



Conduct and Compliance Guide for the Producer



Conduct and Compliance Guide for the Producer

Ensuring ethical and compliant sales practices.





To our Producers

Professional sales practices are good for business—your business and ours. That's why we're committed to helping you follow ethical standards in your daily sales practice. We believe this brief guide can help you.

Success in a highly competitive market results from delivering more than what's expected. You cultivate relationships with clients. You strive to learn more about their needs, offer products that are appropriate, and provide professional, skilled service. Customers have learned to expect this from you when buying our products. It's why you are successful.

Beyond complying with all laws and regulations governing insurance and annuity sales practices, we believe following high standards of market conduct empowers us to exceed customer expectations. Why? Because it strengthens our competitive advantage and enables you to focus on what's important—developing relationships with clients and providing them with appropriate products and services. It's what you want. It's what we expect.

Please read this manual carefully and refer to it regularly. The Guide is intended as a reference point for our producers and distributors. If you have questions about this Guide, please contact the Company's Compliance Department. Please join us in applying these principles and standards in your daily conduct.

Yours truly,



Bradford Phillips
President

Our Company

...is committed to following ethical principles in the sale of life insurance and annuities, to individuals:

- To conduct business according to high standards of fairness and honesty.
- To provide competent and customer-focused sales and service.
- To compete fairly.
- To provide sales material whose content is clear, honest, and fair.
- To handle customer complaints, disputes, and inquiries promptly and fairly.
- To maintain a system of supervision and monitoring reasonably designed to achieve these goals.

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We have written this Guide for our general agents, producers, distributors, and employees involved in the sale of any of our individual life insurance and annuity products.. The terms “Company,” “we,” “us,” or “our” used in this Guide refer to the listed life insurance company(ies) that you represent. This guide is not intended for public distribution or to anyone not affiliated with the Company.

*Liberty Bankers Life Insurance Company
Winnfield Life Insurance Company
Mid-Continent Preferred Life Insurance Company
American Reserve Life Insurance Company
The Capitol Life Insurance Company*

Ethical Sales Practices

Put it into Practice

Insurance producers have certain legal, ethical, and professional responsibilities to fulfill everyday and with every customer. While no two sales are alike, there are some guidelines that can help ensure that your daily life insurance and annuity sales practices are ethical and compliant. *Put them into your 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 sell. Make sure you are properly licensed and appointed in the right state(s).
- Offer only products you are trained to market. Be sure you understand how the product works.

Meeting the client

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

Getting to know the client

- Understand the client's financial objectives and/or insurance needs by completing a thorough fact-finding and needs-analysis process.

Your presentation and proposal

- Put the client first. Base your recommendation on the client's circumstances and objectives—not yours.

- All sales material must be approved by the Corporate Compliance Department.

- Use words and terms that accurately describe the features of the products you are licensed to sell. Avoid incomplete, misleading statements, or prohibited words.

- Explain a product's features, benefits, loads, limitations, charges, and tax treatment in a balanced and fair way.

- Fully explain the hypothetical nature of illustrations. Point out their assumptions and limitations and the values in these illustrations are projections and are not

guaranteed. Be sure to explain guaranteed and non-guaranteed elements.

- Recommend a replacement only after a careful, thorough analysis comparing short and long-term advantages and disadvantages. Your client should be fully aware of any surrender charges they may incur by replacing an existing policy

During your meeting

- Revisit the client's reason(s) for the purchase. Reconfirm the insurance need or financial objective addressed.

- 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 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.
- Any premium checks should be made payable to the life insurance company, never to you or to your agency.
- 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.

Following your meeting

- Promptly submit the policy application and premium to the Company.
- Accurately complete all forms related to replacement policies. Always leave required copies with the client and forward copies to the insurance company and state 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. It's a good practice to obtain a signed policy delivery receipt, keep a copy, and forward the receipt to the Company. Some states mandate a signed delivery receipt.
- 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

Avoid giving tax or legal advice. You may unknowingly expose yourself and your supervisors to claims of negligence or malpractice. While you may discuss the general tax treatment of the products you offer clients, do not offer tax advice for their specific circumstances or provide legal advice unless you are qualified and authorized as a professional tax or legal advisor and disclose that you are acting in that capacity.

