

## Chapter 4 -- Annuity Regulation

### Multiple Choice

Identify the choice that best completes the statement or answers the question.

When you have answered all of the questions, click the "Check Your Work" button to review the correct responses.

When you finish, use the "Back" button on your browser to return to the study text.

- \_\_\_\_\_ 1. Knowingly making any derogatory statement that is calculated to injure that person's reputation is:
- false advertising
  - defamation
  - unfair discrimination
  - deception
- \_\_\_\_\_ 2. All of the following are functions of the National Association of Insurance Commissioners EXCEPT to:
- promote uniformity among state insurance laws
  - enact statutes to regulate insurance nationwide
  - preserve state regulation of insurance
  - protect the insurance-buying public
- \_\_\_\_\_ 3. In Florida, which two of the following organizations can impose penalties for violations of the Insurance Code?
- Florida Legislature
  - Florida state court system
  - NAIC
  - Office of Insurance Regulation
- 
- I and III only
  - II and III only
  - II and IV only
  - III and IV only
- \_\_\_\_\_ 4. Which of the following may issue rules governing the insurance industry in Florida?
- Florida's Legislature
  - Florida's Chief Financial Officer
  - the Commissioner of the Office of Insurance Regulation
  - both b and c
- \_\_\_\_\_ 5. If an annuity company becomes financially insolvent, the failed company's obligations to its contractholders will be fulfilled by Florida's:
- Department of Financial Services
  - Consumer Assistance Plan
  - Life & Health Guaranty Association
  - Office of Insurance Regulation
- \_\_\_\_\_ 6. An agent found to be soliciting policies on behalf of an unauthorized insurance entity may be:
- convicted of a third-degree felony
  - be subject to a \$50,000 fine

- c. convicted of a first-degree felony
- d. any of the above

7. Under the decisions *Appel v. Moss* and *Abbott v Beardmore*, which of the following are deemed to have a fiduciary responsibility to their clients?

- a. agents
- b. brokers
- c. both a and b
- d. neither a nor b

8. An agent's license may remain valid without an appropriate appointment for:

- a. 12 months
- b. 24 months
- c. 36 months
- d. 48 months

9. Regarding premium payments collected by an agent, Florida law requires agents to maintain records of premiums for:

- a. 12 months
- b. 24 months
- c. 36 months
- d. 48 months

10. Agents selling an equity indexed annuity must deliver which of the following to the client?

- a. Contract Summary
- b. Prospectus
- c. both a and b
- d. neither a nor b

11. Of the following terms, which best describes the act of replacing existing life insurance with a new life insurance policy based upon incomplete or incorrect representations?

- a. twisting
- b. rebating
- c. sliding
- d. concealment

12. In Florida, Contract Summaries and Buyer's Guides must be given to purchasers of

- a. fixed annuities
- b. indexed annuities
- c. variable annuities
- d. all of the above

13. Regarding Florida's Free Look law, senior consumers have the right to a refund of their premiums within:

- a. 14 days for the purchase of fixed and indexed annuities
- b. 14 days for the purchase of fixed, indexed and variable annuities
- c. 21 days for the purchase of fixed and indexed annuities
- d. 21 days for the purchase of fixed, indexed and variable annuities

14. An agent misleads a client into surrendering her whole life insurance policy with Acme Insurance, and recommends that she purchase an immediate annuity from Acme with the cash value. The agent then sells the client an Acme flexible premium, deferred annuity -- using part of the immediate annuity payments to pay the premium on the deferred annuity. This is an example of

- a. twisting
- b. direct churning
- c. indirect churning
- d. stripping

15. Which of the following violations of Florida's Insurance Code are punishable as a felony?

- a. twisting

- b. churning (direct or indirect)
- c. fraudulent signatures on insurance applications
- d. all of the above

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### Answer Section

#### MULTIPLE CHOICE -- page references to Safeguarding4web.pdf

1. ANS: B page 4  
Derogatory statements are known as defamation -- if written, it is libel; if oral, it is slander.
2. ANS: B page 4  
The NAIC does not enact statutes -- but does propose uniform standards to be adopted by the various state legislatures.
3. ANS: C page 1  
The courts and/or the Office of Insurance Regulation (as well as the Department of Financial Services) may impose penalties for violations of Florida's Insurance Code. The NAIC has no enforcement capability. The legislature enacts the Insurance Code but does not enforce it.
4. ANS: D page 1  
The Legislature passes statutes (not rules) that become part of the Insurance Code. That Code allows the CFO and Commissioner to pass rules to implement the Insurance Code.
5. ANS: C page 1  
Florida's Life and Health Guaranty Association is a pool of insurers who step in to fulfill the obligations of failed insurers.
6. ANS: A page 1  
Agents who solicit on behalf of authorized insurers in Florida may be punished with conviction of a third-degree felony. (Acting as an unauthorized insurer may result in conviction of a first degree felony.) In addition, the agent may be held liable for any claims arising from the unauthorized policy, as well as possible suspension or revocation of the agent's insurance licenses.
7. ANS: B page 2  
These two court cases refer to Florida-licensed agents who were acting as brokers. Both court decisions confirm that brokers owe their clients a fiduciary responsibility.
8. ANS: D page 4  
To maintain a valid insurance license, the agent must be appointed by an appropriate insurer. If an appointment is not maintained for a 48-month period, the license will lapse.
9. ANS: C page 4  
Agents must maintain records of premium payments for at least 3 years.
10. ANS: A page 3  
Equity indexed annuities are classified as fixed, not variable, annuities. As such the agent must deliver a Contract Summary and a Buyer's Guide. Agents selling a variable annuity must also deliver a Prospectus (in addition to the Buyer's Guide and Contract Summary).

11. ANS: A page 3

Replacement based on misrepresentation is known as “twisting”-- which is illegal and unethical.

12. ANS: D page 3

Beginning in 2008, Contract Summaries and Buyers’ Guides must be given to the purchasers of all annuities. (Previous state law did not require these disclosures for variable annuities). In addition to these documents, agents must also deliver a prospectus when selling variable annuities.

13. ANS: D page 3

Beginning in 2008, the Free Look was extended from 10 day to 14 days for purchasers of all ages, and the scope of the law was expanded to include variable annuities as well as fixed (and indexed) annuities. In 2010, the Free Look was extended to 21 days for senior consumers – it remains at 14 days for younger purchasers.

14. ANS: C page 3

Replacement of an insurance investment with another issued by the same company is considered “churning” if the replacement is based on misrepresentations. (If the replacement involved a second company’s products, it would be called “twisting”). Direct churning would involve the exchange of the life insurance policy for the annuity. In this situation, however, there is the intermediate step of the immediate annuity. Florida law was updated in 2008 to define such a transaction as “indirect churning”.

15. ANS: C page 3

The 2008 updates to Florida law enhanced the penalties all of the violations listed. Twisting, churning and illegal use of professional credentials are punishable as first-degree misdemeanors. Forgeries and fraudulent signatures are punishable as third-degree felonies.