

FOR AGENT USE ONLY

## Introduction

**It is the position of AIP Marketing Alliance that compliance and suitability are good business. These activities protect the customer, the agent, and the insurance and annuity carriers. This Manual is a digest of various carriers' compliance and suitability practices. It is not intended to provide legal advice, is not inclusive, and is subject to change from time to time without notice. Refer to your state insurance department website or the Carrier for the most current information.**

## Glossary

**Carrier** is a general reference to numerous life and annuity carriers. The word carrier is not specific to any one carrier. Individual carriers may have different or additional compliance and/or suitability requirements.

**AIP** refers to the AIP Marketing Alliance, Inc., Troy, Michigan.

AIP's policy is a reflection of Carrier policies. In this Manual, reference to either AIP or Carrier, unless otherwise specified, is reference to the other.

**Distributor(s)** refers to AIP, the employees of AIP, the writing agent, the writing agent's agency, and the agency's employees.

**Suitability** is the process used to determine if a life or annuity product is appropriate for a given consumer based upon the information provided by the consumer to the producer as well as the information provided by the producer to the client.

**Compliance** is about the sale. The focus is on disclosure to the customer and the Carrier. For example, is this sale a replacement? Are there surrender charges on the existing product? Compliance is a complete disclosure of the details of the product and the impact of the transaction. They are provided to the customer before the application is taken and to the Carrier at the time of application submission.

Both Suitability and Compliance have regulatory and legal implications. In this Manual, reference to one, unless otherwise specified, is reference to the other.

This Manual documents various Carrier guidelines and procedures for the business conduct of Distributors. The most current version of the Manual is on our website and can be referenced electronically. In reviewing and applying the policies contained in this Manual, bear in mind that it is not an all-inclusive compilation of Distributors' responsibilities, nor is it intended to replace any compliance manual that has been provided to Distributors by their broker-dealer or the Carrier. It is also not intended to replace any obligations imposed on Distributors by state or federal law, by contract, or the legal and ethical obligations that Distributors may have toward individual customers.  
Distributor Course of Conduct

Distributors must act with integrity, competence, and utmost good faith in the sale and distribution of Carrier products, in the maintenance of customer relationships, and in dealings with the Carrier.

- a. Distributors must ensure that customers receive all information needed to make informed choices during and after the solicitation process.
- b. Distributors must only recommend insurance products that are suitable for the needs of the customer.
- c. Distributors must disclose to the Carrier full and accurate information required for effective underwriting, policy administration, claim resolution, and other relevant matters.
- d. Distributors must avoid conflicts of interest in dealings with customers and with the Carrier. The duty to mitigate perceived conflicts of interest is ongoing and requires immediate action from Distributors to address perceived conflicts.
- e. Distributors must manage, monitor, and control Distributor's employees and contractors used by Distributors to ensure Distributors and their compliance.
- f. Distributor must follow the legal regulations of the jurisdictions in which (s)he is doing business.

### **Distributor Recruitment, Selection, Appointment, and Licensing Standards**

- a. Each state has its own set of licensing and appointment requirements with which Distributors and the Carrier must comply in order to transact business. Distributors are prohibited from selling or engaging in any sales activity without being properly licensed and appointed in accordance with the requirements of the state where the solicitation takes place, the application is written, and the policy is delivered, including the requirements of the state of residence of the applicant.
- b. Distributors must, within 5 business days or sooner if possible, inform the Carrier and AIP of any license suspension, revocation, or any other state disciplinary action against them.

### **Training and Continuing Education**

Customers look to insurance professionals to serve their insurance and financial needs properly and to match the products they are offered to the customer's financial goals. To this end, the Carrier makes available information on its products and services to ensure that its affiliated Distributors have the opportunity to be well informed.

- a. To meet the insurance needs and financial objectives of customers, Distributors must fully understand the features and operation of the Carrier products and services that the Distributor offers to the customer.
- b. The Distributor must make every effort to determine the customer's financial goals and to match the Carrier products and services to those same goals.
- c. The regulatory and legal landscape continuously changes. The Distributor is ethically and legally responsible to understand and operate within the Carrier requirements as well as the legal requirements of those jurisdictions in which the Distributor does business.

### **Suitability Standards**

On December 30, 2019, the Life Insurance and Annuities (A) Committee of the NAIC approved a revised Suitability in Annuity Transactions Model Regulation. The Revised Suitability Model aligns the state standard of conduct with the SEC's Regulation Best Interest and provides more than suitability but does NOT impose a fiduciary standard. In with the new year is a best interest standard of care that comprises four components:

#### **Care Obligation**

The Care Obligation component requires three items: Know the consumer's financial situation, insurance needs and

goals, and financial objectives;

1. Understand the available recommendation options;
2. Have a reasonable basis to believe the recommended option chosen effectively addresses the consumer's financial situation, insurance needs, and financial objectives over the life of the product. These things cannot be determined without consumer profile information; and
3. Communicate the basis or bases of the recommendation.

The Care Obligation contains 10 additional provisions explaining what is, and what is not, required to satisfy the regulations. In general, the producer must consider all the consumer's information, which the producer has made reasonable efforts to obtain, and the products available to be sold by the producer and decide which annuity available to the producer best addresses the needs and goals of the consumer.

