Nationwide Life fined $8 million for pricing violations

By Editorial Staff *Thu, May 14, 2015*

'For more than a 15-year period, Nationwide intentionally delayed the delivery of untracked mail containing orders from customers and processed them at the next day's prices in violation of the law,' an SEC official said.

The Securities and Exchange Commission today charged Nationwide Life Insurance Company with routinely violating pricing rules in its daily processing of purchase and redemption orders for variable insurance contracts and underlying mutual funds.

Nationwide agreed to settle the charges and pay an $8 million penalty.

Pricing rules for mutual fund shares require an investment company to compute the value of its shares at least once daily at a specific time set by its board of directors and disclosed to investors. According to the SEC's order instituting a settled administrative proceeding, Nationwide's prospectuses stated that mutual fund orders received before 4 p.m. at its home office in Columbus, Ohio, would receive the current day's price. Orders received after 4 p.m. would receive the next day's price.

An SEC investigation found that when regular postage mail became available for retrieval early each morning from its P.O. boxes, Nationwide arranged for the pickup and delivery of mail directed to other business units but intentionally delayed the retrieval of mail related to its variable contracts business.

Therefore, in spite of receiving customer orders and other variable contract mail in its P.O. boxes at least several hours before the 4 p.m. cut-off time, Nationwide sought to avoid its requirement to process the orders contained in this mail using the current day's price by ensuring this mail wasn't delivered to its offices until after 4 p.m.

Meanwhile, Nationwide did arrange for prompt pickup and delivery of U.S. Postal Service Priority Mail or Priority Express Mail that enabled contract owners to track an order's time of delivery to the P.O. boxes. Those orders were assigned the current day's price.

"For more than a 15-year period, Nationwide intentionally delayed the delivery of untracked mail containing orders from customers and processed them at the next day's prices in violation of the law," said Sharon B. Binger, Director of the SEC's Philadelphia Regional Office.

The SEC's order finds that Nationwide instructed the post office to divide mail directed to the P.O. Box for its variable contract business from mail directed to P.O. boxes for other lines of business, and to maintain it in separate areas of the post office loading dock.

Nationwide typically hired a private courier to collect and deliver the mail from the loading dock to its offices. Nationwide arranged for its courier to travel to the post office at 3 a.m., 5 a.m., and 7 a.m. each business day to retrieve mail for the other lines of business, but specifically instructed the courier not to retrieve variable contract mail at these times.

Nationwide instead instructed the courier to deliver variable contract mail no earlier than 4:01 p.m. in order to deem it received when it arrived "in the building." If the courier arrived in Nationwide's parking lot before 4 p.m., the instructions were to wait until 4:01 p.m. to enter the building.

Therefore, some couriers intentionally delayed their arrival time at Nationwide by stopping to purchase meals or fuel. By contrast, priority mail related to the variable contract business was promptly retrieved by the courier and processed by Nationwide before 4 p.m. for pricing at the current day's price.

The SEC's order further finds that Nationwide employees complained to post office staff when portions of the variable contract mail were inadvertently mixed together with the other mail and therefore delivered to Nationwide's offices before 4 p.m. After one such incident, Nationwide requested a meeting with the post office and stressed that it needed "late delivery" of variable contract mail "due to regulations that require Nationwide to process any mail received by 4 p.m. the same day."

Nationwide consented to the entry of the SEC's order finding that the firm willfully violated Rule 22c-1 under the Investment Company Act of 1940. Nationwide neither admits nor denies the findings, and must cease and desist from committing future violations of the rule and pay the $8 million penalty.