CALIFORNIA

SENATOR BILL DODD

Senate District 3

FACT SHEET

SB 263 – DODD
INSURANCE: ANNUITY & LIFE INSURANCE CONSUMER PROTECTIONS

Summary

SB 263 will adopt the 2020 version of the National Association of Insurance Commissioners' (NAIC) Suitability in Annuity Transactions Model Regulation (#275) add additional consumer protections, and make the NAIC Suitability in Annuity Transactions Model Regulation (#275) applicable to sales of both annuities and life insurance policies.

Background

The NAIC's Model #275 was created in 2003 to set forth standards and procedures for insurance producers recommending annuity products to consumers in order to ensure the consumers' insurance and financial objectives are appropriately addressed. In 2020, the NAICupdated Model #275. Standards for annuity sales were enhanced to include a care obligation, disclosure obligation, conflict of interest obligation and a documentation obligation so that consumers would understand the products they purchase, be made aware of any material conflicts of interest, and are assured those selling the products do not place their financial interests above consumers' interests.

The Dodd-Frank Act, Section 989J confirms state authority to regulate sales of fixed and fixed indexed annuities and exempts these annuities from federal regulation when the state in which the contract issues has adopted requirements that "substantially meet or exceed the minimum requirements" established by the 2010 version of Model #275 and successor modifications within 5 years of adoption by the NAIC.

California needs to adopt the updates to Model #275 by 2025, so fixed and fixed indexed annuities will not be subject to dual regulation by the California Department of Insurance (CDI) and the federal government. This would cause confusion for consumers and inefficiencies for the industry and its regulators. The standards in SB 263 exceed those in Model #275 in order to provide greater protection to California consumers. .

Existing Law

In 2010, Model #275 was revised to require producers to make efforts in collecting consumers' financial details and investment goals, so that the producers could have reasonable grounds for making recommendations to consumers.

In 2012, California adopted Model #275—with additional consumer protections beyond the model regulation—through AB 689 (Blumenfield, Chapter 295, Statues of 2011), which was sponsored by the California Department of Insurance (CDI). Numerous states adopted the updated version of Model #275.

In 2020, the New York State Department of Financial Services proposed a regulation that exceeds Model #275. New York's regulation, which requires that the producer consider only the interests of the consumer when the producer makes a recommendation to purchase an annuity or life insurance policy s, went into full effect on February 1, 2020.

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This Bill

SB 263 will protect consumers, including vulnerable seniors, from potential abuse and exploitation by curtailing harmful sales of annuities and life insurance policies by requiring producers to consider only the interests of the consumer in making a recommendation and complying with the obligations set forth in SB 263.

SB 263 will also decrease the number of sales of life insurance and annuities to consumers that are not in consumers' best interests by prohibiting insurance producers from receiving incentives beyond allowable commissions or fees (such as prizes, rent reimbursement, etc.) for their sales and also prohibiting producers from making sales when they do not know if the product is in the consumer's best interest.

Support

Insurance Commissioner Ricardo Lara (Sponsor)

Opposition

None on file.

Contact

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