Ensuring that your daily insurance sales practices are ethical and compliant.
As you know, success in our industry is built on trust, transparency, and high professional standards. Establishing and maintaining strong relationships with your clients can be directly related to how well you can provide appropriate products and services to address a wide range of financial needs.

In addition to having a thorough understanding of state and federal regulations, adhering to the highest ethical standards can help you exceed client expectations.

That’s why we’ve developed this Guide to Professional Conduct. It is intended as a reference point for all of our producers, distributors and registered representatives.

It reaffirms our shared commitment to upholding high ethical principles in the sale of life insurance, long-term care insurance, and annuities.

Our products reflect these same core principles. Our customers expect it. And together, with your services, we deliver on this promise.

Please read this Guide carefully and refer to it as needed. If you have questions, contact your supervisor or the Company’s Compliance Department.

Thank you for your commitment to apply these principles and standards in your sales practices and client interactions.
Our Company is committed to following high ethical principles in the sale of life insurance, annuities, and long-term care insurance to individuals.

- To conduct business according to high standards of honesty and fairness and to treat our customers as we would expect to be treated.
- To provide competent and customer-focused sales and service.
- To compete fairly.
- To provide advertising and sales material whose content is clear, honest, and fair.
- To handle customer complaints and disputes fairly and promptly.
- To maintain a system of supervision and review reasonably designed to achieve these goals.
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The terms “Company,” “we,” “us,” or “our” used in this Guide refer to the listed life insurance company(ies) that you represent. Our life insurance companies do not give, or hold themselves out to give:

- Legal advice,
- Tax advice,
- Investment advice, or
- Financial planning or estate planning advice.

We are not responsible for such advice that an independent firm or producer may give. In giving any such advice—or holding himself or herself out as doing so—a producer is responsible for observing and complying with any applicable policies and procedures of his or her independent firm in this regard and complying with any applicable legal, regulatory or professional qualifications and requirements. Our life insurance companies neither endorse nor supervise such activity of any independent firm or producer.

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Daily Ethical Sales Practice Guidelines

Insurance producers have certain legal, ethical, and professional responsibilities to fulfill every day and with every customer. While no two sales are alike, here are some suggestions that can help assure your daily life insurance sales practices are ethical and compliant. Of course, always check and follow any policies and procedures your own firm may have before putting these suggestions into practice.

Before you make a sales call
- Do your homework. Educate yourself about your responsibilities as an insurance professional and make compliance your priority.
- Offer only products you are authorized to distribute. Make sure you are properly licensed and appointed in the right state(s). A few states require special training in annuities and indexed products before a producer may sell such products.
- Do not use professional designations that indicate or imply that you have special certification or training (for example, in advising or servicing senior citizens or retirees) in such a way as to mislead any person.
- Offer only products you are trained to market.

Meeting the client
- Properly identify yourself as a life insurance producer and identify the insurance company you are representing.

Getting to know the client
- Follow a thorough fact-finding and needs-analysis process to understand the client’s insurable needs and financial objectives.

Your presentation and proposal
- Put the client first. Base your recommendation on the client’s circumstances and objectives—not yours.
- Use only Company-approved sales material.
- Use words, terms, and symbols that accurately describe the features, benefits, and limitations of the products you are licensed to sell. Avoid incomplete, misleading statements, or prohibited words.
- Disclose all relevant information about products and services you recommend accurately and comprehensively.
- Explain a product’s features, benefits, loads, limitations, and charges in a balanced and fair way.
- Fully explain the hypothetical nature of illustrations. Point out their assumptions and limitations. Be sure to explain guaranteed and non-guaranteed elements.
- Recommend a replacement only after a careful, thorough, and well-documented analysis comparing short- and long-term advantages and disadvantages.

During your meeting
- Reconfirm the client’s reason(s) for the purchase. Reconfirm the insurance need or financial objective it addresses.
- Provide the client with a copy of any sales illustration(s) you present. Obtain the client’s signature on the copy you keep for your file.
- Provide the client with copies of any state-mandated notices, buyer guides, and Company-required notices or receipts at the appropriate time during the sales process.
- Review with the client any Company-required, state-mandated, or optional disclosure forms verifying that you have discussed all relevant information. Obtain the client’s signature.
• Make sure the client carefully and thoroughly answers all questions on the application. If you must record answers yourself, the best practice is to read each question to the client out loud.

• Always instruct the client to make the premium check payable to the life insurance company. Do not accept premium checks made payable to you or to your agency.

Following your meeting
• Promptly submit the policy application and premium to the Company.

• Accurately complete all forms related to replacement policies and forward copies to the client and the insurance company in a timely manner, as required by state law.

• Promptly deliver the policy in person to the client and again review the main features and terms of the policy. Obtain a signed policy delivery receipt and a signed copy of any required amendments, if applicable. Keep copies of the documents for your records and forward the originals to the Company. If it is necessary to mail the policy owner the policy, send it certified mail, return receipt requested. Once you receive the receipt back from the post office, send a copy to the Company.

• Send the client a letter of thanks. It builds trust and helps protect you. Restate the client’s reasons for buying the policy and the needs and objectives it helps meet.

• Maintain a complete file for each client and a master compliance file holding all of the Company compliance-related policies and procedures.

• Always respond to clients in a timely manner. Provide any written complaints or grievances immediately to your supervisor and the Company as soon as you receive them.

Practice Good Judgment
Avoid Giving Tax and Legal Advice

Generally, it is permissible for an insurance agent to discuss with the client the general tax treatment of the product being offered. But offering tax advice as to a client’s specific tax circumstances or legal advice is beyond the scope of your agent relationship with the Company. The Company does not give tax advice or legal advice and you are not authorized to provide such advice on behalf of the Company.

Put it into Practice

The Importance of Policy Delivery

• Acceptance of the policy or contract is one of the last acts that must occur (along with payment of the premium) in order for the policy or contract to be placed in force. All policies include a “right to examine” clause (sometimes known as a “right to cancel” or “free look” provision) that allows the client a period of time (typically anywhere from 10 to 30 days) to examine the policy and, if not satisfied, to return it for a full refund.

• Prompt delivery of the policy, along with obtaining a delivery receipt, is critical to allow the client to exercise his/her right to examine the policy.

• Delivery in person is an opportunity to review the product features with the client and build the relationship.

• In any subsequent complaint or dispute over the policy, proof of delivery may be a key factor in establishing that the client was afforded the “right to examine” and failed to exercise it.
Meeting the Needs of Clients...

Base the Sale on the Client’s Insurable Needs and/or Financial Objectives

The Company offers products designed to meet clients’ insurable needs or financial objectives. We encourage the independent firms and producers who sell the Company’s products to base the sale on the client’s insurable needs or financial objectives. You must follow your firm’s policies and procedures in this regard. Here are some additional suggestions and tips that may be helpful.

As a professional insurance producer, it is your ethical responsibility to know clients. This means focusing on clients and learning about their needs and objectives. Put clients first. Help them understand their needs and how an appropriate insurance product can help. Client-focused sales produce:

- More realistic expectations,
- Better understanding,
- High-trust relationships,
- Improved persistency and higher renewal commissions,
- More referrals and new sales, and
- A successful selling practice.

Do you really know the client?
Getting to know the client requires asking questions and becoming familiar with the client’s financial status and circumstances, investment objectives, and insurance needs. Depending on the product being recommended, factors to consider may include the following:

- **Financial status and circumstances:** Age, occupation, marital status, dependents, annual gross income, future earning expectations, income and estate tax status, discretionary income, assets, liabilities, budget or expenses, value of portfolio, net worth, emergency reserves, retirement savings, etc.

- **Insurance needs:** Amount of other insurance, health status, amount of death benefit protection and/or cash value for estate liquidity, mortgage, family income, education, business planning, retirement, accelerated death benefits, etc.

- **Investment objectives:** Liquidity needs, long- or short-term investment horizon, diversification, savings goals, risk tolerance, tax deferral, etc.

- **Affordability of premium:** Whether the client can afford the required or planned premium and whether the client has sufficient discretionary income or assets to sustain payments over the long term without lapsing the policy.

There may be other special needs or circumstances to consider.

Fact Finding

- Be sure to document clients’ responses to fact-finding questions and keep a record of their needs, what products were discussed, what products were recommended, the basis for the recommendation, and whether or not the recommendation was followed.

- The Company makes a number of fact-finding tools, worksheets, or programs available to help you gather and document this information. Your firm may also provide similar tools. You can also obtain excellent fact-finding supplies from producer associations and professional societies such as the Society of Financial Service Professionals (http://www.financialpro.org/). Keep in mind that the facts, circumstances, factors, insurance needs, and financial objectives to be determined may be different for a life insurance sale than for an annuity or long-term care insurance sale.
Selling to Senior Adults

Selling life insurance or annuities to senior adults may require special care and diligence. Some states target sales to seniors for special review. It is a good idea to go the “extra mile” in applying all of the ethical standards to such sales. Always take extra care to:

- Clearly explain that you are an insurance producer and that you are soliciting a life insurance policy or an annuity. Don’t use any confusing or misleading names, titles, or terms.
- Do not use professional designations that indicate or imply that you have special certification or training (for example, in advising or servicing senior citizens or retirees) in such a way as to mislead any person.
- Determine a senior’s needs, objectives, and risk tolerance, as well as the appropriateness of the product for the circumstances. A senior’s advanced age and special circumstances are significant factors in making these determinations.
- Avoid high pressure selling tactics. Some seniors may be vulnerable and easily frightened, intimidated, or confused. While it is important to help such a client identify and meet real needs, take extra care not to imply, suggest, or cause alarm or fright.
- Avoid using statistics or facts that will mislead, confuse, or give false impressions.
- Reconsider the sale if the senior seems confused or unable to understand it. Such a sale could later be criticized by a family member or legal representative who may file a complaint or suit against you.¹
- Avoid any appearance of “overselling” or “stacking.” Many producers have been investigated and then fined, suspended, or sued for selling more insurance than a senior needs or can afford. Protect yourself by being conservative when determining the reasons, needs, and suitability of the purchase and by careful documentation.
- Document, document, and document! Client sign-offs are highly recommended.

¹ If you feel an ethical need to proceed because of the senior’s compelling need for the product, consult with the client’s family members, trusted advisor, or legal representative, document your conversations and have them review and approve the sale. If they tell you the senior has been declared legally incompetent, get copies of the court order, have the guardian or legal representative sign the application and papers on behalf of the client, and submit an explanation to the Company when submitting the application.

Put the Client First

Suppose a young married couple has $10,000 in cash that they intend to use solely for a down payment on their first house in two years. How can you help them?

Clearly, using these earmarked funds to buy a life insurance policy or an annuity would not meet such a short-term, low-risk, high-liquidity objective. However, this couple certainly has some life insurance protection and long-term retirement needs. They may need to re-examine their monthly budget and trim some discretionary expenses to pay for lower premium life insurance and begin putting even a small amount into a monthly annuity for retirement.
Identify the need for death benefit protection
The need for death benefit is primary in most sales of life insurance. Most clients buy life insurance because they have a need for death benefit protection—even if they have a secondary reason for buying the product, such as cash value accumulation or favorable tax treatment. It is a good practice to identify the client’s insurable needs and financial objectives—usually including a need for death benefit protection—and to document them. If the client is buying a life insurance policy only for other reasons and not in part for the death benefit protection, it is a good practice to take extra care in identifying and documenting the reasons, needs and objectives of the clients. Because a client’s lawyer or accountant may determine the needs and objectives of a client, you should document any discussions with a client’s advisors.