Practical Matters

Fact Finding

- Properly document the clients' responses to fact-finding questions and keep a record, what products were discussed, any recommendations, the basis for the recommendation, and whether or not the client followed the recommendation.
- You can obtain excellent fact-finding tools and worksheets from producer associations and professional societies such as the Society of Financial Service Professionals (<http://www.financialpro.org/>).

It is the Company's policy to market and sell products that meet our clients' insurable needs or financial objectives.

Meeting the Client's Needs

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

As a professional insurance producer, it is your ethical responsibility to know the client and learn about his or her needs and objectives. Put the client first. Help him or her understand his or her needs and how an appropriate insurance product can help. Client-oriented sales produce:

- More realistic expectations
- Better understanding
- High-trust relationships
- Improved persistency
- More referrals and new sales
- A successful selling practice

Do you really know the client?

This requires asking questions and becoming familiar with the client's financial status, investment objectives, and insurance needs. Depending on the product being recommended, factors to consider may include:

- **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 in force with other companies, health status, amount of death benefit protection and/or cash value for estate planning, 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:** Evaluate whether the client can afford the required or planned premium. Does the client have 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.

Meeting your Clients Needs

...Life Insurance

Is there a need for death benefit protection?

The need for death benefit protection is always primary to the sale of life insurance. Rarely would it be suitable for a client to buy a life insurance policy solely for a secondary reason, such as cash value accumulation without also having a need for death benefit protection.

There are numerous types of insurance needs life insurance death benefits can address.

These may include:

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

Always help clients identify their death benefit needs.

Determine the death benefit need

Determining the right amount of death benefit requires careful consideration. To figure an appropriate face amount, 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 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 college funding, 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 and cash values. Discuss the effects of capitalized loan interest if not paid timely.

Practical Matters

Tools for Determining Death Benefit Needs

Training and Development

Helping clients determine their need for life insurance is a skill acquired through training and experience. The Company encourages you to participate in training and continuing professional education on this topic.

College Funding Tools

College funding tools or software can calculate estimates based on geographic region, current or projected tuition, fees, room and board expenses, projected rates of inflation, and other factors. College funding tools are available from several sources.

Practical Matters

Practice Good Judgment

There is no single formula that is just right when it comes to identifying and measuring a client's death benefit needs, 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.. 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.

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 insurance needs.
- For clients seeking complete debt coverage, the total death benefit should be enough to pay off all liabilities like loans and credit card balances and other debts..
- 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. There are 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 \$5,000 may be appropriate coverage for funeral and burial expenses, but these costs will vary by 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 larger death benefit may be needed to provide liquidity for any business, tax, or estate planning needs of the client.

Meeting Your Clients Needs... ...Annuities

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 an income stream at some future date. Some 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 income lasting a certain number of years or for their lifetime.

Annuities are generally longer-term investments and may not be appropriate for someone who doesn't plan to hold onto 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.

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 ½ for situations other than death, disability, and certain periodic distributions based on life expectancy.

It's helpful for clients to consider annuities as part of long term financial planning beyond age 59 ½. As such, the client should have sufficient income, assets, and financial resources to cover current expenses and foreseeable short and intermediate-term needs.

The 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 (IRA's), or similar plans.)

Calculate the Need for Annuities

Help the clients determine the amount of “nest egg” they want or retirement income needed to sustain a desired standard of living. Generally, two-thirds of their pre-retirement income is needed to maintain their standard of living. While there is no single formula or “right” answer, here are a few questions clients should consider.

Consider retirement goals

What type of lifestyle does the client plan adopt during retirement? For example, does the client want to travel, pursue hobbies or fund grandchild’s college education?

Consider retirement goals

Does the client expect to have lower living expenses during retirement? Factor in all the 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 designed from the annuity

Calculate additional monthly income needed to fund their 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

Client’s should determine how much disposable income they can realistically dedicate to expected or required premium payments.

