Lafayette Life Insurance Company
A member of Western & Southern Financial Group

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Independent Producer Guide to Life Insurance and Annuity Replacements

Replacements are, and continue to be, a regulatory focus. Each state has its own replacement rules and requirements, which you are required to know, understand and follow in states where you do business. Additionally, you are required to know, understand, and follow Western & Southern Financial Group Inc.'s (the "Company") guidelines regarding life insurance and annuity replacements, which are explained throughout this communication.

Producers should refrain from executing replacement transactions unless you believe that the customer will benefit from the transaction both in the short and long term. Producers should take into account all relevant factors, such as surrender charges, living benefits, guaranteed interest rates, enhanced death benefits, suicide and contestability periods, and increased costs based on attained age – among other important factors that are discussed in this communication.

The Company does not permit the willful act of "twisting," "churning" (these terms will be discussed in more detail later in the communication) or the deliberate replacement of annuity contracts or life insurance policies. The Company acknowledges that certain replacements may be in the interest of the client. However, each proposed replacement must be reviewed based on the customer's needs and circumstances as well as the features of the existing and proposed life insurance policy or annuity contract. Producers should never suggest a replacement that is not consistent with the customer's overall goals and objectives.

If the Company identifies a pattern of unreported replacement activity, or churning or twisting, the Company may take disciplinary action against the producer, up to and including, forfeiture of commissions, termination of appointment and/or employment with the Company.

Definition of Replacement

Subject to any more restrictive state laws and regulations, the Company defines a replacement to be any transaction in which a new life insurance policy or a new annuity contract (policy/contract) is to be purchased, and the producer knows or should have known that an existing policy/contract has been or will be lapsed, forfeited, surrendered or otherwise terminated in order to fund in whole or in part the new policy/contract. This includes, but is not limited to, policies/contracts being:

- Cancelled, surrendered or partially surrendered, assigned to the replacing insurer, or otherwise terminated;
- Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;
- Amended to reduce the benefits or terms of the policy/contract;
- Reissued with a reduction in cash value; or
- Used to finance the purchase of a new life insurance policy or annuity contract.

Financed Purchase

A financed purchase is a type of replacement transaction and must follow all replacement requirements, including completing the applicable questions on the policy/contract application and the required replacement forms. The application and replacement form must reflect whether or not funds are being used to execute a financed purchase.

A financed purchase occurs when funds are used from an existing policy/contract (e.g., by taking a withdrawal, surrendering or borrowing values – such as through a loan) to pay all or part of any premiums due on a new policy/contract, within four (4) months before or thirteen (13) months after the issue date of the new policy/ contract. This includes:

1. Penalty free and partial withdrawals used to fund other contracts;
2. Using accumulated dividends in an existing policy/contract to pay all or part of any premium due on a new policy/contract; or
3. Taking a loan from an existing policy/contract to fund a new policy/contract.

Determination of a Replacement

The Company requires you to make a determination (based on, among other things, information provided by the policy/contract holder), whether a transaction involves a replacement or not. Producers must fully understand the definition of a replacement, ask each customer all questions necessary to make a determination as to whether the proposed transaction is a replacement, and provide the customer with all required Company or state-required replacement disclosures and forms.

If you have any questions regarding the replacement rules, their requirements, and your related responsibilities, please contact the Company for further guidance.

Examples of When a Sale is a Replacement

The following are typical examples of replacements:

(This is for example purposes only and is not an all-inclusive list)

1. Stopping premium payments on an existing policy/contract to purchase a new policy/contract;
2. Surrendering/cancelling an existing policy/contract four (4) months before or thirteen (13) months after applying for a new policy/contract; and
3. Borrowing from an existing policy/contract to pay premiums for a new policy/contract.

Replacement Requirements – Application

For every life insurance and annuity application, the producer must comply with all applicable state replacement requirements, as well as the Company's guidelines regarding replacements, and complete all applicable forms and disclosures related to the application for insurance.

Generally, during the application process, the applicant and producer will answer specific replacement questions on the application. The following is an example of the type of replacement questions on an application:

(This is for example purposes only. These questions may vary by application type.)

3. Excluding this policy, does the applicant (proposed owner) or any Proposed Insured have any existing annuities or life insurance policies in force or pending with any insurer? (This includes insurance sold or assigned, or that is in the process of being sold or assigned, informal inquiries and preliminaries.) ☐ Yes ☐ No
Referred to as the "Existing Insurance" question.

4. Will the existing annuity contract(s) or life insurance policy(ies) be replaced* as a result of this application? ☐ Yes ☐ No
Referred to as the "Intent to Replace" question.

* "Replaced" includes a lapse, surrender, partial surrender, 1035 Exchange, loan, withdrawal, modification, amendment, or other change to any existing life insurance or annuity.

The Existing Insurance question (see above question) and the Intent to Replace question (see above question) must be answered accurately on the application. The applicant's responses to these questions trigger whether or not a replacement form is required.

Additionally, there may be other sections on an application in which the applicant and/or producer must certify to replacement requirements. See below.

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(This is for example purposes only. These questions may vary by application type.)