You are probably acquainted with the types of insurance needs life insurance death benefits can address. These may include:

- Burial expenses,
- Income continuation for a spouse or family members,
- College funding for surviving children,
- Retirement funds for surviving spouse,
- Asset protection,
- Debt coverage,
- Accelerated death benefits in the event of terminal illness,
- Business planning, and/or
- Estate taxes and estate planning, etc.

Always help clients identify their death benefit needs.

Measure the death benefit need
Determining the right amount of death benefit requires careful consideration. To calculate an appropriate range of face amount or death benefit protection, you and the client should consider the factors above, plus benefits available from other sources, including individual or group life insurance policies, annuities, and employee benefit plans.

Identify and quantify any goals or needs for cash value
Help clients determine and quantify any pre-death goals or contingent needs for the life insurance policy’s cash value. These may include funding a child’s education, supplementing retirement funds, funding a business, providing tax-deferred income, or other long-term goals or needs.

If you illustrate or recommend policy loans or partial withdrawals to help meet these needs, make sure the client understands all of the associated limitations, costs, and policy charges, along with the effect on the net death benefit.
What’s the Right Amount of Death Benefit? It Depends.

- In some cases, a multiple of annual salary may be a good rule of thumb for a working person with simple circumstances. The appropriate multiple may vary based upon the specific circumstances of any particular client.
- For clients seeking complete debt coverage, the total death benefit should be enough to pay off loans and credit card balances and other debts or liabilities.
- There are a number of valuable tools available to help determine the amount of death benefit needed to raise young children or provide for a surviving spouse’s retirement. Contact the Company to obtain tools to calculate future income needs using variables including annual income desired, number of years needed, and adjustments for inflation. The resulting calculation should yield an amount of principal reasonably expected to earn the desired income without exhausting principal for the specified number of years.
- A benefit of $10,000 may be appropriate coverage for funeral and burial expenses, but these costs will vary by geographic region and according to the personal wishes of the insured or family.
- The amount needed to fund a college education can vary greatly. It’s a good idea to refer to a college funding tool for assistance.
- A much larger death benefit may be needed to provide liquidity for business, tax, or estate planning needs of the client.
- A client’s lawyer, accountant or other advisor may help determine the right amount of insurance to accomplish a client’s goals or financial objectives.

Practical Matters

Practice Good Judgment
When it comes to identifying and measuring a client’s death benefit needs, there is no single formula that is “just right” for all circumstances, nor is there a “correct” amount for any client. What’s important is that you and the client have a reasonable basis for the death benefit amount and can document how and why you and the client arrived at it.

This process helps ensure realistic expectations and client satisfaction. Your documented needs analysis also offers protection if your case is ever scrutinized in a complaint, lawsuit, or death claim. It can prevent criticism or second-guessing that the face amount you sold was too much or too little for the client or that the premium was more than the client could afford.
Meeting the Needs of Clients... Through Long-Term Care Insurance

Not everyone should buy a long-term care insurance policy. For some, a long-term care policy is an affordable and attractive form of insurance. For others, the cost is too great or the benefits they can afford are insufficient for their needs. As a producer, part of your job is to help the client determine his or her insurable needs or financial objectives. A person should not buy a long-term care policy if it will create a financial hardship. It is your job to help each prospective insured carefully examine his or her needs and resources and decide whether long-term care insurance is appropriate.

Whether a person should buy a policy may depend on his or her:
- Age,
- Health status,
- Overall retirement objectives, and/or
- Income and assets.

If a person’s only source of income is a Social Security benefit, he or she is probably not a good candidate for long-term care insurance. Another example would be people who have trouble stretching their income to meet other financial obligations such as paying for utilities, food, or medicine.

On the other hand, people with significant assets may want to buy a long-term care policy to preserve those assets. Others buy a long-term care policy to pay for their own care and not burden their children with nursing home bills.

Whatever the reason, people should not buy a long-term care policy if they cannot afford the premium or cannot reasonably predict that they will be able to pay the premium for the rest of their lives. The NAIC Shopper’s Guide to Long-Term Care Insurance contains fact-finding tools to help you help the client assess his or her insurable needs or financial objectives.

Selling long-term care (LTC) accelerated death benefit riders

Utilizing a rider attached to a life insurance policy that accelerates death benefits to cover long-term care expenses is another common approach to help clients meet their insurable needs. However, you should know that these riders are subject to many of the same laws and regulations that apply to “stand-alone” LTC policies. In some states, this includes such things as:
- Specific LTC replacement regulations.
- Requiring a health and/or LTC license and possibly special Continuing Education requirements.
- Requiring companies and producers to meet HIPAA privacy requirements (see the “Protecting Health Information” section of this Guide).
- Special suitability requirements and “Shopper’s Guides.”
- Special advertising laws and regulations, including the requirement that all LTC advertising be filed for approval in most states (see the “Sales Practices and Advertising” section of this Guide).

This is not an all-inclusive list of applicable LTC laws and regulations and you should make sure you are fully aware of the requirements in each state in which you write business.
Determine the Client’s Financial Objectives

If you sell annuities, you are well acquainted with the insurable needs and financial objectives they can serve. For example, **deferred annuities** may be appropriate for clients seeking tax-deferred asset accumulation for retirement or other long-term goals, or individuals needing annuitized payments at some future date. Many deferred annuities also provide certain insurance benefits such as guaranteed or enhanced death benefits and nursing home waivers. **Immediate annuities** may be appropriate for clients needing an immediate stream of payments lasting for a certain number of years or for their lifetime.

An annuity may not be appropriate for someone who doesn’t plan to hold on to it for long-term needs. This is due to product design and tax treatment. Many deferred annuity products contain substantial surrender or withdrawal charges for several years or are designed to give the best value or benefit to the client after many years (e.g., at the maturity date).

Tax treatment also favors long-term ownership. Distributions may be subject to income tax and a 10 percent federal income tax penalty on earnings if taken prior to age 59 1/2 for situations other than death, disability, and certain periodic distributions based on life expectancy.

It’s helpful for clients to consider annuities as money “salted away” for financial goals beyond age 59 1/2.

As such, the client should have sufficient income, assets, and financial resources to cover current expenses and foreseeable short- and intermediate-term needs.

A client’s participation in a qualified retirement plan will affect his or her need for a non-qualified deferred annuity. Most people are better off contributing the maximum amount permitted under their qualified retirement plans before considering a non-qualified annuity. (Qualified plans include, for example, 401(k), 403(b), profit-sharing, Individual Retirement Accounts, or similar plans.)

Many states have adopted the National Association of Insurance Commissioners (NAIC) Suitability of Annuity Transactions model regulation. In addition, Company policies require that producers adhere to the requirements of the model regulation in ALL states. These regulations create standards and procedures for both insurance companies and producers when making recommendations to customers of any age regarding the purchase or exchange (replacement) of individually solicited annuities, whether fixed or variable, group or individual.

The three primary requirements of the model regulation are:

- Recommendations to buy or exchange an annuity must be appropriate;
- Sales of annuities must be supervised to ensure the recommendations are appropriate; and
- Records must be maintained.

**Practical Matters**

**Practice Good Judgment**

Can a client be too old for an annuity? Consider the client’s individual circumstances. For example, a deferred annuity with a significant surrender charge period is usually not appropriate for an elderly client with modest assets who requires liquidity for living expenses and emergencies over income tax deferral.
Calculate the Need for Annuities

Company policies and the model regulation require that producers make recommendations to purchase annuities based upon relevant information obtained from the client. Such information must include:

- Financial status,
- Tax status, and
- Financial objectives.

Help the clients determine the amount of “nest egg” they want or retirement income needed to sustain a desired standard of living. To do so you may also consider relevant information such as annual income, net worth, liquidity needs, etc. Generally, most retirees need income from all sources of at least two-thirds of their pre-retirement income to maintain their planned standard of living. While there is no single formula or “right” answer, below are a few questions clients should consider in determining future financial needs. If the client refuses to provide some or all of the information requested by the producer then the file should be documented to reflect that the client refused to provide the information.

Consider retirement goals
What type of lifestyle does the client plan to adopt during retirement? For example, does the client want to travel? Buy a smaller home? Pursue hobbies or special interests? Provide financial support to family members or fund a grandchild’s college education?

Estimate financial situation at desired retirement age
Does the client expect to have lower living expenses during retirement? Factor in all sources of income, including Social Security, pensions and other benefits, along with assets, expenses, and liabilities, including outstanding debt and mortgage payments and projected income tax bracket.

Determine the additional monthly income desired from the annuity
Calculate additional monthly income needed to fund the client’s projections. Based on this amount, determine how much the client would like to have accumulated in a deferred annuity by the projected retirement date.

Rule out certain products
Once you’ve determined the client’s need for life insurance or an annuity, there are a few other steps needed before selecting a particular product type, face amount, or premium amount. Understanding the client’s circumstances allows you to “rule out” certain types, levels, or amounts of product that may be inappropriate.

Determine what’s affordable
Clients should determine how much disposable or discretionary income they can realistically dedicate to the expected or required premium payments.
Buying a Non-Qualified Deferred Annuity

Here are some questions helpful for clients to ask themselves before buying a non-qualified deferred annuity.

- Am I buying the annuity primarily for long-term needs (e.g., retirement)?
- Do I have enough money set aside to cover emergencies and short-term savings needs?
- Will I have other funds available to cover important intermediate financial goals, such as a down payment for a home or college tuition?
- Am I contributing the maximum amount to the qualified retirement plans available to me?
- Can I afford to delay withdrawals until at least age 59½?
- Is deferral of income tax on the annuity’s earnings important to me?
- Do I expect to be in a lower income tax bracket after retirement?
- When paid out, annuity earnings are taxed as ordinary income, not capital gains. Does this fit my tax strategy?
- Does it fit my tax strategy that the annuity death benefit is subject to federal income tax as opposed to life insurance policy death benefits, which generally are not?

If the client answers “yes” to most of these questions, a deferred annuity may be an appropriate part of the client’s portfolio.

Special considerations for indexed annuities and life insurance

“Indexed” annuity and life insurance products are those that credit non-guaranteed interest rates based on a formula tied to data or an index outside of the contract or policy (such as the Standard & Poor’s 500 Index†). Important points to keep in mind if you sell Indexed products include:

- While non-guaranteed interest may be credited based on an external index, these products are not “investment” products and may not be sold as such.
- Gather information such as financial status, tax status and financial objectives to help determine if an indexed product will meet the client’s financial goals and objectives, but do not give tax or legal advice.
- Due, in part, to the unique nature of indexed products, the client must be provided with a Company-approved product-specific disclosure that describes such things as:
  - Surrender charges and how the cash surrender value is calculated;
  - How the market value adjustment (if any) is calculated;
  - How interest is calculated and credited;
  - Bonus interest and/or premium bonuses;
  - Withdrawal provisions;
  - Minimum guaranteed surrender values;
  - Annuity payout options;
  - Any additional riders; and
  - How the death benefit is calculated.

