



AN ACT REVISING LAWS PERTAINING TO ANNUITY REGULATION; ADOPTING THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS SUITABILITY IN ANNUITY TRANSACTIONS MODEL REGULATION; REVISING LAWS PERTAINING TO NOTICE OF CANCELLATION; REVISING LAWS PERTAINING TO EDUCATION REQUIREMENTS FOR INSURANCE PRODUCERS SELLING ANNUITIES; REQUIRING INSURERS TO ADOPT ANNUITY SUPERVISION PROCESSES; REVISING ANNUITY SUITABILITY REQUIREMENTS; REVISING RECORDKEEPING REQUIREMENTS FOR INSURANCE PRODUCERS SELLING ANNUITIES; AMENDING SECTIONS 33-20-141, 33-20-802, 33-20-804, AND 33-20-805, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Annuity education. (1) An insurance producer may not solicit the sale of an annuity product unless:

- (a) the insurance producer has adequate knowledge of the product to recommend the annuity; and
- (b) the insurance producer is in compliance with the insurer's standards for product training.

(2) The training required under this section must include, at a minimum, information on the following topics:

- (a) the types of annuities and various classifications of annuities;
- (b) identification of the parties to an annuity;
- (c) how product-specific annuity contract features affect consumers;
- (d) the application of income taxation of qualified and nonqualified annuities;
- (e) the primary uses of annuities; and
- (f) appropriate sales practices, replacement, and disclosure requirements.

(3) Training required under this section may not include any information on marketing, sales techniques, or the specific aspects of a particular insurer's products.

(4) An insurer shall verify that an insurance producer has completed the training under this section before

allowing the producer to sell an annuity product for that insurer. An insurer may satisfy its responsibility under this section by obtaining certificates of completion of the training course or obtaining reports provided by a database system satisfactory to the commissioner.

Section 2. Section 33-20-141, MCA, is amended to read:

"33-20-141. Notice required for cancellation. ~~(1) No~~ Subject to subsection (2), an insurer may not cancel a life insurance policy or annuity for nonpayment of premiums until the insurer has mailed or delivered to the named insured and policyowner, where they are not the same, at the last-known post office address shown in the records of the company one written notice of cancellation in addition to any billing statement, stating the date the cancellation will become effective, which may not be less than 30 days after the date of mailing or delivery of the notice. Said 30 days shall run concurrently with the grace period required by 33-20-104.

(2) (a) An insurer that delivers or issues for delivery an individual life insurance policy in this state shall notify an applicant in writing at the time of application for the policy of the applicant's right to designate a third party to receive notice of cancellation of the policy based on nonpayment of premium. The applicant may make the designation at the time of application for the policy or at any time the policy is in force by submitting a written notice to the insurer containing the name and address of the third-party designee.

(b) The insurer's transmission to the third-party designee of a copy of a notice of cancellation based on nonpayment of premium must be in addition to the transmission of the original document to the policyowner. The copy of the notice of cancellation transmitted to the third party must be governed by the same law and policy provisions that govern the notice being transmitted to the policyowner.

(c) The designation of a third party may not constitute acceptance of any liability on the part of the third party or insurer for services provided to the policyowner."

Section 3. Section 33-20-802, MCA, is amended to read:

"33-20-802. Purpose -- scope. (1) The purpose of this part is to require insurers to establish a system to supervise recommendations and to set forth standards and procedures for recommendations to consumers that result in a transaction involving annuity products so that the insurance needs and financial objectives of consumers at the time of the transaction are appropriately addressed.

(2) This part applies to any recommendation to purchase, ~~or exchange,~~ or replace an annuity made to

a consumer by an insurance producer or by an insurer when an insurance producer is not involved that results in the recommended purchase, ~~or~~ exchange, or replacement."

Section 4. Section 33-20-804, MCA, is amended to read:

"33-20-804. Definitions. As used in this part, the following definitions apply:

(1) "Annuity" means a fixed annuity that is individually solicited, regardless of whether the product is classified as an individual or group annuity.

~~(2)~~(2) "Insurance producer", in addition to the definition in 33-17-102, includes an insurance producer licensed to sell, solicit, or negotiate annuities.

~~(3)~~(3) "Insurer", in addition to the definition in 33-1-201, includes an insurer providing annuity products.

~~(4)~~(4) "Recommendation" means advice provided by an insurance producer or by an insurer when an insurance producer is not involved to an individual consumer that results in a purchase, ~~or~~ exchange, or replacement of an annuity in accordance with that advice.

(5) "Replacement" means a transaction in which a new policy or contract is to be purchased, and it is known or should be known to the proposing producer or to the proposing insurer when an insurance producer is not involved that by reason of the transaction, an existing policy or contract has been or is to be:

(a) lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer, or otherwise terminated;

(b) converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;

(c) amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;

(d) reissued with any reduction in cash value; or

(e) used in a financed purchase.

