

## Annuity exam overload could prompt product pruning

Extra training burden for advisers may limit customer choice and hit smaller insurers hardest

**By Darla Mercado**

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Facing a battery of new, more stringent state-required annuity exams and courses that could pile on hours of additional training for each product they sell, financial advisers could prune the number of carriers they work with and thereby the number of options available to clients.

Thus far, nine states have adopted the National Association of Insurance Commissioners' annuity suitability model, with compliance dates through 2011. Iowa in January became the first state to adopt the rule, with Colorado following April 1 and Wisconsin on May 1. Rhode Island, Washington, New York, Oregon and Ohio all have compliance dates this summer. South Carolina will join at the end of September. Eventually, all states are expected to comply.


The regulatory framework applies suitability standards to fixed and variable annuities, makes insurers responsible for ensuring that annuity transactions are suitable and requires brokers to take a one-time general annuity course, plus specific training on each type of annuity they sell.

The extra training burden will vary from adviser to adviser, based on how many products they sell, their complexity and the particular insurers with which they work. A single product-specific training course from Prudential Financial Inc. can take about an hour, said a spokeswoman. This would be on top of a four-hour general annuity course, which is done online and entails clicking through as many as 200 screens. Training methods can vary greatly from insurer to insurer, too.

Advisers who fail to complete the training or provide an insurer with proof of having passed an exam can have their annuity applications returned to them by the carrier if they try to sell an annuity in a state where the regulation is in effect, broker-dealer executives said.

To lighten their load, advisers are most apt to consolidate their business with annuity

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juggernauts such as Prudential, MetLife Inc. and Jackson National Life Insurance Co., so smaller players could be overlooked.

“Instead of meeting educational requirements for all, advisers might stick to the ones they count on as core partners,” said Tyler Denholm, a senior analyst at ValMark Securities Inc. “When we track production, we look at the carriers we’re doing business with, and now you’re seeing concentration.”

“Advisers are going to take the path of least resistance,” said Kraig Lange, first vice president and manager of Stifel Nicolaus & Co. Inc.’s insurance department.

Jim Mumford, Iowa’s first deputy insurance commissioner, said he thinks the burden of extra testing will cut down on products producers have to offer, though he has no proof of that happening yet. He hasn’t heard much complaining from producers or carriers since the rule was put in place in January, but it could be too early.

“I’m comfortable with about a half-dozen carriers, but maybe my half-dozen will have to be cut, depending on the requirements,” said Mitchell Kauffman, an adviser at Kauffman Wealth Services, an affiliate of Raymond James Financial Services Inc.

In limiting their list of carriers, advisers inadvertently could keep the best products out of clients’ reach, especially as annuities become more tailored to specific uses.

“Carriers are creating niche products that fit certain clients and situations,” said Zachary Parker, senior annuities and insurance consultant at Securities America Inc. “The worry is that you won’t seek those niche solutions out for the client, because you don’t want to do the additional training.”

“You have small companies that offer annuities, but they might not be used as often if someone doesn’t go through the training,” said Thomas M. Fross, partner at Fross & Fross Financial LLC. Though Mr. Fross said he’ll probably continue with the same number of carriers and products, he can see advisers’ cutting back because of the extra work.

The regulation is a “double-edged sword” for emerging annuity players who are trying to raise their presence on distributors’ platforms, said Eva Robertson, vice president of investor relations at Protective Life Corp. The insurer came in 18th place among variable annuity sellers in 2010, according to data from LIMRA.

“If you’re out [of the platform] and trying to get in, it’s bad news,” she said. “But if you’re in and want more shelf space, it’s good news.”

Since the NAIC’s model law aims for reciprocity between states for the general annuity exams, financial advisers ideally will have to worry about meeting that requirement only once, as opposed to taking the exam for each of the states in which they do business.

But Mr. Mumford said he has heard of states’ mandating that reps take their state’s approved training despite passing the four-hour general training in another jurisdiction.

“That’s not how we drafted it. The way it was envisioned was that if you did the four-hour

training, all states should OK it," he said.

There are also some carriers that are requiring agents to undergo training in every state.

"They like their standards to be a little higher; it gives the company a lot of comfort from litigation if they raise the standard to make sure the training's done," Mr. Mumford added.

"When each state acts like a silo, then it's a lot tougher for me," said Mr. Kauffman.


Advisers will have to retake the tests when the annuities they sell under go "significant" changes. What regulators deem to be "significant" hasn't been spelled out in the rule yet, though insurers have told broker-dealer executives they would include adjustments to living-benefit and death benefit features.

For now, some broker-dealers, including Commonwealth Financial Network, have been notifying advisers of the impending regulatory rollout and its requirements, but firms know that as more states put the rule into effect, the worst of the impact is still ahead for many reps.

"Wisconsin is going to be the biggest deal; we have a significant adviser base there," Mr. Lange said.


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