### **Disclosure Obligation**

The Disclosure Obligation has these disclosure requirements:

Prior to any recommendation to the consumer, the producer must disclose:

1. The producer's role in the transaction;
2. The products the producer is licensed and authorized to sell;
3. The insurers for which the producer may sell products;
4. The sources and types of cash and non-cash compensation to be received by the producer;
5. Notice of the consumer's right to request more information on the cash compensation to be received.
6. If requested by the consumer or the consumer's designated representative, a reasonable estimate of the cash compensation to be received and whether the compensation amount is a one-time or multiple occurrence amount.
7. Prior to or at the time of the recommendation, disclosure of the various features of the annuity.

### **Conflict of Interest Obligation**

The Conflict of Interest Obligation requires a producer to:

1. identify, and
2. either:
  - a. avoid, or
  - b. reasonably manage and disclose material conflicts of interest, including material conflicts of interest related to an ownership interest.

In addition, as part of the Best Interest Obligation, **a producer must always act without placing the producer's or the insurer's financial interest ahead of the consumer's interest.**

### **Documentation Obligation(s)**

1. If a recommendation was made, the producer must make a written record of any recommendation and the basis for the recommendation.
2. If the consumer refused to provide some, or all, of the consumer's information, then a signed Consumer

Refusal to Provide Information form, the name of the form, and the wording may change from Carrier to Carrier at the time of the sale.

3. If the consumer purchased an annuity that was not recommended, a signed "Consumer Decision to Purchase an Annuity NOT Based on a Recommendation" form, also subject to name and wording changes at the time of the sale.

**NOTE**

Under the new regulations, the carriers also have responsibilities. Some carriers may provide documentation forms for the agent to complete in order to document decisions made by the consumer. These may or may not need to accompany applications.

**WARNING**

This material is a condensed overview of a more complicated subject. As with many NAIC Model regulations, the terms and conditions may and likely will vary from state to state. The above overview should NOT be used or in any way considered legal advice.

**Privacy Protection and Preservation of Protected & Proprietary Information**

- a. Providing insurance and financial products and services involves collecting customer financial and health information that may not be publicly known. The Carrier and Distributors collect information to underwrite products, provide customer service and fulfill legal and regulatory requirements. Regardless of how or why the information is collected or in what form, the Carrier and Distributors are required by state and federal law and Carrier policies to protect and maintain the confidentiality of such information from disclosure.
- b. Any nonpublic personal information a Distributor collects or that was previously collected from an individual on the Carrier's behalf is subject to our privacy protection policies and privacy laws. Nonpublic personal information (referred to as "**protected information**" in this section) includes health or financial information about an individual that is not publicly available. These policies and laws also apply to any list or summary that is created from the nonpublic personal information that was collected.
- c. Distributors may only disclose protected information to the Carrier and the service providers the Carrier specifically designates, provided disclosure is necessary and appropriate, for any one of the following purposes:
  1. To assist Underwriting a Carrier product;
  2. To assist with placing a Carrier policy;
  3. To affect a customer request;
  4. To service a carrier policy;
  5. To assist the Carrier in the claims process;
  6. To assist a Carrier investigation;
  7. To respond to a subpoena or judicial or regulatory order.
- d. The duty to preserve the privacy of protected information is not fulfilled simply by limiting how the information may be used. It is equally important for Distributors and their employees or associates to maintain a secure environment in which protected information is stored, handled, and disposed of. A Distributor's policies and procedures should be designed reasonably to secure protected information from unauthorized access or disclosure and to preserve the integrity of protected information, including customer information stored on personal computers. Office security should be designed to reasonably protect customer information, whether in hard copy or electronic form.

- e. Desktops, servers, and other technology hardware housing customer information must be adequately secured via proper access control and through satisfactory technical and physical security controls. Since independent Distributors' office environments are not uniform, appropriate physical security controls may differ. At a minimum, each Distributor's office should adopt safeguards for both paper and electronic information. The requirements vary by state, and there are federal requirements. Distributors are strongly encouraged to consult with their own legal counsel as to requirements. NOTE: The loss of a personal computer or a thumb drive is a main cause leading to the release or potential release of nonpublic, personal information.
- f. **Proprietary information** is information that belongs to the Carrier rather than any Distributor or policy owner. Proprietary information includes confidential business information, such as underwriting standards; pricing information; commission structures; terms and conditions of agency contracts; advertising materials that have not yet been approved or released to the public; Carrier-generated mailing lists; Carrier-generated customer lists; Carrier-generated lists of Distributors or agencies; nonpublic financial data about the Carrier; and selling know-how, that is, techniques, methods or concepts that have been created by the Carrier and are not generally known to the public
- g. Both during and after a Distributor's affiliation with the Carrier, a Distributor is prohibited, under the terms of the Distributor's contract with the Carrier, from directly or indirectly divulging, publishing, communicating, or making available to any person, corporation, governmental agency, or other entity, or using for his or her own or any other person's or entity's purposes or benefit, the Carrier's proprietary information except with the written permission of the Carrier or as ordered by a court of competent jurisdiction or other regulatory authorities. If Distributors are requested to provide proprietary information, they should not do so without notifying and receiving direction from the Carrier's legal department.