The client must acknowledge receipt of this disclosure.

- The Company provides product-specific training that includes information on product benefits, limitations, guarantees, costs, values and charges as well as Company policies and procedures for sales of indexed products.
- Sales of indexed products are subject to all other Company policies and procedures described in this Guide relating to other fixed annuity and life insurance products.

†“Standard & Poor’s 500” is a trademark of Standard & Poor’s Financial Services LLC.

Practice Good Judgment

Qualified Plans

Determining the need for or design of qualified plans is beyond the scope of this Guide. Whether it is an employer-sponsored benefit plan or an Individual Retirement Account, many types of qualified plans may be funded by individual or group annuity contracts. You should be well versed in the federal income tax treatment and federal regulatory requirements of such plans before offering annuities in this market.
Meeting the Needs of Clients...

Through Variable Life Insurance and Variable Annuities

Besides being insurance products, variable life insurance and variable annuities have investment characteristics and are regulated as securities by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). As a result, you and your firm have additional responsibilities when recommending or selling these products.

Note: FINRA was formerly known as the National Association of Securities Dealers (NASD). Many FINRA rules and notices are still referred to with the NASD prefix.

Identify the insurable needs and financial objectives

Similar to any other life insurance or annuity purchase, there must always be an insurable need or financial objective, regardless of whether the products are fixed or variable. Refer to the previous section’s guidelines for identifying insurable needs and financial objectives.

Determine the client’s investment objectives and risk tolerance

You should also help clients determine their investment objectives and risk tolerance. These will depend upon several factors, including:

- Current financial and personal circumstances,
- Liquidity needs,
- Planned financial goals,
- Anticipated time period or investment horizon,
- Investment knowledge,
- Investment risk tolerance, and
- Willingness to risk principal.

Consider the variable sub-account’s underlying investment characteristics and risk

Clients should carefully consider the investment objectives of the selected sub-account, along with its investment characteristics and risks. Help clients select the sub-accounts, combination of sub-accounts, and/or fixed accounts consistent with their circumstances, investment objectives, and risk tolerance.

Practical Matters

Variable Product Investment Allocation Tools

Asset allocation models are worksheets or software that help clients allocate their investments according to their risk tolerance. Contact your supervisor or the Company to request an approved asset allocation model or fact-finding tool.
**Special Suitability Factors for Variable Products**

In general, for all securities (which include variable insurance products), NASD Conduct Rules require you to have reasonable grounds to believe that your recommendation is suitable. These Rules require you to make reasonable efforts to obtain information concerning the client’s financial and tax status, the client’s financial objectives, and other appropriate information. In NASD Notice to Members 96-86, the NASD lists as examples specific factors that could be considered when recommending a variable product. Many of these factors may be appropriate for traditional life insurance and annuities as well. Due to the complexities of variable annuities, and more specifically deferred variable annuities, please refer to NASD Notice to Members 99-35. This notice provides a set of guidelines that are intended to assist in developing procedures relating to variable annuity sales to customers. NASD Notice to Members 00-44 reminds members of their responsibilities regarding the sale of variable life insurance.

Remember, the specific suitability factors in this table supplement the earlier discussion about general factors used to determine a client’s insurance needs and financial objectives.

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<td>“…representation by a customer that his or her life insurance needs were already adequately met…”</td>
<td>Establish the need for life insurance, if any. In most cases, the amount and type of other life insurance should be considered in determining the need. If you or the client determines that an additional or replacement policy is not appropriate, don’t force the sale.</td>
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<tr>
<td>“…the customer’s express preference for an investment other than an insurance product…”</td>
<td>If an insurance policy or annuity is ultimately purchased, make sure clients understand they are buying a life insurance policy or annuity—not investing directly into a mutual fund or other investment.</td>
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<tr>
<td>“…the customer’s inability to fully appreciate how much of the purchase payment or premium is allocated to cover insurance or other costs…”</td>
<td>Explain the policy costs and charges. In general, clients should clearly understand that part of the premium goes to cover policy costs and charges. These typically include cost of insurance, cost of riders, monthly policy charges (if variable universal life), annual or periodic contract charges (if variable annuity), and any charges against the sub-account such as mortality and expense risk charges. Clients should also understand that money invested by the sub-account is subject to expenses, fees, and management charges of the underlying mutual fund.</td>
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<tr>
<td>The NASD Factors</td>
<td>Tips for Applying Them</td>
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| and... \  
"...a customer’s ability to understand the complexity of variable products generally..." | If you don’t think that the client is capable of generally understanding the complex features of a variable product, you shouldn’t recommend it. Depending on the product or the client’s intended use of it, these features include: any front-end loads (e.g., sales charges or charge for premium tax); back-end loads such as withdrawal or surrender charges; any costs and conditions required for policy changes; income and estate tax treatment of the product in general. A client who is interested in policy loans should understand: what portion of the cash value is available for loans; the interest charges and costs of loans; how they are taxed if the policy lapses; and the effect of loans on policy performance and death benefit. |
| "...the customer’s willingness to invest a set amount on a yearly basis..."       | Can the client reasonably afford future premiums over the long term? Depending on investment performance and initial premium, many variable universal life policies will require regular or additional premium payments either to stay in force or to reach optimum policy results. If not, consider a smaller face amount or a different kind of product.                                                                                           |
| "...the customer’s need for liquidity and short-term investment..."              | The client should already have other funds set aside for such needs. The cash values of a variable product are usually more appropriately used for long-term needs and should not be considered a primary source for short-term or liquidity needs.                                                                                     |
| "...the customer’s immediate need for retirement income..."                     | Do clients need these funds as a lump sum or stream of income for retirement in the near future? If so, an immediate annuity or another type of investment might be best. A variable life product is likely too costly or illiquid for this situation. A deferred variable annuity is long-term in nature and may be appropriate if the need is a few years away or more, depending on any contract charges or tax penalties for early surrender or withdrawals. A common rule of thumb for deferred variable annuities is that the client should plan to hold the deferred annuity at least until age 59½ (or for five years, if longer) and until any contract surrender charge period has expired. |
| "...the customer’s investment sophistication and whether he or she is able to monitor the investment experience of the separate account..." | With assistance, is the client able to understand the investment risks, characteristics, objectives, and actual investment performance of the selected variable sub-accounts or fixed account options? Is the client able to evaluate and adjust these options as his or her financial goals, objectives, risk tolerance, or needs change? Can clients financially and emotionally tolerate fluctuation in principal and value? Do they understand how to diversify risk by allocating among the sub-accounts and/or the fixed account? |
Meeting the Needs of Clients...

Dos and Don’ts for Disclosing Variable Products

Variable products offer investment performance and characteristics, yet they are insurance products and, as such, require special disclosure. Here are some suggested “Dos and Don’ts.”

**Do** take extra care in your presentation to disclose that the product you are discussing is a life insurance policy or annuity contract. Make sure you disclose the policy costs and charges and disclose how the insurance features work.

**Don’t** mislead clients into thinking they are investing directly into a mutual fund or other investment by either omission or implication.

**Don’t** call the policy or contract an “investment” or “investment program” or similar term.

**Don’t** call the premium payment an “investment.”

**Don’t** call a sub-account a “mutual fund.”

**Do** explain that clients may direct the policy cash value to the sub-account(s) of their choice and that the sub-account, in turn, invests in a specific underlying mutual fund portfolio.

**Don’t** imply incorrectly that “all of a client’s money is invested” or that the premium payment flows directly into the underlying mutual fund portfolio. In other words, depending on the product, only a portion of the premium payment may go into the sub-account. Only the sub-account value is invested in the underlying mutual fund, and some of the sub-account value may be deducted to cover policy costs or charges, mortality and expense risk charges, or other sub-account fees.

**Do** comply with any special disclosure forms required by the Company or broker/dealer for variable products. These are designed to make sure you have covered each of the appropriate points of disclosure with the client. Use them as an educational tool with the client to reinforce the sale. These forms help ensure the client is informed and you are protected.

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Practical Matters

Suitability Standards for Bank Sales

As you know, various state or federal agencies regulate banks, savings and loan associations, credit unions, and similar financial institutions when they sell, or allow others to sell, “nondeposit products” to their customers. Therefore, if you sell life insurance or annuities in or through a bank or other financial institution, the institution is required to have procedures to determine the suitability of the sale based on that customer’s circumstances and objectives. These suitability requirements, which apply to fixed products as well as variable products, are similar to the FINRA requirements for broker-dealers and representatives.
Privacy Regulations

Protecting financial information
In November of 1999, the Financial Services Modernization Act—sometimes called the Gramm-Leach-Bliley Act (GLBA)—became law. Title V of GLBA contains certain provisions ("Privacy Provisions") that limit the way in which financial institutions, including insurance companies, can use information they obtain from consumers. Enforcement of the Privacy Provisions is left to the “functional regulator” of the various financial institutions. For example, the Securities and Exchange Commission (SEC) created Regulation S-P to enforce the Privacy Provisions for brokers and dealers, and the National Association of Insurance Commissioners (NAIC) adopted a model “privacy” regulation (NAIC Model) and a model “safeguarding of information” regulation (which have been adopted in most states). The NAIC Models enforce various provisions of the GLBA for insurance companies.

The NAIC Models apply to “licensees,” i.e., anyone who must be licensed by a state to engage in the insurance business, such as insurance companies, producers, third-party administrators, etc. Among other things, the NAIC Models require that a licensee give initial and annual notices to consumers regarding the licensee’s use of “nonpublic personal financial information” about consumers. An insurance producer does not need to provide the notices as long as an insurance company with which the producer is appointed gives the notices. The producer must enter into a contract with the insurance company that

Put it into Practice

Information Security

A producer’s information security program must be in writing and producers and office staff should be familiar with the security program. The security program should be appropriate to the size and complexity of your operations and the nature and scope of your business. The program should be designed to:

- ensure the security and confidentiality of consumer information;
- protect against anticipated threats or hazards to the security of such information;
- protect against unauthorized access to such information; and
- provide for the proper disposal of such information.

For example, the information security program should include requirements for administrative safeguards such as a “clean desk” policy, rules for providing access to information to authorized individuals only and employee training; physical safeguards such as locked file cabinets and offices; technical safeguards such as passwords, firewalls and screen savers; and data destruction rules such as shredding and removal of information in hardware/software before it is discarded or re-used.
prohibits the producer from disclosing or using consumer nonpublic personal financial information unless the disclosure or use is in connection with the producer’s performance under the contract and as permitted by the regulation. Furthermore, the producer must implement a documented information security program to safeguard nonpublic personal information in his/her possession. This security program should include administrative, technical and physical safeguards for the protection of customer information and be appropriate to the size and complexity of the producer’s business.

