

The Practice Management Minute...



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CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMO's in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone...

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Options For Being A Registered Rep And Also Selling Indexed Annuities

"Charlie, what should I do?" This is the question I am often asked by financial professionals on what they should do when it comes to getting set up with their securities license while also wanting to sell indexed annuities. Even folks that are already securities licensed will ask me this question occasionally, because they are looking for easier ways to offer both securities and indexed annuities. Because of technical reasons and history, the answer to the question is not as easy as "get an insurance license for the annuities

and a broker-dealer for the securities." We will discuss the issues that surround my typical response to the above question.

Terminology

First, I want to preface my article with some terminology. I do not want to assume that everybody understands the vernacular I will use below. So, let's first discuss what types of agents/ reps there are, who can sell what products, who "supervises" the sale, etc.

1. Insurance Agents: This is likely you!

These are agents that have passed the state insurance exam to sell insurance products like fixed annuities, term insurance, etc. The sale of these products is regulated by the state insurance departments. The actual insurance carriers also do some review of advertising material and also suitability. Usually there is a General Agency or an Independent Marketing Organization that trains the agents on how to do the insurance business. (Note: Some of these insurance products can **also** be securities, like variable annuities. These products require an insurance license **and** a securities license, per #2.)

2. Registered Reps: A financial professional who passed their Series 6, Series 7, etc. and is able to offer securities (stocks, bonds, mutual funds) in order to make a commission. These folks must be registered with a Broker-Dealer who supervises your sales, approves your advertising, monitors your emails, etc. BDs are tasked with keeping you out of trouble! Here, the ultimate regulatory body is FINRA (Financial Industry Regulatory Authority), who governs your broker-dealer. If you get in trouble, it is FINRA that will fine you!
3. Investment Advisor Reps (IARs): When you think of "fee-based advisors," this is the category. These are the financial professionals that have passed the Series 65 or 66 exams, which are different exams than those a "registered rep" would have taken. These IARs are mandated to conduct themselves in a "fiduciary" capacity and generally cannot be paid a commission in that fiduciary capacity. Again, they charge fees but can usually offer similar securities as the registered reps can. They just generally cannot be paid commission on them. For products like mutual funds, there are usually "Advisory Share" classes that do not have the sales charge/commission built into them. Those "Advisory Shares" are what the IAR might offer his/her clients, while the registered rep

offers "A Shares" for example. Like how insurance agents are supervised by the states and registered reps are supervised by their broker-dealer, Investment Advisor Reps are supervised by their "Registered Investment Advisor" (RIA). The Registered Investment Advisors are governed by the state securities regulator (North American Securities Administrators Association) or the SEC, depending on the size of the RIA.

A couple of points: The first is, we all have our "supervisors," whether you are an agent, a registered rep, or an investment advisor. Also, you can be all three of the above, as I am. So yes, I report to the states for my insurance license, I also have a broker-dealer that just conducted their compliance review in my office, and I also have a registered investment advisory firm that I work with where I am able to offer fee-based planning products and services. It seems I spend half my life doing continuing education to satisfy all of these "bosses."

Options for Registered Reps Around Indexed Annuities

If you are a registered rep or want to become a registered rep while also having the ability to write indexed annuities, here are my thoughts.

In 2005, the NASD (which is now FINRA) announced to their broker-dealer member firms that they (the NASD) would "recommend" that broker-dealers supervise the sale of indexed annuities that their registered reps sell, even though indexed annuities were **not** securities (as later confirmed with SEC 151a being vacated). It was basically a suggestion, an urging, a nudge, a proposition, which left many broker-dealers wondering, "*Is this a mandate or merely a suggestion?*" This suggestion/urging/proposition was called "Notice to Members 05-50" and what ultimately led many broker-dealers to this day to take "jurisdiction" over your indexed annuity sales! That is, that most BDs now require your indexed annuity business to flow through them, similar to securities. That

also means that the broker-dealer is generally taking a cut of your commission based on your "grid" that is usually applied only to your securities business.

Option 1. Choose Wisely

Whether you are a registered rep looking for suggestions on changes you can make to make your indexed annuity life easier, or if you are a newbie getting ready to get your registered rep license, here is what I would say: **There are broker-dealers that are fairly "hands off" with your indexed annuity business, and some that are extremely intrusive.** Choose wisely. I can also help with recommendations.

An example of a "hands off" broker-dealer would be one that understands that indexed annuities are **not** securities and says that they do not even want to see the signed applications, etc., for indexed annuities. No BD supervision and no cut of your indexed annuity commission. Similar to how a typical BD would treat a term life insurance case. These types of broker-dealers allow you to conduct your fixed insurance business the way you did prior to NASD 05-50.

An example of a broker-dealer that is extremely intrusive would be this one: I know a major BD that not only mandates that indexed annuity business flow through them, but they also mandate that all life insurance flow through them. They use the excuse of NASD 05-50 to take authority over even the fixed **life insurance** products! This means the BD gets a cut of the agent's/rep's commission as well. Furthermore, this broker-dealer has its own general agency in house that the agents are required to use, versus the agents' preferred IMO. And that general agency does extraordinarily little to train their agents on fixed insurance products. This BD (along with their general agency) is an order taker, not a business partner. Not trying to disparage anybody, just laying out the spectrum of BDs!

Option 2: Go the "IAR" Route

Since NASD 05-50, the number of registered reps in our country has **fallen**. Some registered reps have ditched their

broker-dealers and instead aligned with RIA firms. When it comes to the securities businesses, these reps have chosen to give up commissions and go the fee based/recurring revenue route. In other words, many of these folks moved from my category two (registered rep) to my category three (IARs).

How does being an IAR help you with the indexed annuity/fixed insurance business? In short, RIAs generally do not touch your commission-based business, such as indexed annuities, life insurance, etc. What this means is, by affiliating with an RIA firm, you can generally go about your insurance business the way you would as if you were not securities licensed while at

the same time being able to offer securities if the need calls for it. Of course, the securities revenue you receive would be based on a fee, one percent of assets under management for example.

I would estimate that for my group of financial professionals getting licensed today to sell securities, about 80 percent of them choose the IAR route versus the registered rep route. For those that are already registered reps, some of them are ditching their Series 6s and 7s to go the IAR route.

Option 3: Forget the Securities License

In a world that is becoming more "regulatory," I am on the side of having a securities license and not choosing this option.

My opinion is exacerbated by recent lawsuits that I have read surrounding "source of funds" issues. In other words, insurance agents are getting sued for selling fixed insurance products (annuities) to consumers because these agents allegedly made recommendations to sell the securities the clients currently owned in order to fund the annuity. Even though the sale was not a securities sale, our rule makers are taking the stance that discussing and recommending that the client sell out of securities means that the agent should also have a securities license.

Of my three options above, #2 is where I see the most activity. 🌐