## Do Not Call Program

To comply with federal and state Do Not Call (DNC) requirements, some Carriers have established a DNC Program that prohibits Distributors from making sales calls to any telephone number that has been placed on the National DNC Registry, state DNC lists, or the Carrier's DNC list, and requires Distributors to abide by Federal Trade Commission rules. Distributors are obligated to become familiar with and adhere to the Carrier's DNC Program. The fines for violations are expensive.

## Completion of Documents and Signatures

The applications, forms, policy receipts, illustrations, and other documents that the Carrier requires customers to review, complete, and sign as part of their insurance purchase are important documents that play a vital role in establishing and documenting the Carrier's relationship with customers. The information and customer signatures required on these documents are essential elements of the Carrier's compliance with state and federal laws and regulations. It is therefore essential that these documents accurately reflect information provided by the customers and contain the signature of the customers, certifying that they have reviewed and approved all the information on the documents.

The responsibility for the accuracy of these customer documents rests with the Distributors who sell the Carrier's products. Accordingly, it is the Carrier's policy that Distributors take steps to assure themselves that:

- a. The information presented in all applications, loan request forms, suitability forms, policy receipts,

illustrations, and other customer documents is accurate and has been provided or approved by the customer.

- b. The customer has signed and dated the final form of the documents and initialed any and all changes. It is the Carrier's and AIP's policy that there are no exceptions to these requirements even with customer consent.

Even if the customer authorizes the Distributor to do so, Distributors are strictly prohibited from:

- a. Requesting or permitting customers to sign blank forms.
- b. Requesting or permitting customers to sign an application on which questions have been left blank for the Distributor to complete at a later time.
- c. Adding or changing information on a signed document without returning it to the customer for review and approval (signaled by the customer's initials and date).
- d. Signing customers' names or placing their initials on any document.
- e. Signing a document as a witness if the Distributor has not actually seen the customer sign the document. Unless required by the Carrier, it is not required that the agent sign as witness.
- f. Knowingly entering or permitting a customer to enter false information on any document.
- g. Using white-out.
- h. Distributors are prohibited from marking or altering a signed application outside the presence of the applicant. If an application is not fully and correctly completed, and the applicant is not available to make and initial the needed changes, the proper course is to submit the original application as is and attach a separate note indicating the additional information that is missing from the application. The Carrier may then prepare an amendment to the policy that can be signed when the policy is issued and delivered. NOTE: Some Carriers may require a new application.
- i. Some missing information, such as the replacement information, cannot be amended and will require instead the re-submission of a completed application and/or replacement form containing the customer's signature or initials.

## **Disclosures to Customers: Advertising/Sales Material**

The Carrier is committed to providing consumers with complete, balanced, and accurate information regarding the Carrier's products and services that enables them to make decisions in their own best interests. Advertising/ sales material is an important part of the sales process. To ensure that these materials comply with applicable laws and regulations and are written in a manner that is clear, understandable, and conveys accurate and helpful information, the Carrier requires that all materials used in the Distributor recruiting and sales processes have Carrier written approval prior to their use and that Distributors follow the Carrier's guidelines for obtaining such approval.

*Advertising/sales material* refers to materials designed to create public interest in the Carrier, its products, or its Distributors, or to encourage the public to purchase, increase, modify, reinstate, borrow from, surrender, replace or

retain a policy. The definition of advertising/sales material is expansive and includes items Distributors may not think of as advertising/sales material, such as a business card, stationary, designations, and radio shows.

*Advertising/Sales material* includes but is not limited to:

- a. Printed and published material, audiovisual material, and descriptive literature used in direct mail, newspapers, magazines, radio and television scripts, telemarketing scripts and billboards, and similar displays;
- b. Websites and internet publications of any information relating to the Carrier or its products, services, office

locations, Distributors, or other employees, including, but not limited to, email, home pages and social networking sites such as MySpace, LinkedIn, Facebook, Twitter or the like created by individual Distributors or others. NOTE: many Carriers specifically prohibit the use of text messaging or chat rooms for marketing purposes;

- c. Distributors selling the Carrier's products, including, but not limited to, circulars, newsletters, leaflets, brochures, booklets, depictions, illustrations, software printouts, proposals, and pre- approach and other form letters, delivered in any medium, including electronic;
- d. Newspaper or magazine article clippings, published investment letters, industry publications, or any other material created by a third party and used as part of the prospecting and sales process.
- e. Communications that use the Carrier's logo and/or rates;
- f. Material used for recruiting, training, and educating the Carrier's Distributors and employees and that is designed to be used or is used to encourage the public to purchase, increase, modify, reinstate, borrow from, surrender, replace or retain a policy or other product;
- g. Prepared sales talks, seminars, presentations, and material for use by Distributors and employees, including, but not limited to, software presentations, videos, overheads, and slides used to promote the Carrier's products and/or services of the Carrier;
- h. Business cards, stationery, envelopes, and other similar materials that display or contain the Carrier's name;
- i. All material used to train Distributors and employees concerning the solicitation and sale of the Carrier's products.

### **Review of All Advertising/Sales Material**

Basically, it is difficult to think of anything that can be given or used with a customer that is not advertising. All advertising/sales material, whether created by a Distributor or a third party, must be approved by the Carrier in writing prior to use. **There are no exceptions to this policy.**

### **Disclosures to Customers: During the Sales Process**

During the sales process, Distributors act as the critical link between the Carrier, as the insurance provider, and the prospective policy owner. In fulfilling that role, Distributors act as a conduit of information that will provide an important basis for the prospective policy owner's decision to purchase an insurance product. Providing comprehensive and helpful information improves a customer's understanding of the features of the Carrier's products, enhances the customer's ability to evaluate the relative costs of similar products, and allows the customer to select the product most suited to meeting his or her individual needs.