Nonpublic personal financial information is virtually any information—other than nonpublic personal health information—about a consumer that a licensee obtains. For example, nonpublic personal financial information includes a consumer’s gender, age, phone, and Social Security number, as well as information that more obviously seems “financial,” such as information about a consumer’s income or assets.

Protecting health information
The NAIC Model also prohibits insurance companies, producers, TPAs, etc. from disclosing “nonpublic personal health information” about a consumer to anyone, unless the consumer authorizes the disclosure or certain provisions of the regulation permit the disclosure.

Nonpublic personal health information is information created by or derived from a health care provider or consumer, and obtained by a licensee, that relates to:

- the past, present, or future physical, mental, or behavioral health of an individual,
- health care provided to an individual, or
- payment for health care provided to an individual.

Additionally, the federal government protects consumers’ health information under the Health Insurance Portability and Accountability Act (HIPAA). HIPAA’s Privacy Rule became effective April 14, 2003. Under HIPAA, the Department of Health and Human Services (HHS) created guidelines to protect the confidentiality and security of Protected Health Information (PHI). HIPAA applies to medical providers and health plans but does not directly apply to life and annuity operations. The rules for “health plan” operations govern a range of subjects, including who may have access to medical information, how it may be obtained, and when it may be disclosed.

Do you sell health plans?
The definition of “health plan” includes the following types of insurance coverage: specified disease, long-term care, hospitalization, major medical, as well as some riders that pay for medical costs, such as a long-term care rider. Producers who sell health plans are considered “Business Associates” under HIPAA because they collect and receive PHI regarding the Company’s customers. Business Associates must comply with the HIPAA Privacy Rule. The Privacy Official at the appointed company can provide more information about your obligations as a Business Associate.

If you sell health plans, HIPAA requires you to set up policies and procedures that limit unauthorized access to private information. This includes password-protecting your computer system, locking computer stations while away from your desk, locking file drawers where PHI is stored, and ensuring that faxes, copies, and other papers containing PHI are expeditiously collected and distributed to the appropriate staff member. You should also consider utilizing a shredder to properly dispose of PHI that you do not need.
Training programs designed to explain these procedures to your staff are strongly advised.

When meeting “face-to-face” with clients, HIPAA has no restrictions on the types of products you may discuss. Also, HIPAA’s marketing provisions expressly allow the Company and its producers to inform customers of policy upgrades, enhancements, or value-added items to the Company’s health-related products.

However, HIPAA prohibits health plans and their producers from using PHI for cross-marketing purposes without an individual’s authorization. The information on the applications for health plans is considered PHI and cannot be used to market other products. Please note that information that you did not create or receive in your capacity as a producer of the Company is not considered to be PHI. You are allowed to maintain a card file or computer list of clients that does not relate to information received from the Company or created or received on behalf of the Company. Keep this separate from any files you might have that contain applications and other documents that have PHI. Another option is to have clients sign a special authorization for cross-marketing during/before the time they apply for a “health plan.” Contact the Privacy Official if you would like a sample authorization that you can tailor for your own use.

Additionally, the health plan must provide a HIPAA “Notice of Health Information Practices” at the time of enrollment in the health plan and must remind policyholders that this notice is available at least once every three years. The Notice explains policyholder rights and the health plan responsibilities under HIPAA.

**If you DON’T sell health plans**

Even in situations where you are taking an application for life insurance or other lines which are not included in the definition of “health plan” under HIPAA, it is very likely that you will be required to get a special “HIPAA compliant” authorization signed by the applicant. This is because insurance companies often must request medical information from doctors, hospitals, and other health care providers. Those providers are subject to HIPAA and cannot provide requested medical information unless they are presented with a special HIPAA compliant authorization. Similar authorizations may need to be obtained at the time any claim is submitted.

**Practice Good Judgment**

The list of state and federal laws and regulations concerning privacy is long and very complicated. What’s important is that you conscientiously protect the client’s personal financial and health information. That includes taking care not to disclose personal financial or health information about a consumer to anyone other than the insurance company to which you are submitting, or have already submitted, an application on that client, or a company that has issued a product to that client. It also includes protecting personal financial and health information that you possess by taking appropriate steps to secure your files, both paper and electronic, and properly dispose of such private information.
Qualified and Trained Distributors

Licensing and Appointment

Insurance producers and distributors are expected to fulfill certain legal, professional, and ethical duties for clients, the Company, their firm and themselves. The Company’s goal is to have producers who are properly qualified and adequately trained.

What’s required
One of your most important responsibilities is to be legally and properly authorized to sell insurance products. Producer licensing serves two important purposes:

1. It authorizes you to sell certain products in certain jurisdictions; and
2. It protects the consumer by requiring you to obey the state’s insurance laws and complete a prescribed amount of insurance education.

Insurance producer licensing and appointments are governed by the insurance rules of each state. If you sell variable products, you must also be properly licensed for securities and be a registered representative of a broker/dealer authorized to sell the product.

Have the right kind of insurance license
States differ in how they categorize lines of business appearing on the producer license. For example, in some states, license authority for “individual life” may not cover variable life, group, credit, annuities, or health lines. If in doubt, check with your supervisor or the Company’s Contracting and Licensing Department.

Wait until you are properly authorized
Naturally, before acting as a licensed agent or producer, you must wait until the official effective date of your license. This includes soliciting, advertising, taking applications, or collecting premiums. Many states also require you to become “appointed” with each insurance company you represent. State Insurance Department rules and procedures vary with respect to the date on which a submitted request for appointment becomes effective. Some states allow you to submit business while the appointment request is still pending, subject to certain conditions. Be sure to check the Company’s solicitation guidelines on state licensing and appointment requirements. You are not allowed to sell or solicit for the Company until the Company’s appointment of you has become effective with the State Insurance Department. Also, make sure the Company’s appointment covers the right lines of business.
Qualified and Trained Distributors

Be licensed and appointed in the right state for out-of-state business
In most cases, a life insurance agent or producer must be properly licensed in the state where the applicant or proposed policyowner resides. In some situations, a producer may solicit an application from an out-of-state individual or entity. Examples might include individuals with a seasonal residential address in the producer’s state or an out-of-state corporation or trust that has a bona fide location in the producer’s state. Be sure to check the Company’s compliance procedures for guidelines for out-of-state situations or any special documentation requirements.

To help document the reason for any out-of-state sales exception, some companies require that an applicant/owner complete a Declaration form for any application made in a state other than the applicant’s/owner’s state of residence or business. For variable products, your broker/dealer may not allow such exceptions. Check the Company’s compliance procedures for any special handling or forms required for such exceptions.

Maintain and renew your license and appointments to continue sales
Only conduct business with a current license and appointment. Your rights to act as a producer terminate when your license or appointment is revoked, terminated, lapsed, or not renewed.

Company licensing standards
The Company may have adopted objective standards or criteria for hiring and selecting producers, which may require yes or no responses. You (or your recruit) must answer these questions completely and honestly and provide all information and details requested. After you are appointed, if there is a subsequent event that would change your answers to these questions, you should immediately notify your supervisor and the Company’s Compliance or Producer Licensing Department in writing. Check the Company’s appointment forms, procedures, and compliance bulletins for more information.

Appointment and background checks
Follow the Company’s appointment and background investigation procedures carefully. Complete all application forms required by the state or the Company accurately and thoroughly. Failure to comply could violate state law and may be considered a felony under the Federal Insurance Fraud Protection Act of 1994.²

Although formal background investigations may delay the producer appointment process, they are important. Many states require an insurer to conduct a background investigation before appointing a producer. The Federal Insurance Fraud Protection Act of 1994 makes it a crime to willfully employ a person in the business of insurance who has been convicted of committing certain crimes. Therefore, it is standard policy.

² Title 18, United States Code, Section 1033.
for companies to require investigations of appointees. This helps assure a high level of quality among those who represent the Company. Please be patient while the Company completes its investigation of you or your subordinate producers and cooperate fully with any investigation service or reporting agency the Company may retain for this purpose.

**Licensing and authorization for variable products**
In addition to any insurance requirements, in order to sell an insurer’s variable life or variable annuity products, the producer must pass the appropriate qualifying exams of FINRA and be a registered representative of the broker/dealer holding an agreement with that insurer.

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**Practical Matters**

**Getting Help from Non-Licensed Office Staff**
There are some things only you should do for your prospects and clients. Don’t let a staff member act as a producer—by phone, in person, or otherwise—without a license. As a producer, you may be guilty of producer-licensing violations if you let an unlicensed person:

- Take applications for insurance.
- Deliver insurance policies.
- Discuss or explain the terms or features of a policy.
- Conduct a seminar or meeting to solicit an interest in insurance or to generate leads, regardless of whether it’s intended for education or some other purpose.
- Quote rates, present illustrations, or perform any other acts considered “solicitation” (varies by state).
Qualified and Trained Distributors

Training and Education

Professional producers are expected to be adequately trained and educated throughout their careers. Training and education builds competency and allows you to help clients make informed buying decisions.

Use of professional designations
Today the insurance industry provides count-less educational opportunities. You can further your knowledge by participating in industry associations or by pursuing professional designations such as the CLU, CFP, ChFC, or others, which demonstrate your commitment to clients and professional advancement.

The use of improper and/or misleading professional designations and credentials is unlawful in some states, may violate FINRA rules and is to be avoided in all cases. Before using a professional designation or credential, the producer must have actually received or earned the designation/credential from an accredited university, college or professional society. The use of non-existent or self-conferred designations is prohibited, as are designations that imply a level of education, experience or training that the producer does not have.

Ethics and compliance training
Ethics and compliance training are two areas you cannot overlook. The Company or, in some cases, your agency or securities firm, may provide materials or programs to you directly or tell you where to get them. But it is your responsibility to learn and understand the ethical principles, compliance laws and regulations, and the Company procedures.

Meeting training standards
There are several ways you can meet insurance-related ethical and compliance training standards. These include:
• Study this booklet. This Guide (or a seminar based on its content) has been filed for Continuing Education credit in most states.

Put it into Practice

Professional designations that convey an expertise in senior investments or retirement planning

Selling to senior citizens may require special care and diligence. Care should be exercised in using a professional designation or credential that implies an expertise in senior investments or retirement planning. When determining if a designation/credential implies special expertise in this area, carefully consider any word such as “senior,” “retirement,” or “elder,” when combined with words such as “certified,” “chartered,” “advisor,” “specialist,” “consultant,” “planner,” or like words. Be sure to present yourself and your credentials honestly.
• Complete a formal insurance course or program in ethics. This may be a required part of your state’s licensing or continuing education requirements or broker/dealer’s continuing education program. If not, it’s a good idea anyway. Contact the Company or supervisor for more information.

• Read, review, and follow the Company’s Compliance Bulletins and Manuals.

• Follow all applicable FINRA and SEC rules if you offer variable products. Also, carefully follow the compliance procedures and manual of your securities broker/dealer.

• Know the insurance regulations of the state where you do business, along with the Company’s procedures and the forms it requires. Depending on the state and the type of business involved, these regulations and requirements might include: replacement, buyers’ guide and sales illustration requirements; special disclosure requirements (such as those used for sales to senior adults); licensing, continuing education, and claim and complaint-handling requirements; and underwriting requirements, such as delivering notices to clients concerning privacy rights, state guarantee funds, AIDS testing, credit report rights, or other matters.

