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COMPLIANCE & ETHICS FORUM FOR LIFE INSURERS

Producer Licensing and Appointment

CEFLI Compliance Fundamentals Training Conference

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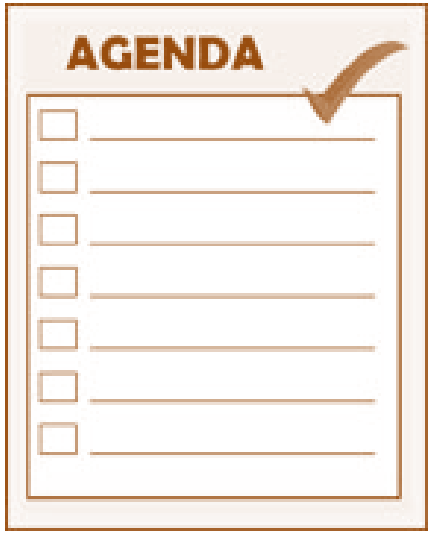
Overview:



- The NAIC Producer Licensing Model
- Contracting vs. Licensing vs. Appointment vs. Registration
- Licensing Considerations
- Appointment Considerations
- Training and CE Considerations
- Market Conduct Examinations

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NAIC Producer Licensing Model Act

- The Act, created in 1988 (and amended since) covers
  - **Required Licensure:** Who must be licensed (Section 3) and who is exempt. (Section 4)
  - **Examination Requirements:** Mandatory testing to qualify for a license (Section 5) and exemptions from the exam requirements. (Section 9)
  - **Application Requirements:** Process for applying for a producer license. (Section 6)
  - **Types of Licenses:** Types of licenses available to producers. (Section 7)

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NAIC Producer Licensing Model Act

- **Nonresidents:** Unique requirements for nonresident producers. (Section 8)
- **Assumed Names:** Name usage and notification requirements. (Section 10)
- **Temporary Licenses:** Conditions under which a temporary license (not more than 180 days) may be issued for servicing business. (Section 11)
- **License Denial, Nonrenewal or Revocation** (Section 12)

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NAIC Producer Licensing Model Act

- **Commissions:** Requirements regarding the payment, receipt, deferral or assignment of commissions. (Section 13)

- **Appointments:** Appointment requirements applicable in some states. (Section 14)

- **Termination Notification:** Requirements regarding notification of the termination of an appointment, contract, or relationship. (Section 15)

- **Reciprocity:** For nonresident licensees and with regard to CE requirements. (Section 16)

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NAIC Producer Licensing Model Act

- **Reporting of Actions:** Timely reporting requirements for certain administrative actions involving a producer. (Section 17)

- **Compensation Disclosure:** Requirements for when certain compensation disclosures must occur. (Section 18)

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Related Processes

Contracting

- Always required
- Agreement between company and producer

Licensing

- Always required (before negotiation, solicitation or service)
- Multiple types of licenses

Appointment

- Required in some states
- Timing varies

Registration

- Required for securities sales and investment advice
- FINRA Series (i.e. 6, 63, 7, 65, etc.)

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Who Must be Licensed?

A person who <u>sells</u>, <u>solicits</u> or <u>negotiates</u> insurance, unless otherwise excluded. (Section 3)

Relevant Definitions from the Model (Section 2)

- ***"Negotiate"*** *means the act of conferring directly with or offering advice directly to the purchaser or prospective purchaser of a particular contract of insurance concerning any of the substantive benefits, terms or conditions of the contract, provided that the person engaged in the act either sells insurance or obtains insurance from insurers for purchasers.*

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Who Must be Licensed? (Continued)

- ***"Sell"*** *means to exchange a contract of insurance by any means, for money or its equivalent, on behalf of an insurance company.*

- ***"Solicit"*** *means attempting to sell insurance or asking or urging a person to apply for a particular kind of insurance from a particular company.*

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Who Must be Licensed? (Continued)

- **Exemptions** (Section 4)
  - An insurer (as an entity).
  - An issuer's officers, directors, and employees provided no compensation is paid for policies written and the nature of their role is covered by the exemption.
  - Other roles that support the insurance industry (i.e. service providers, adjustors, counsel, group administrators, etc.,) if certain conditions are met and as defined in the model.
- **Consider:** Call centers, asset retention teams, wholesalers, field managers, etc.