Making misleading suggestions, statements, or exaggerations concerning any aspect of insurance or an annuity product, is not in anyone's best interest and is prohibited by the Distributor, the Carrier, AIP, and the employees and representatives of the Distributor, the Carrier, and AIP.

#### **Disclosure includes:**

- a. Informing the customers that the Distributor is an agent, as opposed to a title designed to confuse customers or one for which the agent is not qualified.
- b. Using credentials that are not approved by the Carrier. Credentials are advertising and need Carrier approval prior to use.

**Information to Include in the Sales Process**

- a. Distinguishing between guaranteed and non-guaranteed elements of a product.
- b. A regulatory compliant illustration (if non-guaranteed elements are illustrated).
- c. A buyer's guide (in those states that require it).
- d. A policy summary (in those states that require it).
- e. An accurate presentation of premium obligations.
- f. An accurate presentation of the premium payment period.
- g. An accurate presentation of the length of coverage or income.
- h. A complete presentation of surrender charges and, if a replacement, the surrender charges of the in-force policy.

**Words, Phrases, and Activities to Avoid – The list is not exhaustive**

In an effort to minimize disputes and to decrease the chance of a misunderstanding arising between Distributors and prospective customers, the following words and phrases should be avoided:

- a. Do not refer to the Carrier's products as anything other than insurance and/or annuities.
- b. Do not refer to a customer's purchase as an account or a plan;
- c. Distributors may describe the ways in which policy owners can use the cash value that may accumulate in their insurance policies as long as they do so factually and accurately;
- d. Do not use words that describe non-guaranteed elements of a policy as guaranteed. Under no circumstances should Distributors state or imply that the payment or amount of non-guaranteed elements under a policy is guaranteed;
- e. Do not suggest that the policy will not require premiums each year in order to maintain the illustrated death benefit unless the policy is fully paid up. In particular, do not use the terms vanish, vanishing premium, disappearing premium, or their equivalent;
- f. Do not suggest that issuance of a policy is not dependent upon evidence of insurability when that is not the case;
- g. Do not describe a cash gain over premiums paid as a profit or return on the premium, since it is more accurately a policy benefit;
- h. Do not use the terms free, no cost, without cost, no additional cost, at no extra cost, or similar words with respect to any benefit or service being made available with a policy unless there actually is no direct or indirect cost to the prospective policy owner for the service or benefit;
- i. Do not state or imply that the policy or combination of policies is an introductory, initial, or special offer; that applicants will receive substantial advantages not available at a later date; or that the offer is available only to a specified group of individuals unless that is the fact. If it is a special offer, the Distributor should only use wording provided by the Carrier;
- j. Do not make unfair or incomplete comparisons of policies, benefits, dividends, or rates of other insurers. Only accurate comparisons of policy features should be made, and Distributors should take reasonable steps to assure the accuracy of such comparisons;
- k. Do not state or imply that any product is in some manner connected with a governmental program or agency or that it has been endorsed by a governmental agency, such as a state insurance department that has approved policy forms. Such approval does not constitute endorsement;
- l. Do not make statements that are misleading, in fact, or by implication, with respect to the assets, liabilities, insurance in force, corporate structure, financial condition, age, or relative position of the Carrier in the insurance business. The Carrier encourages Distributors clearly to inform the prospective customer of the scope and purpose of ratings and financials;

- m. Do not make disparaging remarks about other insurers, insurance Distributors, products, services, or methods of marketing. However, Distributors may inform their customers of factual comparisons of product features;
- n. Do not use savings, savings account, liquidity account, earnings or similar when referring to cash value;
- o. Do not use contributions, payments, deposits, or similar when referring to premiums;
- p. Do not act beyond the scope of your license. Do not discuss equity products, trusts, property insurance, health insurance, group insurance, annuities, life insurance, or anything else concerning which you are not licensed and/or qualified.

## **Disclosures to Customers: The Creation and Use of Illustrations**

The requirements of the NAIC Illustrations Model Regulation apply in all states.

The Model, which applies to life insurance products containing non-guaranteed elements, prohibits the use of any illustration for a policy form declared to regulators not to be marketed with an illustration.

### **Definition**

- a. An illustration is a presentation or depiction that shows certain non-guaranteed elements of a life insurance policy over a period of years. There are three types of illustrations:
- b. Basic illustration: a ledger or proposal used in the sale of a life insurance policy that shows both guaranteed and non-guaranteed elements.
- c. Supplemental illustration: an illustration furnished in addition to a basic illustration. A supplemental illustration may be presented in a format differing from the basic illustration but may only depict non-guaranteed elements included in the basic illustration.
- d. Inforce illustration: an illustration furnished at any time after the policy has been in force for one year or longer.

### **Creation of Illustrations**

Distributors are permitted to use only illustrations generated by the Carrier or by software that has been approved by the Carrier. Distributors are not permitted to alter the assumptions underlying, or operation of, any Carrier-approved software. Distributors must ensure that the illustrations or software they use are generated from the Carrier's most current software. Distributors may not under any circumstances use outdated illustrations or software.