Product training
Competent and professional producers are knowledgeable about the products and services they sell and must maintain a commitment to product training. While the degree and scope of training will vary by the markets you work in and the complexity of products you offer, there are a variety of sources you can draw upon. The Company, your agency, or your supervisor may provide training or refer you to other sources. It may also include on-the-job training. Keep in mind that product training (like ethics and compliance training) is ultimately your responsibility.

Product training materials or programs provided by the Company may include:

• Courses covering underwriting, operating procedures, or software capabilities,

• Generic product training (e.g., about universal life insurance),

• Company product brochures or producer materials containing rates, fees, charges, loads, loan conditions, surrender values, etc., for specific products, and/or

• Information about policy loans, cash value withdrawals, surrender rights, and taxation issues affecting the policy.

You may be required to demonstrate proficiency through examinations and track your continuing education progress. Be sure to ask for assistance if you need it.
Most states have adopted the Unfair Trade Practices Act to protect consumers against unfair or deceptive insurance marketing and claims practices. Certain producer or insurer practices are considered illegal and include the following activities:

**Boycott, coercion, or intimidation**
Actions intended to create a monopoly or unreasonably restrain free trade in the business of insurance. For example, this would include an agreement or understanding among competitors to boycott or refuse to deal with a particular customer or competitor.

**Defamation**
A false, maliciously critical, or derogatory statement intended to injure a person engaged in the insurance business.

**Discrimination**
Allowing differences in rates, premiums, fees, or policy benefits between individuals of the same class or insurance risk based on place of residence, race, creed, or national origin. Some states may also prohibit discrimination based on gender, marital status, place of residency or other factors.

**False or deceptive advertising**
Creating or using misleading or untrue material to solicit interest in insurance or in a product, company, or producer. This includes deliberate use or creation of false financial documents regarding the solvency of an insurer designed with the intent to deceive others.

**Illegal premiums or charges**
Charging or collecting any premium or charge not specified in the insurance contract.

**Misrepresentation in insurance applications**
Making false or fraudulent statements or representations by an applicant, producer, or other person in or relating to an application for an insurance policy or an annuity contract. This would include encouraging or knowingly helping another person make such a representation or knowingly attesting to it. Also keep in mind that a material misrepresentation in the application can void the policy contract and may result in commission chargebacks and loss of coverage.
Misrepresentation of an insurance policy
Oral or written statements, omissions, presentations, illustrations, estimates, or comparisons made or circulated by a producer, insurer, or other person that do not truly reflect the facts concerning the terms, benefits, rates, advantages, or conditions of any insurance policy or annuity contract.

Rebating
An illegal practice in most states. It involves the return of any portion of the producer’s commission to an insured or anything else of value given to an insured as an inducement to buy.

Twisting
Misrepresenting a policy or making incomplete comparisons of policies to induce a policyowner to change or replace an existing insurance policy.

Tie-ins
Illegally requiring a person to buy another product or service to be eligible to buy insurance—or vice versa.

Common Abuses
• “Bashing competitors” through disparaging remarks about other insurance companies, products, or producers.
• Unfairly or incompletely comparing companies, producers, products, or insurance company ratings.
• Misrepresenting company ratings and financial statements.
• Making untrue statements on an insurance application.
Replacing an old policy with a new one can be a legitimate part of selling life insurance, long-term care insurance, and annuity products. The key question is whether the replacement is appropriate for the client. **If it is inappropriate, then it should not take place.**

Under the insurance regulations of many states, “replacement” means any transaction in which the producer knew or should have known that, in connection with the purchase of a new policy, an existing policy has been or will be:

- Terminated (e.g., surrendered, lapsed, or forfeited).
- Changed to reduced paid-up or extended term insurance or otherwise reduced in value.
- Amended to reduce benefits or the term of coverage.
- Reissued with reduced cash value.
- Pledged as collateral or subjected to borrowing, whether in a single loan or under a schedule of borrowing over a period of time for more than 25 percent of the policy’s loan value.

An internal replacement occurs when any of the above transactions take place on an existing policy issued by the same company. In most states, internal and external replacements are subject to the same state requirements.

**Securities churning**

Securities “churning” refers to the excessive trading of a client’s account primarily for the purpose of generating commissions.

When recommending variable products to a client, broker/dealers and their registered representatives are responsible under NASD Rules of Conduct for determining suitability of the transaction and dealing fairly. Churning of securities is prohibited by the NASD Rules of Conduct. Please refer to the discussion and guidance provided in NASD Notice to Members 96-86 regarding “churning” and “determining suitability” for variable life insurance and variable annuities.

**Insurance twisting**

“Twisting” of life insurance policies or annuities is prohibited by the Unfair Trade Practices Act of nearly all states. In most states, “twisting” means using deceptive practices to effect a replacement. Such deception may include, for example, false or misleading statements about the existing policy, its insurer, or producer. It can also involve comparing policies in a manner that is misleading, incomplete, or unfair. Twisting is a criminal offense in some states.

**Insurance churning**

Insurance “churning” is a relatively new concept. Insurance laws in a few states, such as Arkansas and Florida, require the producer to determine and document that the replacement is beneficial to the client.
Put it into Practice

Fair competition under the Company’s Code of Professional Conduct includes “refraining from replacing or encouraging replacement of existing policies and annuity contracts without first clearly, accurately, and fairly communicating to the customer information needed to determine whether replacing an existing policy or contract may or may not be appropriate.”

Competing Fairly

Replacement Guidelines

If a client is considering replacing an existing policy with another one, you can provide a valuable service by helping them evaluate whether a replacement is in their best interests. You should discuss and review the following factors with the client to determine whether a replacement is appropriate.

Life insurance
- Surrender charges, if any, on the existing policy.
- Front-end loads or sales charges of the new policy.
- Accessibility of policy values of the new policy. (Be sure to disclose the availability of policy loans, the duration of the surrender charge period, amount of penalty and charges associated with partial withdrawals and surrenders, and any limits or conditions for waiving those penalties or charges.)
- Effect of the new contestable and suicide periods of a new policy.
- Evidence of insurability: the new policy may be rated or declined.
- Cost and duration of premiums and fees for each policy.
- Comparison of cash value under the old and new policies.
- The costs and effect of borrowing from the existing policy, if contemplated.

- Tax treatment of the surrender or exchange or any outstanding policy loans.
- The advantages of modifying the existing policy, if possible, to meet client’s objectives rather than buying a new policy.
- Is there a significant difference in the comparative financial ratings (A.M. Best, Fitch, Moody’s, etc.) assigned the new company versus the ratings of the old company?

Annuities
- Surrender charges, if any, on the existing annuity.
- Liquidity of the new annuity. (Be sure to disclose the duration of the surrender charge period, amount of penalty and charges associated with partial withdrawals and surrenders, and any limits or conditions for waiving those penalties or charges.)
- Tax treatment of the surrender or exchange.
- Cost and fees of each annuity.
- Guaranteed death benefits or riders.
- Is there a significant difference in the comparative financial ratings assigned the new company versus the ratings of the old company?
Long-term care insurance

- What is the difference in the benefits and the limitations and exclusions between the policies?
- How important is it to the client if the replacement results in the incontestability period starting over under the new policy?
- Is the underwriting class under the new policy as favorable as it was under the old policy?
- Are there any possible tax consequences resulting from canceling the old policy and replacing it with the new one? It may be a good idea to recommend that the client check with his or her tax advisor.
- Is there a significant difference in the comparative financial ratings assigned the new company versus the ratings of the old company?

Use fact-finding tools to assist you in a complete and accurate comparison of policies. In the end, clients must make their own decisions regarding what they believe to be in their best interests. However, a quick review of these issues and tools will allow you to assist the client in making informed decisions concerning the advisability of replacement. If the client decides to replace a policy, you should advise him or her to keep the old one in force until an underwriting decision is made on the new policy.

In addition, the appropriate replacement form for the state in which you are writing business must be used. One copy of this form is to be left with the applicant and one copy is to be returned to the Company with the completed application.

Regulations for Financed Sales

- Financed sales are replacements funded by borrowing or withdrawing from an existing policy. Financed sales, “internal replacements,” and their related sales practices are closely monitored. Before recommending a financed sale, take special care to determine whether it is appropriate. Carefully document that the client understands the costs of “financing” and the effect on the existing policy.
- Comply with any state replacement regulation and follow these important requirements: 1) Obtain, study, and keep a copy of your state’s regulation; 2) Accurately record the answers to the replacement questions on the policy application and producer’s report; 3) Deliver any state- or Company-required Replacement Notice to the applicant at the time of application; and 4) Comply with any other state regulations.
In most states, completion of the replacement form will require you to certify that the replacing coverage materially improves the insured’s position. Indiscriminately replacing an insured’s coverage may subject you to fines and other penalties.

**Variable products**

Remember the following principles when recommending a variable policy in connection with a replacement.

A change in the client’s investment objective or risk tolerance may be an appropriate reason to replace a fixed policy with a variable policy. For example, a client may now be more tolerant of the risks in the market and be in a better financial position to select the variable sub-accounts of a variable policy. Of course, this reason should be balanced with all of the other advantages and disadvantages to the client.

However, replacing a variable policy with another variable policy can rarely be justified solely by a client’s change in investment objective. Usually the client can easily switch to an appropriate investment objective or account within the existing variable policy without incurring any costs or disadvantages that may be associated with a replacement.

It is also generally inappropriate to recommend the replacement of one variable policy with another variable policy based solely on investment performance.

Finally, recommending the replacement of a variable policy with another variable policy merely to generate new commissions is prohibited by the NASD Conduct Rules requiring you to deal fairly with customers.

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**Put it into Practice**

**The Importance of Documentation When Dealing with Replacements**

Document the reasons justifying the replacement. Your documentation should include the client’s reasons for the replacement and the advantages and disadvantages to the client. The Society of Financial Service Professionals (http://www.financialpro.org/) provides a fact-finding Replacement Questionnaire you can use with clients, or you can contact the Company for a list of other tools or disclosure forms available.
Sales Practices and Advertising

Advertising

It is important that producers communicate complete and accurate information to clients about the Company and its products and services. The words, actions, and presentation materials you use in your daily sales practice help clients make informed buying decisions. Given their importance, legal guidelines and ethical standards apply as much to words and actions as they do to written documentation and advertising.

There’s always a better way:

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<thead>
<tr>
<th>Use</th>
<th>Avoid</th>
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<tr>
<td>Policy, contract</td>
<td>Account, program, or plan</td>
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<tr>
<td>Premium</td>
<td>Contribution, deposit, or investment</td>
</tr>
<tr>
<td>Cash value</td>
<td>Earnings, savings</td>
</tr>
<tr>
<td>Agent/producer</td>
<td>Financial counselor</td>
</tr>
<tr>
<td>Life insurance cash values may be used</td>
<td>This program is a retirement fund.</td>
</tr>
<tr>
<td>to supplement retirement income.</td>
<td></td>
</tr>
<tr>
<td>Premiums may reduce or stop if certain</td>
<td>Vanishing premiums</td>
</tr>
<tr>
<td>non-guaranteed results are achieved.</td>
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 Unsolicited Commercial Calls, Email, and Faxes

In the current regulatory climate, the adoption of new laws restricting unsolicited commercial calls, emails, and faxes is becoming commonplace. These include both state and federal laws and regulations that:

• Require producers to check a variety of Do Not Call lists and registries before placing phone calls to solicit a sale or even set up a later appointment to solicit a sale.