Buying a Non-Qualified Deferred Annuity

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

- 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?
- Can I afford to delay withdrawals until at least age 59 ½?
- Is income tax deferral on the annuity's earnings important to me?
- Do I expect to be in a lower or higher income tax bracket after retirement?
- Does it fit my tax strategy that the annuity death benefit is subject to federal income tax as opposed to life insurance policy 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.

Practical Matters

Client Comes First

Suppose a young married couple has \$5,000 in cash that they intend to use solely for a down payment on their first house next year. 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 buy lower premium life insurance and begin putting even a small amount into a monthly annuity for retirement.

Practice Good Judgment

Qualified Plans

Determining the need for or design of qualified plans is beyond the scope of this Guide. Whether they are employer-sponsored benefit plans 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.

Selling to Senior Adults

Selling life insurance or annuities to seniors requires special care and diligence. Most states target sales to seniors for special review. In addition, many states have passed legislation that protects seniors and require producers to document that the annuity sale is suitable. Go the “extra mile” in applying all of the ethical standards to such sales. Always take extra care to:

Always explain that you are an insurance producer and that you are soliciting an annuity or life insurance policy. Don't use any confusing or misleading terms.

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.

Some seniors may be vulnerable and easily frightened, intimidated, or confused so avoid high pressure selling tactics. 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 might mislead, confuse, or give false impressions.

Stop 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 conservatively determining the reasons, needs, and suitability of the purchase and by careful documentation.

Document, document, and document! Client sign-offs are highly recommended and sometimes required.

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.

Meeting the Needs of Clients

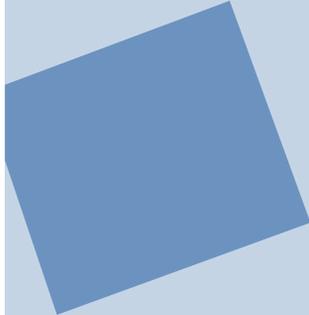
Privacy Regulations

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 broker dealers, etc., and the National Association of Insurance Commissioners (NAIC) adopted a model privacy regulation (NAIC Model) to enforce the Privacy Provisions for insurance companies. The NAIC Model applies to “licensees,” i.e., anyone who must be licensed by a state in order to engage in the insurance business, such as insurance companies, producers, third-party administrators, etc.

The NAIC Model requires 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 and sells for, gives the notices.

Furthermore, the producer enters into a contract with the insurance company that 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. 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 may include 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.



Insurance companies and producers are subject to many state and federal laws, with many more being contemplated each year, that address the privacy of a consumer’s financial and health information.

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 personal financial and health information about the client. 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.

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 any individual,
- health care provided to an individual, or
- payment for health care provided to an individual.

Additionally, the federal government under the Health Insurance Portability and Accountability Act (HIPAA) protects consumers' health information. 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 personal 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. The definition of “health plan” includes the following types of insurance coverage: specified disease, long-term care, hospitalization, major medical, as well as riders that pay for medical costs such as a long-term care rider.

Even 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.

Qualified and Trained Distributors

Licensing and Appointment

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

Put it into Practice

Producer Identification

Always identify yourself as an insurance producer when soliciting, recommending, discussing, or advertising insurance or an insurance product or insurer. Be sure to present yourself and your credentials honestly and openly and represent your insurance products for what they are.

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;
2. It protects the consumer by requiring you to obey the state's insurance laws and meet a prescribed amount of insurance education.

Insurance producer licensing and appointments are governed by the insurance rules of each state.

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

General Guidelines

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 about the date on which a submitted request for appointment becomes effective; and some states allow you to submit business while the appointment request is still pending, subject to certain condition.

Be sure to check the Company’s solicitation guidelines on state licensing and appointment requirements. You are not allowed to sell or solicit for a company until the company’s appointment of you has become effective with the state insurance department. This varies with each state. Also, make sure the Company’s appointment covers the right lines of business.

Be licensed and appointed in the right state for out-of-state business

In most cases, an annuity or 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 a Declaration form completed by the applicant/owner accompany any application made in a state other than the applicant’s/owner’s state of residence or business. 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 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.

² *Title 18, United States Code, Section 1033.*

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.