### **Presentation of Illustrations**

Where an illustration is used, Distributors must not advise customers that an illustration is a guarantee of performance. In presenting and explaining the illustration, Distributors must refrain from:

- a. Marking or altering an illustration in any way;
- b. Representing the policy as anything other than a life insurance or annuity policy;
- c. Using or describing non-guaranteed elements in a manner that is misleading or has the tendency to mislead;
- d. Stating or implying that the payment or amount of non-guaranteed elements is guaranteed;
- e. Using any basic illustration that does not comply with the requirements of the NAIC Model Illustration Regulation;
- f. Providing an applicant with an incomplete illustration;

- g. Representing in any way that premiums payments will not be required for each year of the policy to maintain the illustrated death benefit, unless that is a fact;
- h. Using the terms vanish, vanishing premium, limited pay, or similar terms that implies the policy becomes paid up to describe a plan for using non-guaranteed elements to pay a portion of future premiums; and
- i. Offering a supplemental illustration that is not accompanied by a basic illustration and otherwise compliant with this policy

### **Delivery of Illustrations, Signed Illustrations, and Record Retention**

Illustrations assist consumers in understanding the functioning of the product that they purchase and also provide an important documentary record of the transaction. Illustrations can therefore be a useful tool in refreshing customers' recollections regarding the merits of their purchase and can help protect Distributors in the event a customer later becomes confused. To protect them and their customers better, and subject to any additional obligations imposed by an individual state's law, Distributors must deliver, obtain signatures, and retain illustrations for products subject to the NAIC Model Illustration Regulation.

- a. If a Distributor uses an illustration in connection with the sale of a life insurance policy and the policy is applied for as illustrated, the Distributor must submit a signed copy of the illustration to the Carrier with the application and provide a copy to the customer. A signed copy also should be maintained in the Distributor's files.
- b. If a Distributor uses an illustration in connection with the sale of a life insurance policy and if the policy is issued other than as applied for, a REVISED illustration conforming to the policy as issued must be sent with the policy. It must be labeled "REVISED," and it must be signed and dated by the customer and Distributor no later than the time of policy delivery. A signed copy of the REVISED illustration must be provided to the customer, and the Carrier and a signed copy should be maintained in the Distributor's files.
- c. At the time of sale, if a Distributor (a) did not use any illustration, or (b) used an illustration that did not conform to the policy applied for, or (c) used an illustration displayed on a computer screen, but did not provide the customer with a printed copy, or (d) used a quotation or composite illustration in connection with group policies, the Distributor must certify such actions to the Carrier on a carrier approved form. NOTE: Some Carriers do not follow this process and require a complete illustration in all circumstances.

### **Supplemental Illustrations**

A Distributor may present a supplemental illustration only where:

- a. It is appended to, accompanied by, or preceded by a basic illustration that complies with the NAIC Model Illustration Regulation.
- b. The non-guaranteed elements shown are not more favorable to the customer than the corresponding elements based on the scale used in the basic illustration.
- c. It contains the same statement required of a basic illustration that non-guaranteed elements are not guaranteed.
- d. For a policy that has a contract premium, the contract premium underlying the supplemental illustration is equal to the contract premium shown in the basic illustration. For a policy that does not require a contract premium, the premium outlay underlying the supplemental illustration shall be equal to the premium outlay shown in the basic illustration.
- e. It includes a notice referring to the basic illustration for guaranteed elements and other important

information.

## **Replacement Policies and Guidelines**

### **The Carrier's Position**

The Carrier's position is that anytime that the customer purchases any policy, that policy must be in the customer's best interest. However, if the customer loses anything in the replacement of an in-force policy, such as incurring a surrender charge or the contractual exposure of a new contestable period, caution is prudent.

However, there may be circumstances in which a replacement transaction is appropriate for the policyholder. Ultimately, following full disclosure to the customer by the Distributor, it is the customer's decision whether to proceed with the transaction.

To ensure that the replacement transaction is appropriate, the Carrier requires Distributors to:

- a. Understand the definition of replacement;
- b. Ask the necessary questions to determine if there is a replacement;
- c. Comply with the responsibilities required by the Carrier as well as the appropriate state replacement regulations.

### **Definition and Effect of Replacement**

Subject to any more restrictive state laws and regulations, Carriers define a replacement to be any transaction in which new life insurance or a new annuity is to be purchased, and an existing life insurance policy or annuity contract has been or is to be in whole or in any part:

- a. Lapsed, forfeited, surrendered, or partially surrendered, assigned to the replacing insurer or otherwise terminated;
- b. Used to finance the purchase of a new life insurance policy or annuity contract. A financed purchase means the purchase of a new policy involving the actual or intended use of funds obtained by withdrawal of, surrender of, or borrowing from some or all of the policy values, including accumulated dividends, of an existing policy to pay all or part of any premium due on a new policy either before or after the new policy is issued;
- c. Reissued with any reduction in cash value;
- d. Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid.
- e. Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of non-forfeiture benefits or other policy values.
- f. For each sale, the Distributor should look to the appropriate state's replacement definition to determine whether the transaction would be a replacement. If the state's laws define the transaction as a replacement;
- g. The Distributor should 1) disclose the transaction as a replacement on the application, 2) complete any state-required replacement forms, and 3) follow the Carrier's replacement policies and guidelines. If the transaction is not considered a replacement pursuant to the state's definition, the Distributor must still determine whether the sale would be a replacement under the Carrier's replacement definition. If so, then the Distributor should disclose the replacement on the application and follow the Carrier's replacement policies and guidelines.