• Require producers, agencies, broker/dealers, and insurance companies to maintain their own specific Do Not Call lists.

• Restrict the ability to use tools such as predictive dialers.

• Prohibit the use of technology that blocks numbers from being identified by caller ID programs.

• Limit the use of unsolicited fax or email for advertising or other marketing purposes.

• Impose potentially steep financial penalties for violation of the laws and regulations.

Before you proceed in making any unsolicited communications, be sure you are aware of the most recent updates in state and federal regulations regarding these types of transactions.
Here are a few things you should NEVER say or do:

- **NEVER** refer to a life insurance policy or an annuity contract as an “investment,” “plan,” “program,” “pension plan,” “retirement plan,” or “savings program.” But you may refer to a qualified retirement plan itself (as opposed to an annuity contract funding it), such as an IRA, 403(b), etc., by its proper term.
- **NEVER** offer securities or investment advice unless it is with regard to a variable product and you are duly licensed and trained.
- **NEVER** offer legal, tax or accounting advice. Even if you are duly licensed, this type of advice is beyond the scope of your relationship with the Company.
- **NEVER** ask a client to sign an incomplete or incorrect application.
- **NEVER** suggest or imply that a client overlook or avoid responding to some or all of the application’s medical history questions.
- **NEVER** exaggerate, inflate, or make any unsubstantiated claim about products, services, or the Company.
- **NEVER** show to the public any materials labeled “For Internal Use Only,” “For Training Only,” “Producer Use Only,” “Broker/Dealer Use Only,” or a similar restriction.
- **NEVER** minimize, ignore, or avoid discussing aspects of your products and services because they are complicated or potentially unfavorable.
- **NEVER** use any illustration or tabular numerical data that has not been approved by the Company.
- **NEVER** use the term “vanishing premium” or “vanish” when discussing how to use accumulated values to pay future premiums.
- **NEVER** give direct monetary or indirect “in-kind” rebates.
- **NEVER** accept premium checks payable to yourself. (They must be payable to the life insurance company.)
- **NEVER** represent the coverage under a conditional premium receipt as absolute or unconditional. (Always explain the limits and conditions when you give a conditional receipt.)
- **NEVER** solicit insurance without identifying yourself as a life insurance agent/producer.
- **NEVER** advance or pay premiums for a client.
- **NEVER** commingle funds or put a client’s money into your account.
- **NEVER** charge the client extra insurance fees on top of the regular policy premium.
- **NEVER** act as a producer or accept an insurance commission if you are a trustee, executor, guardian, or acting as a fiduciary for the client in any other way. Such a conflict of interest by a fiduciary is illegal in most states.
- **NEVER** share a client’s medical, financial, or confidential personal information with anyone other than the Company or authorized persons. Such behavior, aside from being extremely unprofessional, can damage the client and expose you to liability.
- **NEVER** borrow from or lend money to a client.
- **NEVER** ask a client to designate the producer as a beneficiary or owner of the policy.
- **NEVER** use the term “tax-free” or “income tax-free” when referring to deferral of income tax.
- **NEVER** use the term “tax shelter.”
- **NEVER** use the term “mutual fund” when referring to the sub-account of a variable life or variable annuity contract.
- **NEVER** recommend an annuity just for the purpose of selling a rider. First determine that the annuity is appropriate and then look for appropriate riders.
- **NEVER** replace an annuity still in the surrender period without fully documenting the benefits to the client of doing so.
- **NEVER** replace an annuity without economic justification which benefits the customer.
- **NEVER** recommend riders that offer no benefit to the client.
- **NEVER** replace a policy in order to generate commissions for the producer.
- **NEVER** use high pressure sales or scare tactics.
- **NEVER** recommend a replacement that puts the client in a less advantageous position, such as having higher fees or a lesser death benefit, or creates adverse tax consequences.
In addition to all of the preceding guidelines, there are many rules that apply to advertising and written materials.

Under the National Association of Insurance Commissioners (NAIC) Model Rules Governing the Advertising of Life Insurance (which also includes annuities), life insurance advertising is material designed to create public interest in life insurance or annuities, an insurer, an insurance producer or agency, or an insurance product. It is also any material used to induce the public to purchase, increase, modify, reinstate, borrow, surrender, replace, or retain an insurance policy or annuity.

Advertising can be found in many places. Here is a partial list of communication media or tools which, depending on their content, audience, jurisdiction, or use, may be considered insurance advertising:

- Printed material
- Business cards
- Letterhead
- Form letters
- Lead generators
- Scripts
- Written presentations
- Standardized pitches or presentations
- Slide presentations
- Seminars
- Standardized or mass electronic mail messages
- Telemarketing
- Illustrations
- Leaflets, fliers, coupons
- Newspaper ads
- Yellow pages
- Video or audio tapes
- Web sites
- Presentations or other content in training materials designed to be used with the public
- Radio or TV ads
- Radio talk shows
- “Infomercials”
- Signage and billboards
- Reprints of magazine or newspaper articles

Practice Good Judgment

**Sales Presentation Reminders**
- Avoid statements that might be misleading or deceptive.
- Don’t use a misleading name for yourself, your agency, company, or product.
- Do not omit or misstate information that would be material to the client’s decision.
- Describe the product and its features accurately and completely. Don’t over-emphasize the product’s advantages or ignore or minimize its important conditions, limitations, costs, fees, charges, etc.

**Avoid Being a Beneficiary**
Avoid being a beneficiary under the policy where there is no family involvement. Such a conflict of interest is illegal in some states and may well be the basis for a complaint and/or lawsuit by a client’s relatives/heirs. The potential for serious trouble outweighs any supposed advantage even where there are good intentions on the part of all concerned.
What you need to know about advertising

- Start by reading the Company’s advertising guidelines, rules, and procedures for producers and following them closely.
- Use material provided by the Company. Check with your supervisor or the Company to make sure it is for the correct state and current (especially if the material is more than a year old).
- If you create or use advertising not provided by the Company, it must be approved in writing by the Company before you use it if it:
  - names the Company;
  - refers to a Company product; or
  - is meant to be used in connection with the Company or a Company product.
- If you feel you must create or use your own advertising, also get it approved by your supervisor, agency, or broker/dealer before using it.
- Wait until you receive written approval from the Company before using any advertising that has not been previously approved.

Practice Good Judgment

If the material mentions insurance, and the public sees, hears, or receives it, assume that it’s advertising. “Mentioning insurance” includes mentioning insurance in general, an insurance product or service, an insurance company, or an insurance producer or agency. The “public” includes potential recruits for new producers.

Selling to military personnel

Many states have adopted a version of the NAIC Military Sales Practices Model Regulation (the “Regulation”). The Regulation applies to the solicitation of any life insurance or annuity product by an insurer or producer to a known active duty service member of the United States Armed Forces (all components of the Army, Navy, Air Force, Marine Corps, and Coast Guard).

The Regulation includes practices prohibited if they occur on a military installation and those prohibited regardless of where they occur. When selling to individuals known to be service members, the Company requires a special disclosure form. The appropriate form can be found on the Company’s producer websites.

Producers should familiarize themselves with restrictions applicable to selling to military personnel. It is recommended that, in addition to the required disclosure, before selling on a military base or installation, the producer contact his/her supervisor or broker-dealer to ensure that all the prohibitions and restrictions for such sales are followed.
Put it into Practice

Reminders About Using Advertising

- It should always name the insurance company or the licensed insurance producer or agency.
- Identify yourself as an insurance producer whenever you name yourself in connection with insurance.
- Don’t send advertisements to individuals in states where you are not licensed. Watch out for advertising or soliciting across borders by phone, mail, or email.
- Special rules or disclaimers often apply when advertising across mass media channels such as newspaper, Web sites, television, or radio.
- Don’t show material to a client if it’s marked “For internal use only,” “For training only,” “For agent/producer use only,” or with a similar restriction.
- Don’t highlight, alter, or modify approved material. Don’t excerpt or extract from approved material.
- There are special state and federal rules for telemarketing. They impose disclosure requirements, set permitted hours, and impose other conditions and restrictions.
- Telemarketing rules may apply to telephone calls designed for setting appointments. You should be aware of the phone solicitation laws of the states in which you do business.
- Avoid prohibited words and terminology. Refer to the guidelines for help.
- Advertising of variable products must also meet FINRA and SEC rules and be approved in advance by your broker/dealer.
- Sales of traditional or variable life insurance or annuities in or through a financial institution must also meet the advertising requirements of the state or federal agencies that regulate that institution. This may require prior approval by the financial institution or a related party. These requirements include prominent disclosures that the insurance product is subject to risk, is not backed by the financial institution, and is not guaranteed by a federal agency.
- Remember that federal laws and various state laws restrict and/or prohibit unsolicited fax advertising and email advertising.
Sales Practices and Advertising

Sales Illustrations

The Company may provide or permit sales illustrations for certain types of products. Rules and guidelines will vary according to type of illustration (guaranteed or hypothetical, with or without loans, etc.) and the type of product being illustrated (term life, whole life, universal life, variable life, immediate or deferred annuity, fixed or variable annuity, etc.).

Special guidelines for sales illustrations of traditional life insurance

- Most State Insurance Departments have adopted the National Association of Insurance Commissioners (NAIC) Model Life Insurance Illustration Regulation, which applies to illustrations of traditional (non-variable) life insurance. Many companies apply the standards and procedures required by this Model Regulation nationally, even in states where it is not yet effective.
- The Regulation requires each company to declare each product as either one to be sold with an illustration or one for which illustrations are forbidden. Make sure that you know and follow the Company’s designation for each product.

Put it into Practice

General Guidelines for Using Sales Illustrations

- When presenting a hypothetical illustration, inform the client that the illustration is intended to show how the policy would work under different assumptions. It is improper to present a hypothetical illustration in such a way as to predict results or lead a customer to expect such results. Explain that the results cannot be predicted because the underlying non-guaranteed assumptions will vary over time.
- Never guarantee rates, values, or projections in an illustration when they are based on non-guaranteed rates, non-guaranteed charges, or hypothetical performance or assumptions. Do not suggest or imply that they will, in fact, be achieved even though not guaranteed.
- Never alter, modify, mark on, or remove pages from illustrations.
- Use only Company-approved illustrations. These include illustrations generated or provided by the Company at the home office, or generated by you on software provided or approved by the Company. If you generate the illustration, be sure to produce all the required parts of the program.
- Even if you’re not required to, it’s a good practice to keep a copy of any illustration you present to the client.
• If you are offering a policy that is not to be illustrated, then any use of illustrations is strictly prohibited. You must not provide the client with any depiction, advertisement, projection, or table that contains any non-guaranteed element. For example, you must not present a client with a projection or table of future non-guaranteed premium rates.