Today the insurance industry provides countless 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.

Ethics and compliance Training

Ethics and compliance training are two areas you cannot overlook. The Company or, in some cases, your agency may provide materials or programs to you directly or tell you where to get them. But it is your responsibility to really learn and understand the ethical principles, compliance laws and regulations, and the Company procedures to which you are subject. Ignorance of ethical principles, laws, or regulations, or negligence in learning about them will not be an excuse or defense.

Meeting training standards

There are several ways you can meet insurance-related ethical and compliance training standards. These include:

- Study this booklet.
- Complete a formal insurance course or program in ethics. This may be a required part of your state's licensing or continuing education requirement continuing education program.
- Read, review, and follow the Company's Bulletins.
- 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, sales illustration requirements; special disclosure requirements (such as those used for sales of annuities); licensing, continuing education, and claim and complaint-handling requirements; and other 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 know the products they are selling 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 supervisor may provide some training directly to you 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 readily available often include:

- Courses covering underwriting, operating procedures, or software capabilities
- Company product brochures or producer materials containing rates, fees, charges, loads, loan conditions, surrender values, etc., for specific products

- 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.

Practical Matters

Continuing Education Requirements

Most states require producers to continue their insurance education, usually annually. Insurance Departments generally provide credit for approved courses, which enhance a producer's professionalism, general product knowledge, and ethics. If you don't comply with the continuing education laws, your state could suspend or lapse your insurance license.

Sales Practices and Advertising

Advertising

Here are some examples of terms to use or avoid in your sales presentations.

<u>Use</u>	<u>Avoid</u>
<p><i>Professional producers must be accurate and truthful in their communications to their clients about the Company and its products and services. The words, actions, and sales 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.</i></p> <ul style="list-style-type: none"> • Policy, contract • Premium • Cash Value • Agent/Producer • Life insurance cash values may be used to supplement retirement income. • Premiums may reduce or stop if certain non-guaranteed results are achieved. But actual results are not guaranteed. 	<ul style="list-style-type: none"> • Account, program, or plan • Contribution, deposit, or investment • Earnings, savings • Financial Counselor • This program is a retirement fund. • Vanishing premiums

All Advertising must be Approved by the Company's Compliance Department

All advertising must be submitted to Chad Leiding in the compliance department for approval. No ads can be used without prior written approval. Advertising pieces may be faxed (469-522-4401) or emailed (chad.leiding@libertybankerslife.com).

Unsolicited Commercial Calls, Email, and Faxes

Recently the adoption of new laws restricting unsolicited commercial calls, email, and faxes is becoming commonplace. These include both state and federal laws and regulations that:

- 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.
- 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.

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.

Note: Fax advertising to producers contracted through your agency, including a broadcast fax, is not considered "unsolicited" since there is an existing business and/or personal relationship between you and the recipient and/or the fax is sent at the request or with the consent of the recipient.

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,” “program,” “pension plan,” “retirement plan,” “savings program,” rather than as “life insurance,” “annuity,” “policy,” or “contract.” 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, legal, tax, or accounting advice unless you are duly licensed and trained.
- NEVER ask a client to sign an incomplete or incorrect application, replacement form, or disclosure.
- NEVER suggest or imply that a client overlook or avoid responding to some or all of the application’s medical history questions.
- NEVER exaggerate, or make any unsubstantiated claim about your products, services, or company.
- NEVER show to the public any materials labeled “For Internal Use Only,” “For Training Only,” “Producer Use Only,” “or with a similar restriction.
- NEVER 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” when discussing how to use accumulated values to pay future premiums.
- 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 into your account.
- NEVER charge the client any additional 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. We also don’t allow agents to be the beneficiaries on life insurance policies unless they are directly related to the policy owner.
- NEVER share a client’s medical, financial, or confidential personal information with anyone other than the Company or authorized persons.
- NEVER borrow from or lend money to a client.
- NEVER use the term “tax-free” or “income tax-free” when referring to deferral of income tax.