(6) "Suitability information" means information that is reasonably appropriate to determine the suitability of a recommendation, including the following:

(a) age;

(b) annual income;

(c) financial situation and needs, including the financial resources used for the funding of the annuity;

- (d) financial experience;
- (e) financial objectives;
- (f) intended use of the annuity;
- (g) financial time horizon;
- (h) existing assets, including investment and life insurance holdings;
- (i) liquidity needs;
- (j) liquid net worth;
- (k) risk tolerance;
- (l) tax status; and
- (m) whether the consumer has a reverse mortgage."

Section 5. Section 33-20-805, MCA, is amended to read:

"33-20-805. Duties of insurers, insurance producers, and independent agencies. (1) In recommending to a consumer the purchase of an annuity or the exchange of an annuity that results in another insurance transaction or series of insurance transactions, the insurance producer or the insurer when an insurance producer is not involved must have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to the consumer's investments, other insurance products, financial situation, and needs; including the consumer's suitability information, and that there is a reasonable basis to believe all of the following:

(a) the consumer has been reasonably informed of various features of the annuity, including the potential surrender period and surrender charge, potential tax penalty if the consumer sells, exchanges, surrenders, or annuitizes the annuity, mortality and expense fees, investment advisory fees, potential charges for and features of riders, limitations on interest returns, insurance and investment components, and market risk;

(b) the consumer would receive a benefit from the transaction;

(c) the particular annuity as a whole, the underlying subaccounts to which funds are allocated at the time of the purchase, exchange, or replacement of the annuity, and riders and similar product enhancements, if any, are suitable for the particular consumer based on the consumer's suitability information; and

(d) in the case of an exchange or replacement of an annuity, the exchange or replacement is suitable, including taking into consideration whether:

(i) the consumer will incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits, or be subject to increased fees, investment advisory fees, or charges for riders and similar product enhancements;

(ii) the consumer would benefit from product enhancements and improvements;

(iii) the consumer has had another annuity exchange or replacement and, in particular, an exchange or replacement within the preceding 36 months; and

(iv) the transaction as a whole is suitable for the consumer based on the consumer's suitability information.

(2) Prior to the execution of a purchase, ~~or exchange, or replacement~~ of an annuity resulting from a recommendation, an insurance producer or an insurer when an insurance producer is not involved shall make reasonable efforts to obtain the consumer's suitability information, concerning:

——— ~~(a) the consumer's financial status;~~

——— ~~(b) the consumer's tax status;~~

——— ~~(c) the consumer's investment objectives; and~~

——— ~~(d) other information used or considered reasonable in making recommendations to the consumer by the insurance producer or by the insurer when an insurance producer is not involved.~~

(3) Except as permitted under subsection (4), an insurer may not issue an annuity recommended to a consumer unless there is a reasonable basis to believe the annuity is suitable based on the consumer's suitability information.

~~(3)(4)~~ (a) Except as provided under subsection ~~(3)(b)~~ (4)(b), an insurance producer or an insurer when an insurance producer is not involved does not have any obligation to a consumer under subsection (1) or (3) related to any ~~recommendation if a consumer:~~ annuity transaction if:

(i) no recommendation is made;

(ii) a recommendation is made but later found to have been prepared based on materially inaccurate information provided by the consumer;

~~(i)(iii)~~ (iii) the consumer refuses to provide relevant suitability information requested by the insurer or insurance producer; and the annuity transaction is not recommended; or

~~(ii)(iv)~~ (iv) the consumer decides to enter into an ~~insurance~~ annuity transaction that is not based on a recommendation of the insurer or insurance producer; ~~or~~

~~_____ (iii) fails to provide complete or accurate information.~~

(b) ~~Subject to subsection (1), an~~ An insurer's or insurance producer's recommendation issuance of an annuity under subsection (4)(a) must be reasonable under all the circumstances actually known or which after reasonable inquiry should be known to the insurer or insurance producer at the time of the recommendation the annuity is issued.

(5) An insurance producer or an insurer when an insurance producer is not involved shall at the time of sale:

(a) make a record of any recommendation subject to subsection (1);

(b) obtain a statement signed by the consumer acknowledging the consumer's refusal to provide suitability information, if any; and

(c) if a consumer decides to enter into an annuity transaction that is not based on the insurance producer's or insurer's recommendation, obtain a statement signed by the consumer acknowledging that the annuity transaction is not recommended.