• If you are offering a policy the Company has declared must be illustrated, then you and the Company must comply with various requirements, including:
  • The rates used in the illustration must meet strict actuarial standards and testing.
  • At time of application, you must provide an illustration of the policy as applied for. The client must sign the illustration, and you must leave a copy with the client, subject to certain conditions. (Some exceptions may allow for later delivery of the illustration.)
  • If the policy ultimately is issued other than as applied for, a new conforming illustration must be delivered with the policy.
  • Special requirements exist for annual policy reports and requests for in-force illustrations.
Put it into Practice

The hypothetical rate of return used to illustrate a variable life insurance policy:

- Must be reasonable considering market conditions and available investment options;
- Must never exceed 12 percent;
- Must always be accompanied by a zero percent rate of return; and
- May be accompanied by actual historical sub-account rates of return.

Special guidelines for sales illustrations of variable annuities and variable life insurance
Besides the general guidelines outlined on the previous page, the use of sales illustrations for variable products is governed by strict FINRA and SEC rules. Furthermore, all sales illustration formats or software must be filed with FINRA by the Company and/or your broker/dealer. See the applicable FINRA Notice to Members for detailed guidelines.

Generally, only the policy values and death benefits may be illustrated using hypothetical rates of return. You should never use sales illustrations of variable products to project investment results. FINRA allows them only for the purpose of showing how the policy and its charges would work over a period of time.

Hypothetical illustrations of variable sub-accounts using historical rates of return may be permitted subject to certain product-specific disclosure requirements.

Special guidelines for sales illustrations of fixed deferred annuities
Fixed annuity illustrations can be based upon a non-guaranteed interest rate that shall not be greater than that currently being credited by the insurance company. The illustration must likewise set forth with equal prominence a comparable illustration based upon the policy’s minimum guaranteed interest rate. All illustrations containing a rate to be earned are required to reflect the deduction of all limitations and conditions, such as surrender charges and policy or administrative fees, which affect the rate of return. These limitations and conditions must also be disclosed prominently. Currently, state rules and company practices vary widely for sales illustrations of fixed annuities. Be sure to check with the Company and comply with all applicable policies and procedures.
Fraud and Deception
Fraud is deception deliberately practiced in order to secure unfair or unlawful gain. It costs insurers and consumers billions of dollars every year and is one of the most significant issues facing our industry. Because of this, the Federal government and several states have enacted legislation designed to reduce insurance fraud. To aid in compliance with anti-fraud regulations, follow the guidelines listed below:

- Maintain appropriate licenses and appointments;
- Participate in periodic compliance training and continuing education;
- Promptly submit applications, premiums, claim forms, and policy changes to the appropriate office;
- Except where permitted by Company procedure, use original documents instead of faxes, email, or photocopies;
- Instruct clients to make premium checks payable to the insurance company;
- Never give direct monetary or indirect “in-kind” rebates;
- Avoid inaccuracies or misrepresentations when helping a customer complete an application or a claim form requesting benefits;
- Use only Company-approved sales materials, including illustrations;
- Report complaints promptly and properly to the Company and supervisor;
- Report suspected fraud by producers or clients;
- Document transactions where appropriate; and
- Do not willfully hire, contract, employ, or appoint persons in the business of insurance without following the procedures, guidelines, and background investigation requirements of the Company or other applicable insurer or employer.

Federal legislation includes the insurance fraud sections of the Violent Crime Control and Law Enforcement Act of 1994 (18 U.S. Code, Sections 1033 and 1034). Section 1033 of the Act makes insurance fraud a federal crime and specifically prohibits:

- Producers, directors, employees, or officers of insurers who have been convicted of any criminal felony involving dishonesty or breach of trust from participating in the insurance business. Acts of this nature involve “some element of deceit, untruthfulness or falsification” and include bribery, cheating, embezzlement, forgery, misrepresentation, perjury, and theft;
- An insurer from willfully hiring or contracting with a person convicted of a criminal felony involving dishonesty or breach of trust without written consent of an insurance regulator.

That Section classifies the following as federal criminal felonies:

- False financial reports to insurance regulators;
- Misappropriating from an insurance entity;
- False entries in financial books of an insurance entity;
- Obstruction of justice in a proceeding before any insurance regulator; and
- Willfully permitting certain criminals to participate in the insurance business.

The statute requires that any person convicted of any criminal felony, as described above, obtain written consent from the State Insurance Commissioner before engaging or continuing to engage in the insurance business. Please note that this requirement does apply to persons already working in the insurance business.

The Federal government is serious about enforcing anti-fraud regulations, and the penalties provided by Section 1034 include:

- Up to 15 years in prison for each violation;
- Fines for each violation up to $50,000 or the amount of compensation received, whichever is greater; and/or
- Injunction order(s) prohibiting a person from engaging in any illegal conduct.
Identifying suspicious activity
If you suspect criminal activity is occurring at or through your firm or agency, you should report it immediately to your supervisor or Law or Compliance Department. To protect yourself and your firm or agency, you should be alert to indicators that could provide circumstantial evidence that criminal activity is in the works and report those concerns to your supervisor or Law or Compliance Department.

Practical Matters

Be alert for these indicators

Life insurance fraud indicators
- The policy’s effective date is close to the date of death;
- The deceased is not well-known by relatives and lived alone;
- Policies requiring physical examinations are almost never used;
- Numerous life insurance policies were purchased for deceased;
- Different carriers were used in securing coverage;
- The coverage amount is not commensurate with the stated employment/income position of the deceased;
- Theft of premium or annuity payments;
- Twisting;
- Churning;
- Submission of unauthorized or fictitious policies;
- Fraudulent misrepresentation;
- Forging signatures on applications, amendments, and/or policy delivery receipts;
- Theft of policy values; and
- Misrepresenting where application was signed.

Application fraud indicators
- Unsolicited, new walk-in business not referred by existing policyholder.
- Client walks into agent’s office at noon or end of day when agent and staff may be rushed.
- Client neither works nor resides near the agency.
- Client’s given address is inconsistent with stated employment/income.
- Client refuses to provide a telephone number.
- Client cannot provide driver’s license or other identification or has a temporary, recently issued, or out-of-state driver’s license.
- Client tries to pay premium in cash.
- Client suggests price is no object during application process.
- Client is unemployed or self-employed in transient occupation.
- Client asks in-depth questions regarding claims process.
- Client is unusually familiar with insurance terms or procedures.
- Changes to the client’s address, date of birth, tax ID number or health information are requested after the application has been submitted.
- Third party conducts the transactions on behalf of client for no apparent reason.
- Application is not signed with producer present.

NOTE: The presence of one or more of these indicators does not mean that fraud has occurred or will occur, but should be considered in determining if suspicious activity might be of a fraudulent nature.
Following the terrorist acts of September 11, 2001, Congress enacted the USA PATRIOT Act, which strengthened the anti-money laundering laws, particularly in the areas of enhanced due diligence for crimes by foreign nationals and foreign financial institutions. In addition, the U.S. Treasury Department has adopted anti-money laundering (“AML”) program regulations and regulations for required reporting of suspicious activity for insurance companies. The regulations apply to insurance companies that offer “covered products,” which include a permanent life insurance policy other than a group life insurance policy, any annuity contract other than group, and any other insurance product with features of cash value or investment, which includes variable universal life insurance and variable annuities. As required, the Company has established an AML program, which includes the following four elements.

1. Written internal policies, procedures, and controls based upon the risks associated with the Company’s covered products;
2. Designation of an AML Compliance Officer, responsible for compliance with the program, including monitoring of its producers;
3. Providing ongoing AML training of appropriate persons, including employees and independent producers; and
4. Independent testing to monitor and maintain an adequate AML program, including testing to determine compliance of independent producers.

Money laundering and terrorist financing defined
Money laundering is the illegal conversion of criminal proceeds into seemingly legitimate funds, or the use of legitimate earnings for illegal activity. Financial institutions are required to monitor accounts under the Bank Secrecy Act, the Money Laundering Control Act of 1986, and the USA PATRIOT Act. The Company has procedures in place to ensure appropriate internal controls to detect and prevent possible money laundering activities. Your help may be needed to discover any possible violations.

Terrorist financing involves the use of money, which may be lawfully obtained, to fund illegal activities. Because the transactions often have a legitimate origin and can involve small amounts of money, terrorist financing can be more difficult to identify than money laundering activities.

Customer Identification Program (“CIP”) or “Know Your Customer”
The AML regulations require that insurance companies obtain all relevant client-related information necessary for an effective program. It is important that all client information requested on the application or any supplemental form be obtained at the time of sale. NOTE: Producers who are also registered representatives should utilize CIP procedures that are in effect with their broker-dealers.

Red flags
While it is impossible to list every potential situation that may be deemed suspicious, the activities can be segregated into two general categories—client information and client account activity. You should be aware of suspicious activity and report this activity to the insurance company. Examples of suspicious activity include:

- The client seems unusually concerned about providing, or seems reluctant to provide, personal financial information. The client is reluctant to provide routine information about identity, source of funds, business activities, and bank references that you would expect the client to provide.

- Payments are made via multiple cash equivalents (i.e., money orders or cashier’s checks).

- The client is from, or has accounts in, a country or territory identified as non-cooperative by the Financial Action Task Force, which is an international organization made up of several countries, including the United States, dedicated to combating international money laundering.

- The client is introduced by an overseas agent, affiliate, or other company that’s based in a country known for drug trafficking, terrorism, or money laundering.
• The client provides information that turns out to be false or suspicious—for example, the client’s Social Security Number or date of birth does not match that provided on other documents, the phone number provided by the client is disconnected, or the business address is for a vacant building or an office space that seems inconsistent with the description of business.

• The client is concerned about currency reporting or client identification requirements.

• The client withholds information necessary to complete required transaction reports.

• The client’s appearance or demeanor is suspiciously unusual, or the client is excessively nervous.

• The client doesn’t seem to care about returns on an investment, but instead focuses on restrictions relating to withdrawal or cancellation.

• The client is named in news reports, or rumors circulate that the client is engaged in illegal activities.

• The client claims to be an agent (such as a lawyer or accountant) for someone else, but does not reveal the identity of the principal or permit you to speak to him or her.

Awareness alert
The Financial Action Task Force (FATF) and the Financial Crimes Enforcement Network (FinCEN) have advised financial institutions and their producers, distributors, and employees to scrutinize and be aware of possible suspicious activity for accounts domiciled in countries identified by the FATF as non-cooperative.

The list of countries changes periodically, but a current list can be obtained by referring to the following Web sites:

http://www1.oecd.org/fatf/NCCT_en.htm

The Company will continue to maintain policies, procedures, and controls under the USA PATRIOT Act, as well as all applicable laws and regulations dealing with anti-money laundering activity as they become effective.

Should you have any questions regarding the Company’s anti-money laundering program, please contact the Company’s AML Compliance Officer.