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Where is Licensing Required?

- **Three legged stool.** Generally, licensing is required in the:
  - Producer's resident state.
  - Client's resident state.
  - State where the trans-action takes place.

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More on Licensing

- **Multiple license types**
  - Entity Type: Individual, Agency, Company– each with their own lines of authority
  - Individual Lines of Authority: Life, annuity, variable products, credit, etc.

**A producer may need an individual and an agency license and will likely need to have multiple lines of authority based on the types of products he or she sells.*

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More on Licensing (continued)

- **Training and Continuing Education**
  - Typically requires producers complete biennial CE.
  - Certain states have product training requirements: Annuities (most states), LTC (most states), Fixed-Indexed Annuities (Iowa)
    - Product training may be a one-and-done.
    - Product training may be ongoing:
      - Annuities: TX—resident producers, CA—resident and nonresident producers.
      - LTC: Most states—resident and nonresident producers.
- **Consider:** Company product training for annuities, et al., in addition to training required for CE needs.

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Licensing Vendor Resource — Example

Individual Licensing Fast Facts

February2017

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State	NIPR Electronic Licensing Not Available	Mandatory Electronic Licensing		Documents, Fees Required for Criminal History Record Check	Exam Provider	Initial License Fee		License Renewal Dates and Frequency	Producer Renewal Fee		Prelicensing Education Hours*	Does DOI Mail License Document at:	
		R	NR			R	NR		R	NR		Licensure	Renewal
Alabama		Y	Y	R: prints, $49.75	U of Alabama	$80		Biennially last day of licensee's birth month. Odd birth years renew in odd years; even in even years.	$70		20 per LOA	N	N
Alaska		N	N	R: prints, $47	Pearson	$75 paper an additional $50		Biennially on last day of licensee's birth month. Odd birth years renew in odd years; even in even years.	$75	$75	N/A	N	N
Arizona		N	N	R: prints, $22	Prometric	$120		Quadrennially on last day of licensee's birth month.	$120		N/A	N	N
Arkansas		N	N	R: notarized consent form, $22	Pearson	Included in test fee. If not testing,$70	$70	Biennially on licensee's birthday.	$70 + $20 CE, if not exempt		20 per LOA	N	N
California		Y	Y	R, NR: prints, [2]$58.30	PSI	$170 LOA[1]		Biennially on last day of month of license issuance.	$170 LOA[1]		R; 12 ethics + 20 per LOA; NR: 12 ethics	N	N
Colorado		Y	Y		Pearson	$57 LOA	$89 LOA	Biennially on last day of licensee's birth month	$29 LOA	$49 LOA	50 per LOA	N	N
Connecticut		Y	Y		Prometric	$140		Biennially on licensee's birthday.	$160		40 per LOA	N	N
Delaware		Y	Y	R: prints, $65	Pearson	$75		Biennially on February 28. R: even years; NR: odd years.	$50	$75	N/A	N	N
Florida		Y	Y	R, NR: prints, $45.80	Pearson	$55	$55	Perpetual, but must complete CE biennially and maintain appointments.	N/A		General lines: 200; L, H, or L&H: 40; PL: 60	N	N
Georgia		N	N	R: prints, $48.25	Pearson	$15 + $100 per LOA[1]	$15 + $100 per LOA[1]	Biennially on last day of licensee's birth month.	$100, plus $100 for variable		LAS: 40; PC: 40; PL: 20; Variable: 8	Y	Y
Hawaii		N	N	R: Prints	Pearson	$150 or $200, depends on date application received.	$225 or $300, depends on date application received.	Biennially on 16th day of licensee's birth month. Even-month birthdays renew in even years, odd in odd years.	$100	$150	N/A	Y	Y
Idaho		N	N	R: prints $70	PSI	$80		Biennially on last day of licensee's birth month.	$80, paper; $60, electronic		N/A	Email	Email
Illinois		Y	Y		Pearson	$180	$250	Biennially on last day of licensee's birth month	$180	$250	20 per LOA	N	N
Indiana		N	N		PAN	$40	$90 retaliatory	Biennially on last day of licensee's birth month.	$40	$90 retaliatory	L, H, or PL: 20 L&H or P&C: 40	N	N
Iowa		Y	Y		Pearson	$50		Triennially on last day of licensee's birth month.	50 + $30 CE		N/A	N	N
Kansas	Resident	N	N		Pearson	$30	$80	Biennially on licensee's birthday. Odd birth years renew in odd years, even in even years	No fee	$50	N/A	Y	Y

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More on Appointment

- **Considerations:**
  - Appointee must be of good character:
    - Background checks
    - Credit checks
    - Federal Crimes Act considerations
    - Ongoing monitoring
    - Typically requires producers complete biennial CE.
  - Must notify the DOI when the producer is terminated (for any reason).
  - Some appointments have a perpetual renewal.