Practice Good Judgment

Sales Presentation Reminders

- Don't use 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 overemphasize the product's advantages or ignore or minimize its important conditions, limitations, costs, fees, charges, etc. The client should have a clear picture of the pros and cons of any product.
- If you must compare products or companies, be complete, fair, and balanced in your statements.

Sales Practices and Advertising

Advertising, *continued*

In addition to all of the above guidelines, there are many rules that apply to advertising and written materials. These rules are too technical, precise, and complex to address fully in this guide. So what should you do about advertising and written material? First, you need to know what constitutes advertising.

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 almost everywhere. You may not even know a piece is considered advertising. Here is a partial list of communication media which, depending on their content, audience 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

What you need to know about Advertising

- Start by reading the Company’s advertising guidelines, rules, and procedures for producers and following them closely.
- If material is provided by the Company, check with your supervisor or the Company to make sure it is for the correct state and is current.
- 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:
 1. names the Company;
 2. refers to a Company product;
 3. 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 the Compliance Department before using it.
- Wait until you receive written approval from the Company before using any advertising that it has not previously approved.
- Inform the Compliance Department when a piece of advertising is no longer in use.

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.

Put it into Practice

Reminders About Using Advertising

- It should always name the insurance company or the licensed insurance producer or agency.
 - You must be licensed in the states in which you send advertisements. Watch out for advertising or soliciting across borders by phone, mail, or email.
 - 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, underline or in any way modify approved material. Don't excerpt or extract from approved material.
- Telemarketing has special state and federal rules. They impose disclosure requirements, set permitted hours, and impose other conditions and restrictions.
 - Telemarketing may apply to telephone calls designed for setting appointments. You should be aware of the phone solicitation laws of the states you do business in.
 - Avoid prohibited words and terminology. Refer to the guidelines for help.
 - Sales of traditional 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 law prohibits unsolicited fax advertising, and unsolicited email advertising is restricted and/or prohibited by various state laws.

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, immediate or deferred annuity, fixed 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 rule nationally, even in states where it is not yet effective.
- The rule requires each company to declare each product as one that must 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.
- If you are offering a policy that is not to be illustrated, then any use of non-guaranteed 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.
- Obviously, if you are offering a policy the Company has declared must be illustrated, then you and the Company must comply with various requirements, which generally include:
 - 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.
 - If the policy is ultimately issued other than as applied for, a new conforming illustration must be delivered with the policy.
 - There are also special requirements for annual policy reports and requests for in-force illustrations.

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 use a hypothetical illustration to project expected results based on those assumptions.)
- 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. If one page is missing, the illustration is incomplete and out of compliance even before it's sent in.

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.

Put it into Practice

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. 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 compliance training and continuing education;
- Promptly submit applications, premiums, claim forms, and other client forms to the appropriate office;
- Premium checks payable to the insurance company;
- Never give direct monetary or indirect “in-kind” rebates;
- Ensure there are no 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 to the Company;
- Report suspected fraud by producers or customers;

The 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;
- Willfully permitting certain criminals to participate in the insurance business.

The statute requires that any person convicted of any criminal felony, as described above, must 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; and/or
- Fines for each violation up to \$50,000 or the amount of compensation received, whichever is greater;
- Injunction order(s) prohibiting a person from engaging in any illegal conduct.

Identifying suspicious activity

As a general matter, if you suspect criminal activity is occurring at or through your firm or agency, you should report it to your supervisor 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 Compliance Department.

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 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 has lived at current address less than six months.
- 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 not available to meet in person and supplies all information by phone.
- Client is unusually familiar with insurance terms or procedures.
- Third party conducts the transactions on behalf of client for no apparent reason.
- Application is not signed with producer present.

Fair Competition

Typical Unfair Trade Practices

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:

Coercion, boycott, or intimidation

Actions intended to 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, and place of residency or other factors.

Deceptive advertising

Creating or using misleading or false material to solicit an insurance product, company, or producer.

Illegal premiums or charges

Any premium, fee or charge not specified in the insurance contract.

Misrepresentation in insurance applications

Making false or fraudulent statements or representation 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.

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 or inaccurate 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.