## **Determination of Appropriateness**

The Distributor's responsibility to determine the advantages and disadvantages of the replacement Transaction, and to make a recommendation to the customer on appropriateness, can be a complicated process influenced by the customer's needs and objectives, the type(s) of policies being replaced, and purchased, the amount of replacement information obtained and the identification and comparison of the relevant replacement factors.

Some types of replacement transactions (e.g., term-to-term or fixed annuity–to–fixed annuity) may involve fewer replacement factors and require a less extensive appropriateness analysis than other types of replacement transactions. Replacement transaction comparison factors include, but are not limited to, the following:

- a. The advantages and disadvantages of meeting the customer's needs through the purchase;
- b. Whether the customer's goals can be better served by keeping or modifying an existing policy;
- c. The effect of the replacement on future premium payment obligations and the customer's ability to pay the premiums;
- d. The incurring of surrender charges on the in-force and the new policy;
- e. The incurring of new contestable periods;
- f. A comparison of the guaranteed and non-guaranteed elements of the existing and proposed policies and their effects on each policy's cash value buildup, death benefits, lapse dates, etc.;
- g. The effect of the replacement on the customer's liquidity needs;
- h. Whether changes in the insured's health after the date the existing policy was issued will adversely change mortality costs;
- i. Any increase in mortality costs;
- j. Any differences between the existing and proposed policies' contractual provisions, duration and amount of coverage, loan interest rates, and/or tax treatment of the replacement transaction.
- k. Any favorable policy provisions or grandfathered rights that may be lost;
- l. Any potential tax consequences;
- m. The quality and financial stability of both the existing and the replacing Carrier.
- n. Outside of the exercise of a policy provision, Carriers will not replace their in-force policies

NOTE: An in-force policy that results from an undisclosed replacement or resulting from the purchase being made with an unapproved source of funds, no matter the length of time the policy has been in force, can result in a complete refund to the customer and a chargeback of commissions.

## **Are state replacement forms required for a conversion?**

Some term insurance policies contain contractual rights to convert to another policy with the same insurer or an affiliated insurer. Generally, state replacement forms will not be required for a transaction when it involves the exercise of this contractual provision.

## **Delivering the Policy**

Timely delivery of a customer's policy is an important Carrier obligation. Proof of policy delivery avoids non-delivery market conduct-related violations and policy service complaints by establishing that a policy is delivered and the date the applicable free-look period begins. Regardless of whether or not a state has proof of delivery requirements, the Carrier urges Distributors to always obtain proof of policy delivery and maintain such proof in the customer's file. A

Distributor who fails to deliver a policy in a timely and appropriate manner is subject to a commission chargeback when a policy is rescinded because there is no satisfactory evidence a policy was delivered. Such chargeback can occur years after policy issue and even if the customer has been paying premiums.

## Complaints

Working earnestly to resolve customer dissatisfaction strengthens relationships with existing customers and helps enhance the Carrier's and the Distributor's reputation for responsive service. For these reasons, it is imperative that:

- a. All complaints be submitted to the Carrier Compliance/Consumer Affairs Department within two business days of receipt, and
- b. Distributors work cooperatively and diligently with the Home Office to resolve customer complaints.

### What is a Complaint?

Complaints are written or verbal communications expressing any grievance with the Carrier, its services, practices, products, employees, or Distributors. The following guidelines may be helpful:

- a. A communication from a customer is probably a complaint if the customer claims: (1) he or she has not received expected benefits or service; (2) the Carrier or a Distributor has made a mistake or has acted or failed to act in a way prejudicial to the customer; or (3) he or she is displeased with the Carrier or its representatives.
- b. Failure of the Carrier or its Distributor, if authorized by the Carrier, to collect premiums.
- c. Receipt of premium payment notices when the customer thought no further premiums were due.
- d. Sale of a product that is unsuitable or inappropriate for a customer's needs.
- e. Improper or undisclosed replacement.
- f. Delay or failure by the Carrier to respond to or process a request.
- g. Misrepresentation or failure to disclose important information.
- h. Failure to discontinue automatic withdrawal of premiums.
- i. A deficiency or misapplication of premium payments.
- j. Unprofessional or rude behavior by a Distributor or a Carrier representative.
- k. A processing error.
- l. A customer request for a return of premium payment other than during the free-look period or due to extenuating circumstances.
- m. A customer indication that an attorney and/or the state insurance department will be contacted.
- n. Conduct the customer perceives to be illegal, immoral, or unethical (e.g., fraud, stolen money, forgery).
- o. Sexual harassment or misconduct, alcohol, or drug abuse).
- p. Failure for a Carrier to issue a policy or for the Distributor to deliver a policy.

While most complaints come from insured customers, complaints also may come from a customer's advocate (e.g., attorney or relative), a policy beneficiary or assignee, a state insurance department or other regulatory agency, competitor insurance Carrier, the Better Business Bureau, or a consumer advocacy group.