Put it into Practice

Know Your Client
Verification of identification is a section under the USA PATRIOT Act and requires that producers, distributors, and employees “know your customer.” At a minimum, be sure to request full identification of the client, his/her business entities, and his/her source of funds. Also determine if product requests are in line with his/her business entities and his/her source of funds.

Willful Blindness
“Willful blindness” is a violation of the AML regulations. This means it’s against the law for you to “look the other way” if you know of, or reasonably should have known of, red flags indicating suspicious activity. As a producer for the Company, you have a legal duty to “know your client,” detect such suspicious activity, and report it to the Company.
The Company is committed to handling complaints fairly and expeditiously and expects your full cooperation in preventing and responding to them.

Clients may contact you, the Company, or others for a variety of reasons. These may involve service requests, inquiries, questions, concerns, lack of understanding, or a serious grievance. It’s important to listen to clients carefully and provide prompt and effective service.

If you receive or become aware of an “insurance complaint,” you must give it special handling. Under the insurance laws of most states, a complaint is defined as written communication primarily expressing a grievance. The client might send the complaint to you, to your agency, or to the Company, or file it directly with the State Insurance Department or other regulatory agency, or any combination of these. It might be sent or filed by the client or by a representative or attorney for the client. In any of these cases, if the communication is in writing and expresses primarily a grievance, it’s considered a complaint.

The Company takes all complaints seriously and its procedures require prompt reporting and handling. The Company investigates complaints and, where called for, seeks to fairly and amicably resolve them. It also tracks and monitors complaints and uses this information to improve service and operations.

Lawsuits and policy claims
Lawsuits, threatened lawsuits, death claims, or claims for other policy benefits are not necessarily complaints. But, like complaints, they are serious communications which require your prompt handling. If you don’t handle them properly and promptly, they could lead to a complaint against you.

Put it into Practice

Guidelines for Responding to Complaints

• Report and deliver copies of complaints immediately (that day) to the Company’s Compliance Department and your supervisor.

• Cooperate with the Company’s investigation and promptly provide any documents, explanation, or statement requested.

• Don’t promise the client specific results. Don’t argue with the client. In general, don’t take sides—let the Company resolve the complaint and communicate the result to the client.
Here are some tips on handling these kinds of communications.

- Report lawsuits or threatened lawsuits immediately. Contact your supervisor and the Company’s Law Department the same day. Then immediately deliver a copy of any written notice you’ve received (e.g., send it by fax or by overnight delivery).

- Once you become aware of a lawsuit or threatened lawsuit, do not comment on the case, its facts, or allegations to the client, client’s lawyer or representative, or any other third party—unless instructed otherwise by the Company’s Law Department or your own lawyer. Above all, don’t argue with clients.

- If you are notified, even verbally, of a death claim or policy claim, get the details and contact the Company’s Claims Department immediately with the pertinent information. It’s also good practice to advise the claimant to contact the Claims Department directly, as a backup.

- While you may assure the claimant that the Company will process the claim, never guarantee or imply that the claim will, in fact, be paid, or how much, or when. The final payment or determination of the claim will be communicated in writing by the Company.

- Assist in getting information or documents requested by the Claims Department when asked.

- Deliver the check promptly to the beneficiary if the Company sends the claim check to you.

Please be aware that the processing of a claim may be complex. For example, the claim could be delayed by a necessary investigation. There could also be questions regarding the proper beneficiary, or other factual or contractual issues. Depending on the type of policy and its status (e.g., out-standing policy loans), the Company will have to verify the exact amount of benefit payable. In rare instances, the policy may be contested by the Company for misrepresentation or the claim could be denied for fraud. In any event, the Company will communicate the final payment or determination of the claim in writing.

Practical Matters

Handling Client Communications
Maintaining a comprehensive filing system can help avoid problems later on. Be sure to follow your firm’s procedures. As an example, your files might include:

1. A separate file for each client. A complete client file includes copies of all sales materials used, correspondence, fact finders, needs analysis, disclosure forms, illustrations, application, etc.

2. A master compliance file. This should include all sales material approvals, records of audits, your agency’s and/or broker/dealer’s compliance procedures, policies, etc.

3. A company compliance file. This should include the applicable insurance company’s compliance policies, bulletins, and procedure manuals.
Supervision and Enforcement

The Company is committed to maintaining ethical market conduct and sales practices. The Company and/or the Company’s distributors, such as the firm you work with may maintain compliance policies and procedures and a system of supervision for this purpose. It’s important that you cooperate with these policies and procedures. In addition, if you supervise other producers or sales employees, it is your responsibility to ensure that:

- Your subordinates receive, read, and are trained on these policies and procedures; and
- As a supervisor you perform all of the supervisory, monitoring, and tracking responsibilities assigned to you by the Company or your distributor.

If the Company determines that a producer has failed to comply with Company policies, procedures, and/or guidelines, one or more of the following steps may be taken:

- Training or re-training may be initiated;
- The producer’s sales may be monitored for a set period of time;
- Compensation may be appropriately adjusted;
- A verbal or written warning may be issued; and/or
- The producer’s contract and/or appointment with the Company may be suspended or terminated.

Practical Matters

Maintaining a Client File

Your file should document your presentation and the client’s needs, objectives, and reasons for purchase. Identify or list Company-printed material used along with copies of any fact-finding tools, sales presentations, illustrations, disclosure forms or notices, the application, or any other material completed, generated, delivered, or used with or for the sale. Also keep copies of all correspondence and notes of any meetings or phone calls with the client, Company, or others regarding the case.
As a Company, we are committed to treating our customers fairly and ethically. That is why we have adopted this Code for our producers and employees. Our producers (the individuals and firms authorized to sell our insurance products) have a responsibility to treat our customers fairly and ethically. Our employees—who support our producers and serve our mutual customers—share that responsibility and trust. The Company applies the following Principles to its insurance markets and lines of insurance business.

**Principles**

The Company commits itself, in all of its insurance markets and business, to:

- Conduct business according to high standards of honesty and fairness and treat our customers as we would expect to be treated.
- Provide competent and customer-focused sales and service.
- Compete fairly.
- Provide advertising and sales material that is clear, honest and fair.
- Handle customer complaints and disputes fairly and promptly.
- Maintain a system of supervision and monitoring reasonably designed to demonstrate the Company’s commitment to and compliance with these principles.

In addition, the Company has adopted the following Policies specific to the Company’s individually sold life insurance, annuity and long-term-care insurance (referred to as “Insurance Products”).

**Use qualified and trained distributors and employees.**

- The Company will have appropriate criteria or guidelines for selecting producers and appropriate employees of good character and business repute who have appropriate qualifications.
- The Company will ensure that producers are licensed, appointed (where necessary), and meet other applicable state requirements required to solicit the Company’s Insurance Products.
- Training will be provided or made available to producers and appropriate employees on how to comply with laws and regulations, with Company procedures, and with this Code, in the marketing and sale of Insurance Products, as appropriate to the distribution system.
- Information will be provided or made available to producers and appropriate employees about the Company’s applicable Insurance Product(s) and the features and operation of the product(s). The information may be provided or made available through various methods, including: sales, marketing, or other descriptive product materials; manuals; training or training materials; software; Web sites or system-based information; or other appropriate means.

It is the policy of the Company, in the sale of its insurance products, to:

**Meet the needs of its customers.**

- The Company will enter into life insurance transactions which assist customers in meeting their insurable needs and objectives.
- The Company will have procedures designed to reasonably assure that recommendations made by producers (or by the Company if no producer is involved in the sale) to purchase individually sold annuities or long-term care are suitable based upon relevant information obtained from customers.
- The Company will maintain a process to comply with laws and regulations that are related to this Code in the marketing and sale of Insurance Products.
- The Company, in cooperation with consumers, regulators, producers and others, will proactively seek to improve the life insurance industry’s practices for marketing and sales of Insurance Products.
- The Company has adopted and will support the concepts in this Code of Professional Conduct.
- The Company will take corrective action upon identifying any violations of this Code.

**Code of Professional Conduct for Producers and Employees**

[3]
● The Company will encourage producers and appropriate employees to participate in continuing education designed to provide current knowledge regarding products, industry issues and emerging trends.

Compete fairly.
● The Company will engage in fair and active competition in the marketing and sales of its Insurance Products. To accomplish this, the Company, and, where appropriate, its producers and its employees involved in the sales process, will:
   a) Maintain compliance with the applicable state and federal laws fostering fair competition; and
   b) Refrain from disparaging competitors.
● Where the sale of an Insurance Product involves a replacement, the Company and, where appropriate, its producers will:
   a) Provide consumers with information they need to ascertain whether a replacement is appropriate—including reasons why replacement might not be appropriate; and
   b) Have procedures to review replacement activity which include a system for tracking, identifying and addressing deviations from the Company’s replacement policies and procedures.

Sell fairly and use clear and accurate sales materials.
● Advertising and sales material that is designed to lead to sales or solicitation of the Company’s Insurance Products should be presented in a manner consistent with the needs of the customer. Such advertising and sales material will be based upon the principles of fair dealing and good faith and will have a sound basis in fact.
● Such materials that are presented as part of a sale are clear and understandable in light of the complexity of the product being sold.
● Such materials are not permitted to be used in the sale of the Company’s Insurance Products unless and until they are reviewed and approved by the Company for compliance with this Code and with applicable laws and regulations related to advertising, unfair trade practices, sales illustrations and other similar provisions.

● The Company will maintain procedures designed to reasonably assure that sales illustrations or other representations of premiums and considerations, costs, values and benefits are accurate, fair, and complete and contain appropriate disclosures. Where appropriate, guaranteed and non-guaranteed elements will be clearly identified, distinguished and explained.

 Appropriately handle and monitor complaints.
● The Company will identify, evaluate and handle customer complaints in compliance with applicable laws and regulations.
● The Company will provide an easily accessible way for customers to communicate complaints.
● The Company will maintain policies and procedures designed to reasonably assure that customer complaint information gathered is analyzed and efforts are made to eliminate their root causes.
● The Company has policies and procedures to reasonably assure that it makes good faith efforts to resolve complaints and disputes.

Supervise and monitor.
● The Company’s management has established and will enforce policies and procedures reasonably designed to demonstrate the Company’s commitment to and compliance with this Code.
● The Company’s system of supervision over the sales and marketing activities of its producers and appropriate employees relating to its Insurance Products is designed to reasonably assure compliance with this Code. In appropriate distribution systems of independent producers, the Company may agree that a producer’s firm or other independent intermediary will perform supervisory responsibilities as specified in a written agreement with the firm or intermediary.
● The Company will train appropriate employees on this Code, relevant Company compliance policies and procedures, and applicable laws and regulations.
● The Company will monitor the sales and marketing practices of its producers and appropriate employees to ensure compliance with this Code and applicable laws and regulations.

3 Revised January 1, 2008.
We hope that you have found A Practical Guide to Professional Conduct helpful.

This Guide cannot discuss all of the topics, laws, and regulations that may affect your activity as a producer. Also keep in mind that its guidelines are general in nature and cannot address all details of any specific circumstance. If you need additional advice about applying these guidelines, please contact your supervisor or the Company.