Practical Matters

Common Abuses

- “Bashing competitors” through disparaging remarks about other insurance companies, products, or producers.
- Unfairly or incompletely comparing companies, producers, product, or insurance company ratings.
- Misrepresenting company ratings and financial statements.
- Making untrue statements on an insurance application.

Competing Fairly Replacements

Put it into Practice

Most states have replacement regulations designed to help protect the interests of the insurance-buying public. Producers must be aware of and in compliance with these regulations. Replacements may not always be in the best interests of the consumer; it is the producer's responsibility to help the purchaser determine whether the replacement will help accomplish his or her insurance goals.

Replacing an old policy with a new one can be a legitimate part of selling life 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. Please note that the states that have adopted the 1998 NAIC Model Replacement Regulations also include partial surrenders or withdrawals in the definition of replacement.

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.

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. New 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. 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. The client should consider the following factors to determine whether a replacement is appropriate. Discuss and review with the client:

Competing Fairly

Replacement Guidelines, *continued*

Life insurance

- Surrender charges that will be incurred, if any, on the existing 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.

Annuities

- Surrender charges that will be incurred, 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.
- Crediting rate and guaranteed minimum crediting rate of the products.

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.

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.

Practical Matters

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 have been abused in the past and are closely monitored today. 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 **C o m p a n y - r e q u i r e d** Replacement Notice to the applicant at the time of application.
 4. Comply with any other state regulation requirement.

Put it into Practice

The Importance of Documentation When Dealing with Replacements

To stay out of trouble, be sure to 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 contact the Company for a list of other tools or disclosure forms available.

Handling Complaints and Other Special Client Communications

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 a specific outcome. 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.

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 a written communication primarily expressing a grievance. The client might send the complaint to you, 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.

Here are some tips on handling these kinds of communications.

- Report lawsuits or threatened lawsuits immediately. Contact your supervisor and the Company's Compliance Department the same day.
- 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 to any other third party—unless instructed otherwise by the Company's Compliance 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 Claim Department immediately with the pertinent information. (Otherwise, you may be violating your state's Unfair Claim Practices Act.) 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.

Practical Matters

Handling Client Communications

Maintaining a comprehensive filing system can help avoid problems later on. Here's what your files should 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 compliance procedures, policies, etc.
3. A company compliance file. This should include the applicable insurance company's compliance policies, bulletins, and procedure manuals.

Anti-money Laundering and the USA PATRIOT Act

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. As part of the USA PATRIOT Act, financial institutions, including insurance companies, are required to maintain procedures for customer identification. The Company has taken appropriate steps to adhere to the compliance requirements under the Act. The Company has established an anti-money laundering program, which includes:

1. Written internal policies, procedures, and controls regarding anti-money laundering activity.
2. Designation of an Anti-Money Laundering Compliance Officer.
3. Ongoing Anti-Money Laundering training programs.
4. Independent audit functions for reviewing Anti-Money Laundering programs.
5. Written identification and verification policies and procedures which include verifying the identity of any person seeking to open an account to the extent reasonable and practicable.

Anti-money laundering

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 that are set to ensure appropriate internal controls to detect and prevent possible money laundering activities. Your help is needed to field any possible violations.

Red flags

While it is impossible to list every potential suspicious situation, these activities can be segregated into two general categories— client information and client account activity.

- The client seems unusually concerned about privacy. The client is reluctant or refuses to provide routine information about identity, source of funds, business activities, and bank references that you would expect the client to provide as part of normal conduct.

- The client is from, or has accounts in, a foreign country 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— a disconnected phone number, or the business address is for a vacant building or an office space that seems inconsistent with the description of business may be potential red flags.
- The client is reluctant to proceed when informed of currency reporting requirements.
- The client's appearance or demeanor is suspiciously unusual, or the client acts excessively nervous.
- The client doesn't seem to care about investment returns, but instead focuses on restrictions relating to withdrawal or cancellation.

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/NC_CT_en.html

<http://www.fincen.gov/>.

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 consumer/customer, 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 USA PATRIOT Act. 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.

Supervision and Enforcement

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.

The Company is committed to maintaining ethical market conduct and sales practices. The Company and/or the Company's distributors, such as, independent agencies, or other third parties you work with 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 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;
- A verbal or written warning may be issued; and
- The producer's contract and/or appointment with the Company may be suspended or terminated.