Verbal complaints (e.g., complaints received via telephone or in-person) are included within this policy and should be documented by the Distributor or employee receiving the verbal complaint. A suggested format is provided as Appendix A.

**NOTE: When in doubt, treat customer displeasure as a complaint.**

## **Resolving Complaints**

Other than at the request of the Carrier, a Distributor should not contact the complaining party or policy owner to resolve a complaint received by the Carrier.

## **File and Record Maintenance**

All Carrier Distributors are required to maintain complete and accurate files for transactions related to the Carrier. Experience indicates that the records Distributors keep will be the best (or only) way to establish the care and professionalism exercised when dealing with a particular customer. Carefully maintained files also provide the best protection against inappropriate or wrongful complaints or legal claims in the future. The appropriate time to build such files is when a particular transaction is in process since it can be difficult or impossible to reconstruct the file months or years later when questions or issues may arise. These files should be maintained for at least seven years (or as required by law) after the policy ceases to be in force or in accordance with Carrier guidelines if longer.

### **Customer Files to be Maintained**

- a. All sales presentations or other marketing material used by Distributors or shown to the customer.
- b. Fact-finding tools or any other documents used to collect customer data and determine the customer's insurable needs and financial objectives.
- c. Copies of all illustrations shown to the customer and, if required by state law or the Carrier's policy.
- d. A signed copy of the illustration of the policy actually delivered.
- e. All correspondence between the Distributor and the customer (or a representative of the customer).
- f. A record of dates and notes memorializing any substantive telephone conversations or meetings between the Distributor and customer (or a representative of the customer).
- g. A signed Acknowledgment Receipt Form if state law requires delivery of a Buyer's Guide, Preliminary Policy Summary Information, Contract Summary, or any other form taken at the time of application.
- h. If a replacement was involved, signed copies of all state replacement forms or any ledger statements used in a conversation.
- i. Signed 1035 exchange forms, if applicable.
- j. Copies of all applications.
- k. A signed Policy Delivery Receipt or record when a policy was mailed, if applicable.
- l. A copy of the customer's check or EFT form, if applicable.
- m. A copy of any written complaints from or relating to the customer.

## **Premium Payments and Transactions by Distributors Prohibited**

To comply with applicable laws, the Carrier prohibits the commingling of policy owner funds with those of Distributors. Further, administrative problems may develop when the Carrier accepts funds from a Distributor to pay a premium. Consequently, Carrier policy prohibits Distributors from directly or indirectly paying premiums on behalf of customers or providing customers any valuable consideration or inducement not specified in the policy. All initial premiums collected from the customer are to be remitted immediately to the Carrier in an acceptable form of payment, made payable to the Carrier.

Distributors are prohibited from purchasing a customer's policy or contract and cannot become the owner or beneficiary of a customer's policy or contract unless the policy insures a member of the Distributor's immediate family.

Distributors are prohibited from becoming the trustee of a trust that is the owner or beneficiary of the customer's policy or contract unless the policy insures a member of the Distributor's immediate family.

### **Unfair Competition is Prohibited**

In conducting Carrier business, all Distributors must engage in fair competition. Fair competition means no competitor bashing, neither the Carrier nor the agent. In particular, Distributors shall provide only information that is factually accurate and shall avoid withholding information that is clearly relevant to the customer's decision to buy or retain an insurance or annuity product.

### **Disparaging Remarks**

In conducting Carrier business, Distributors should focus on the strength of the Carrier and the product they are presenting to the particular and must refrain from making disparaging remarks about other agents, other Carriers, or other Carrier's products (i.e., untrue, or misleading or inaccurate statements. While disparaging remarks do not include relevant, factually accurate information, they do include statements made to dissuade a consumer from doing business with a competitor.

### **Anti-Money Laundering**

Distributors are the front-line of defense against potential money laundering activity involving the insurance industry. Money laundering is the process by which criminals conceal the nature or source of their illegal funds and disguise them to make them appear legitimate.

The Financial Crimes Enforcement Network (FinCEN) issued regulations requiring insurance companies to develop and implement an Anti-Money Laundering (AML) program. The Anti-Money Laundering Rules for Insurance Companies also requires insurance companies to fully integrate Distributors into their AML program and to provide ongoing AML training. Many Carriers provide online AML training through LIMRA. Some have their own programs, and some use LIMRA plus their own program.

### **Acceptable Forms of Initial Premium Payment**

- a. The proposed insured's or policy owner's personal check
- b. A check drawn on the proposed insured's or policy owner's business account
- c. Bank Draft Authorization and voided check
- d. Credit Card Authorization (some Carriers)
- e. Another Carrier's check issued in connection with a transfer of funds, rollover, or exchange
- f. Check drawn on a trust established for the proposed insured
- g. Cashier's Check (a.k.a. Official Bank Check) purchased from a U.S. bank and submitted WITH a properly executed SOURCE OF FUNDS CERTIFICATION

### **Unacceptable Form of Initial Premium Payment**

- a. Cash
- b. Money Orders
- c. Distributor or agency checks

- d. Traveler's checks
- e. Cashier's Checks WITHOUT the appropriate Source of Funds Certification form
- f. All other cash equivalents

### **Suspicious Activity**

Following is a list (not intended to be all-inclusive) of "Red Flags" Distributors should keep in mind as Distributors meet with customers:

- a. Customer shows little or no concern for the investment performance of the product, but a great deal of interest about the early termination features and seems to be knowledgeable about early surrender, loans, withdrawals, and free look periods.
- b. Customer is reluctant to provide identifying information when purchasing the product, provides minimal or seemingly fictitious information.
- c. Customer uses a deceased person's Social Security number or provides information that is inconsistent or appears suspicious.
- d. Customer does not want to meet Distributor at residence or place of employment or who wants to meet during odd hours.
- e. Customer pays initial premium with checks or wire transfers from the account of an unrelated third party. (NOT the Owner, Payor, or Insured)
- f. Customer applies for policy from a distant location when comparable coverage can be obtained closer to home.
- g. Customer accepts unfavorable underwriting conditions for his/her age or health.
- h. Customer does not ask how much the product will cost, does not want to compare products based upon cost/benefit ratio, and may offer to pay higher premium for speed and other accommodations.
- i. Customer presents unusual or suspect personal or business identification documents.
- j. Customer questions whether a government report will be filed based upon transaction.
- k. Customer has criminal record or is publicly associated with known felons.
- l. Customer, their family, or close associates, are senior foreign political officials.
- m. Customer has accounts in a country identified as a tax haven.
- n. Customer asks for details about or exception to policies/procedures that deter money laundering.
- o. Applicant buys policies from several insurers in a short period of time.

If Distributors notice, or are concerned about, suspicious activity with a customer, Distributors should contact the Carrier.

### **OFAC**

Carriers are subject to the provisions of certain programs and sanctions administered by the Office of Foreign Asset Controls (OFAC). These include prohibitions on trading with certain identified enemies of the United States. Therefore, during the initial contact with the customer, it is important that Distributors obtain appropriate information to verify the identity of all parties (Insured, Owner, Payor, & Beneficiary) to the policy or contract. A potential match to the OFAC list delays processing of a submitted application. Information provided at application is essential to clearing a potential hit. Therefore, during the application process, Distributors must obtain, at a minimum, the following insured, owner, and payor information (list not intended to be all-inclusive) and a copy of their government identification documents:

1. Social Security number

2. Driver's license number
3. Physical home address (not mailing address only)
4. Date of birth
5. Country of birth
6. Passport &/or visa number (if not a U.S. citizen)

If Distributors encounter a customer unwilling to provide the required information, Distributors should contact the Carrier.

## **Fraud**

Each year, insurance fraud costs companies and consumers alike tens of billions of dollars. Most states have adopted laws that require insurers to implement an anti-fraud program to prevent and detect insurance fraud. In many states, insurance fraud is also a felony. People who commit insurance fraud may face criminal charges, be ordered to make restitution, and be sued in civil court.

Fraud occurs when an individual or entity, an insurance Carrier, Distributor, adjuster, or consumer, knowingly lies or conceals material facts in order to obtain a gain or to deny some benefit that is due and to which someone else is entitled. Fraud convictions will end a Distributor's career.

### **Prevention, Detection, and Reporting of Fraud**

Many Carriers have established the Special Investigative Unit (SIU) with the primary responsibility for protecting the Carrier and customers from those who commit fraud. The SIU is responsible for prevention, detection, reporting, recordkeeping, and employee training. The SIU will seek prosecution and/or civil redress or other recovery methods as appropriate. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies are made by the SIU.

## **Current and Ongoing Regulations**

Being an agent is a difficult task, and much of that difficulty is the rapid rate of regulatory changes. These changes are frequently complex, and flow from federal and state governments as well as multiple organizations such as NAIC. Regulation can be a good thing when used to correct or prevent harm. However, a lack of regulatory knowledge can easily result in loss of money, loss of a license, and loss of a reputation.

Where can an agent find regulatory knowledge? There is no one answer. True, the insurance carriers are generally not providing agents or their customers legal advice. However, as regulations continue to change, carriers can be a significant and valuable source of marketing support, and most carriers send out updates to contracted agents.

Depending on the business they are in, estate planning v. term insurance, for example, a carrier may have lawyers and CPAs available to help an agent. Some of these professionals will talk to your customer's professional counterparts. Even if a carrier is small, and its products are limited, that Carrier still needs to comply with the federal and state, and other requirements. Regulatory changes are reflected in form changes and operating procedures.

Additionally, many state insurance departments post regulatory changes as well as planned changes or changes under discussion. Departments are available by email and/or phone to help agents find regulations that address their questions. In short, a carrier and/or an insurance department, can keep you updated on regulatory changes and out of regulatory hot water.

**Appendix A-Verbal Complaint Form**

Please complete this form immediately after receiving a telephone or other verbal complaint and forward it to the Carrier.

To: \_\_\_\_\_

From: \_\_\_\_\_

Telephone: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Complainant: \_\_\_\_\_

Complainant's Relation to Insured: \_\_\_\_\_

Allegation: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Complainant's Desired Resolution: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date Complaint Received: \_\_\_\_\_

Complainant's Address: \_\_\_\_\_

City, State, Zip: \_\_\_\_\_

Telephone: Day \_\_\_\_\_ Evening \_\_\_\_\_

Email: \_\_\_\_\_

Policy Number: \_\_\_\_\_

Insured's Name: \_\_\_\_\_