANCEMENTS/NEW RIDERS.** When a new feature is added to a product that is already available for sale, a product analyst assesses the feature according to established guidelines. In cases where the insurance company intends to offer one or more similar features, the product analyst conducts a cost-benefit analysis to determine whether each feature offers a particular advantage over the other for certain investors.

The Investment Solutions Annuity and Insurance Product teams approve all new insurance and annuity products and underlying features before they are made available to investors.

Morgan Stanley is an industry leader in the distribution of insurance and annuity products. We offer products with competitive features designed by some of the industry's most financially sound and most respected issuing insurance companies. When you discuss an insurance or annuity product with your Financial Advisor, you can be sure that it has undergone a careful review process and is compliant with both firm and industry standards.

## Analysis of Insurance Company Risk

The Annuity and Insurance Product teams utilize the services of ALIRT Insurance Research, LLC to help them evaluate the financial strength of insurance companies.

<sup>1</sup> Morgan Stanley offers insurance and annuity products in conjunction with its licensed agency affiliates.

ALIRT Service is a comprehensive, customized due diligence service designed to monitor the financial performance, quality and stability of insurance companies including their ability to remain solvent in the future. Through historical comparative analysis, rating agency biases and benchmark ranges, ALIRT organizes insurance companies into four tiers of risk. The tiers represent a synthesis of the leading indicators of insurance company financial performance:

- Tier I – Investment Risk
- Tier II – Operational Risk
- Tier III – Financial Risk
- Tier IV – Credit Ratings and Size ALIRT credit ratings are based on both quantitative and qualitative information and objective qualitative aspects such as events, uniqueness or macro level industry trends.

## The Annuity and Insurance Product Due Diligence Committee

**Committee.** This independent committee is composed of seven voting members who are senior leaders from cross the firm as well as nonvoting members who serve as advisors. The Committee's role is to review annuity and insurance company issues relating to credit quality, creditworthiness and risk.

## What You Need to Know



Due diligence has evolved into a "point-in-time" consideration that policyholders need to periodically review for a number of reasons including:

- More frequent changes in the insurance companies' financial strength and credit ratings from the independent public rating sources, and
- Ownership changes of insurance companies due to mergers and acquisitions or other reasons.

Just as you would diversify your overall portfolio among different types of investments, diversification among different insurance companies may make sense when allocation to any one insurance company represents a significant percentage of your portfolio.

Contact your Morgan Stanley Financial Advisor for more information.