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More on Appointment (continued)

- **Considerations**
  - Timing varies by state. If appointment is required, one of the following applies:

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Appointment Vendor Resource— Example

Appointment Requirements Fast Facts

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January 2017

States	Filing Deadline[1]	Agency Appointment Required	Individual Licensees Included in Agency Appointment	Appointment Renewal Dates	Timing of Commission Payments
Alabama	15 days	Y	N	Annually on January 1	A
Alaska	Insurers must maintain a list of all appointments and submit the list to the state upon request.				A
Arizona	Appointments are not required in Arizona				A
Arkansas	15 days	Y	N	Annually on June 1	B#
California	15 days[2 and 7]	Y	Y	Perpetual	A
Colorado	Notice not required. However, insurers must maintain a list of appointments and submit the list to the state upon request.				A
Connecticut	15 days	Y	N	May 1 of even years	A
Delaware	15 days	N	N/A	Perpetual	A
District of Columbia	30 days	Y	Designated responsible producers are included unless directly paid commissions.	Annually on May 1	A
Florida	45 days[2]	N	N/A	Biennially on last day of producer's birth month	L/H agents who solicited business prior to appointment: E; others: A
Georgia	15 days	N	N/A	Annually on December 31	B
Hawaii	15 days	Y	Y^	Perpetual	A
Idaho	15 days	Y	Y^	Perpetual	A
Illinois	Appointments are not required for major lines in Illinois.				
Indiana	Notice not required. However, insurers must maintain a list of appointments and submit the list to the state upon request.				A
Iowa	30 days	N	N/A	Annually on March 15	A
Kansas	30 days[2]	Y	Y if affiliated	Annually on January 1	A
Kentucky	15 days	Y	Y	Biennially on March 31: L/H odd years; P/C even year	C#
Louisiana	15 days	Y	Y if affiliated	Annually on May 1	D
Maine	15 days	Y	Y if affiliated	Biennially on insurance company's admission date	A
Maryland	Notice not required. However, insurer must keep a Producer Register of its appointed agents.				A
Massachusetts	15 days	Y	N*	Annually on July 1	A
Michigan	15 days	Y	N	Annually on January 1	B#
Minnesota	15 days	N	N/A	Perpetual	A
Mississippi	15 days	N	N/A	Annually on May 31	A
Missouri	Notice not required. However, insurer must maintain an internally updated register of appointed and terminated producers.				A
Montana	15 days	Y	Y if affiliated	Perpetual	B#
Nebraska	15 days	N	N/A	Annually on May 1	A
Nevada	15 days	Y	Y if affiliated	Annually on June 30	A
New Hampshire	15 days	Y	N	Perpetual	A

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Exam Time!

- **Licensing and Appointment violations are easily discoverable. Regulators often ask for:**
  - A list of all new business to include:
    - The date of the new business and product type.
    - The producer who sold the new business.
    - The amount of compensation paid for the sale.
  - Regulators already know (via their own databases):
    - The producer's lines of authority.
    - The producer's license effective date.
    - The producer's appointment date.
  - Technology now supports a 100% population review vs. more limited sampling of outcomes.

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Exam Time! (continued)

- **Examiners look for/test the following (taken from the NAIC's examination standards for Licensing):**

1. Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.
2. The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.
3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.
4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.
5. Records of terminated producers adequately document reasons for terminations.
6. Producer account balances are in accordance with the producer's contract with the insurer.

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Questions:

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Appendix A: Resources

Right click on the link, then select "Open Hyperlink"

- Link to NAIC Producer Licensing Model
- Link to NAIC State Licensing Handbook (2013) Note: This document is 256 pages.
- Link to the NIPR (National Insurance Producer Registry)
- Also, consider resources that may be available from your vendors, trade groups, producer groups, etc.

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