~~(4) (a)(6) An insurer may contract with a third party as provided in subsection (6) to~~ shall establish and maintain a supervision system to supervise recommendations that is reasonably designed to achieve the insurer's and its insurance producers' compliance with this section: and, at a minimum, shall:

(a) maintain reasonable procedures to inform its insurance producers of the requirements of this section and shall incorporate the requirements of this section into relevant insurance producer training manuals;

(b) establish standards for insurance producer product training and maintain reasonable procedures to require its insurance producers to comply with the requirements of [section 1];

(c) provide product-specific training and training materials that explain all material features of its annuity products to its insurance producers;

(d) maintain procedures that are designed to ensure that there is a reasonable basis for determining that a recommendation is suitable for the consumer prior to issuance of an annuity. The review procedures must establish selection criteria for the purpose of identifying selected transactions for additional review.

(e) maintain reasonable procedures, such as confirmation of consumer suitability information, systematic consumer surveys, interviews, confirmation letters, and programs of internal monitoring, to detect recommendations that are not suitable; and

(f) annually provide a report to senior management, including to the senior manager responsible for audit

functions, that details a review, with appropriate testing, reasonably designed to determine the effectiveness of the supervision system, the exceptions found, and corrective action taken or recommended, if any.

~~(b) A system designed and maintained by an insurer must at a minimum provide for:~~

- ~~—— (i) maintaining written procedures; and~~
- ~~—— (ii) conducting periodic reviews of the insurer's records that are reasonably designed to assist in detecting and preventing violations of this part.~~

~~—— (5) An insurance producer or independent agency shall:~~

- ~~—— (a) adopt a system established by an insurer to supervise recommendations of the insurance producer or agency's insurance producers that is reasonably designed to achieve compliance with this part; or~~
- ~~—— (b) establish and maintain a system that at a minimum provides for:~~
 - ~~—— (i) maintaining written procedures; and~~
 - ~~—— (ii) conducting periodic reviews of records that are reasonably designed to assist in detecting and preventing violations of this part.~~

~~(6)(7) (a) An insurer may contract with a third party, including an insurance producer or independent agency, to establish and maintain a system of supervision as provided for in subsection (4) (6) with respect to insurance producers under contract with or employed by the third party.~~

(b) An insurer is responsible for taking appropriate corrective action and may be subject to sanctions and penalties under 33-1-317 and 33-1-318 regardless of whether the insurer contracts for performance of a function and regardless of the insurer's compliance with subsection (7)(c).

(b)(c) An insurer's supervision system under subsection (6) must include supervision of the performance of shall make reasonable inquiry to ensure that the third party parties under is performing the functions required under this subsection (7) and must include, at a minimum, the following: (4) and shall take reasonable action under the circumstances to enforce the third party's contractual obligations to perform the functions.

~~—— (c) An insurer may comply with its obligation to make reasonable inquiry by doing each of the following:~~

- ~~(i) annually obtaining a certification from a director, officer, or principal of the third party that the third party is performing the required functions; and~~
- ~~(ii) based on reasonable selection criteria, periodically selecting third parties for a review to determine whether monitoring and, as appropriate, conducting audits to ensure that the third parties are performing the~~

required functions.

~~(7)(8)~~ An insurer, insurance producer, or independent agency is not required by this section to:

- (a) review or provide for review of insurance producer solicited transactions not related to annuities; or
- (b) include in its system of supervision an insurance producer's recommendations to consumers of

products other than the annuities offered by the insurer, ~~insurance producer, or independent agency.~~

~~—— (8) An insurance producer or independent agency contracting as a third party with an insurer pursuant to subsection (6) shall promptly, when requested by the insurer, give a certification as described in subsection (6) or give a clear statement that it is unable to meet the certification criteria.~~

(9) An insurance producer or an insurer when an insurance producer is not involved may not dissuade or attempt to dissuade a consumer from:

- (a) truthfully responding to an insurer's request for confirmation of suitability information;
- (b) filing a complaint; or
- (c) cooperating with the investigation of a complaint.

~~(9)(10)~~ (a) Insurers, insurance producers, and independent agencies shall maintain or must be able to make available to the commissioner records of the information collected from the consumer and other information used in making the recommendations that were the basis for insurance transactions for 5 years after the insurance transaction is completed by the insurer. An insurer is permitted, but is not required, to maintain documentation on behalf of an insurance producer.

(b) Records required to be maintained by this ~~regulation~~ section may be maintained in paper, photographic, microprocess, magnetic, mechanical, or electronic media or by any process that accurately reproduces the actual document."

Section 6. Codification instruction. [Section 1] is intended to be codified as an integral part of Title 33, chapter 20, part 8, and the provisions of Title 33, chapter 20, part 8, apply to [section 1].

Section 7. Effective date. [This act] is effective January 1, 2018.

- END -

I hereby certify that the within bill,
HB 0145, originated in the House.

Speaker of the House

Signed this _____ day
of _____, 2017.

Chief Clerk of the House

President of the Senate

Signed this _____ day
of _____, 2017.

HOUSE BILL NO. 145
INTRODUCED BY Z. BROWN
BY REQUEST OF THE STATE AUDITOR

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