Conduct and Compliance for Producers and Employees

We are committed to treating our customers fairly and ethically. Our distributors are the individuals and firms authorized to sell our insurance products. You have a responsibility to treat our customers fairly and ethically. Our employees who support our agents, brokers, and representatives and serve our mutual customers share that responsibility and trust.

PRINCIPLES

The Company commits itself, in the sale of its insurance products:

- 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 principles.

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

Meet the needs of its customers

It is the policy of the Company to market and sell products which meet our customers' insurable needs or financial objectives.

Use qualified and trained distributors and employees.

The Company will have appropriate criteria and qualifications for selecting its agents, brokers, and representatives and will appoint, employ, and contract with only those agents, brokers, or representatives who meet those qualifications.

The Company will ensure that agents, brokers, and representatives are licensed, appointed (where necessary), and meet other applicable state requirements prior to soliciting the Company's products.

It is the policy of the Company that agents, brokers, representatives, and employees involved in the process of selling its insurance and other products receive adequate training to help customers meet their insurance needs or financial objectives.

The Company will provide its agents, brokers, and representatives with sales, marketing, and/or descriptive materials explaining the insurer's product features and operations and will permit only materials approved by the Company to be used in the sale of its products.

Compete fairly

The Company will encourage fair competition in the marketing and sales of its products and provide guidance on the meaning of the term "fair competition." To accomplish this, the Company and, where appropriate, its agents, brokers, and representatives will:

- Comply with the applicable state and federal laws fostering fair competition;
- Establish and communicate guidelines designed to help agents, brokers, representatives, and employees involved in the sales process to understand the meaning of fair competition;
- Refrain from making deceptive or misleading criticism, disparagement, or characterizations of a competitor's products;
- Establish procedures for monitoring replacements which include a system for tracking, identifying, and addressing deviations from the Company's guidelines on replacements.

Refrain from replacing or encouraging replacement of existing policies and annuity contracts without first explaining the cost/benefit of the proposed replacement.

Sell fairly and use clear and accurate sales materials

The Company, its agents, brokers, and representatives will provide customers with information necessary to make buying decisions that are appropriate. The Company, its agents, brokers, and representatives will include in sales materials and presentations:

- a description of the benefits provided and, where applicable, how those benefits supplement or replace existing coverage; and
- information about any limitations of coverage, fees, charges, or penalties.
- Full explanation of guaranteed vs. non-guaranteed elements of a contract.

The Company will use materials in the sale of its products that are clear and understandable, and that have been reviewed and approved by the Company for compliance with applicable laws and regulations.

Appropriately handle and monitor complaints

The Company will have procedures for tracking, responding to, analyzing, and working towards eliminating the root cause of complaints received from customers and regulators. These procedures will ensure compliance with all applicable laws and regulations, including guidance on:

- Providing responses to complaints within the regulatory time frame;
- Responding to discovered patterns in complaints and taking steps to prevent any conduct resulting in repeated complaints;
- Responding directly to the issues raised in a customer or insurance complaint;
- Facilitating customer communication and feedback in all aspects of the Company's operations including policy holder surveys.

Supervision and policy Enforcement

The Company will establish, enforce, follow, and monitor policies and procedures to ensure compliance with this Guide, all other Company compliance policies and procedures, and applicable laws and regulations.

The Company will assign supervisory responsibilities to its officers, employees, agents, brokers, or representatives as appropriate to reasonably assure compliance with the policies and procedures of this Guide, all other Company compliance policies and procedures and applicable laws and regulations.

The Company will provide its employees involved in the sales process and make available training for its agents, brokers, and representatives on this Guide and all other Company compliance policies and procedures and applicable laws and regulations.

The Company will have policies and procedures to conduct compliance reviews or internal audits of the Company's compliance policies, procedures, and practices, including a procedure for monitoring the sales practices of agents, brokers, representatives, and employees involved in the sales process.

We hope that you have found this Guide helpful.

This brief 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.

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Compliance Guide (04/08)

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