LICENSED REPRESENTATIVE/AGENT INFORMATION

Does the applicant have any existing life insurance policies or annuity contracts in force with any insurer? Referred to as the "Existing Insurance" question. ☐ Yes ☐ No

Is the purchase of this life insurance intended to replace any existing annuity contract or life insurance policy, including taking a loan from an existing insurance policy or surrendering, partially surrendering, modifying, amending or otherwise terminating any existing life insurance policy or annuity contract as a result of this application? Referred to as the "Intent to Replace" question. ☐ Yes ☐ No

These certifications must be answered accurately on the application, and they must correspond with how the Existing Insurance and Intent to Replace questions are answered by the applicant. If the responses provided to the Existing Insurance/Intent to Replace questions conflict, the application will be rejected as Not in Good Order.

Replacement Requirements – Replacement Forms

The answer to the Existing Insurance and Intent to Replace questions on the application will determine whether or not a replacement form is required. These requirements vary by state, and you are required to know, understand, and follow the specific requirements in states where you do business.

Replacement Requirements – Replacement Forms *(continued)*

The following states trigger a replacement form based on the Existing Insurance application question:				
• Alabama (AL)	• Hawaii (HI)	• Missouri (MO)	• New Mexico (NM)	• South Dakota (SD)
• Alaska (AK)	• Iowa (IA)	• Mississippi (MS)	• North Carolina (NC)	• Texas (TX)
• Arizona (AZ)	• Kentucky (KY)	• Montana (MT)	• Ohio (OH)	• Vermont (VT)
• Arkansas (AR)	• Louisiana (LA)	• Nebraska (NE)	• Oregon (OR)	• Virginia (VA)
• Colorado (CO)	• Maine (ME)	• New Hampshire (NH)	• Rhode Island (RI)	• West Virginia (WV)
• Connecticut (CT)	• Maryland (MD)	• New Jersey (NJ)	• South Carolina (SC)	• Wisconsin (WI)

The following states trigger a replacement form based on the Intent to Replace application question:				
• California (CA)	• Idaho (ID)	• Massachusetts (MA)	• Oklahoma (OK)	• Washington (WA)
• Delaware (DE)	• Illinois (IL)	• Michigan (MI)	• Pennsylvania (PA)	• Wyoming (WY)
• Florida (FL)	• Indiana (IN)	• Minnesota (MN)	• Utah (UT)	
• Georgia(GA)	• Kansas (KS)	• Nevada (NV)	• Tennessee (TN)	

NOTE: *The District of Columbia and North Dakota have not adopted replacement requirements so no replacement form is required in these states. In New York, Regulation 60 requirements must be followed for replacements.*

Most states use the standard replacement form. When completing the standard replacement form, the producer must follow all instructions on the form and complete all applicable fields – including the two questions listed below, the insurer name, policy/contract number, insured/annuitant and whether the transaction is a replacement or financed purchase. Additionally, you must document in writing the reason(s) for the replacement on the standard replacement form. All of this information must be accurately and correctly indicated in order for the proposed transaction to be In Good Order. If the replacement form is missing information or if the information on the replacement form conflicts with the Existing Insurance/Intent to Replace questions or with any certifications on the application, the application will be rejected as Not In Good Order.

We want you to understand the effects of replacements before you make your purchase decision and ask that you answer the following questions and consider the questions on the back of this form.

1. Are you considering discontinuing making premium payments, surrendering, forfeiting, assigning to the insurer, or otherwise terminating your existing policy or contract? ☐ YES ☐ NO

2. Are you considering using funds from your existing policies or contracts to pay premiums due on the new policy or contract? ☐ YES ☐ NO

If you answered "yes" to either of the above questions, list each existing policy or contract you are contemplating replacing (include the name of the insurer, the insured or annuitant, and the policy or contract number if available) and whether each policy or contract will be replaced or used as a source of financing:

	INSURER NAME	CONTRACT OR POLICY #	INSURED OR ANNUITANT	REPLACED (R) OR FINANCING (F)
1.				
2.				
3.				

Make sure you know the facts. Contact your existing company or its agent for information about the old policy or contract. If you request one, an in force illustration, policy summary or available disclosure documents must be sent to you by the existing insurer. Ask for and retain all sales material used by the agent in the sales presentation. Be sure that you are making an informed decision.

The existing policy or contract is being replaced because ______________________.

Other states may use a non-standard replacement form. You are responsible for reading any non-standard replacement form, following all instructions and executing the form in a complete and accurate manner.

Sales Material

Only sales material approved by the Company may be used in the sales process. This includes any sales illustration or other written, printed, or electronically presented information created, completed, or used in the sales presentation to the applicant. Additionally, a printed hard copy of any electronically presented sales material must be provided to the applicant no later than the time of policy/contract delivery.

During the application process, the producer must complete/certify to the question regarding the use of sales material. This may be accomplished on the application or on a supplemental form (e.g., the Sales Material Checklist). The replacement regulation requires the Company to contact the applicant after a policy/contract is issued to confirm that the producer provided a copy of all sales materials used with the applicant. In certain states, the Company sends a letter to the applicant along with the policy/contract in order to notify the applicant that a copy of all sales material should have been provided to them and if not, steps they can take to obtain those materials.

Prohibited Activities

The Company prohibits the following sales practices, which are examples of unfair methods of competition and deceptive acts or practices in the business of insurance:

1. Failing to disclose that a transaction involves a replacement.
2. Recommending a replacement that is not in the best interest of your client.
3. Engaging in “churning” or “twisting.”

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Churning occurs when values from one policy/contract (including, but not limited to, cash values, loan values, or dividend values), are used to purchase another policy/contract with the same insurer for the purpose of earning additional premiums, fees, or commissions (including any other compensation), and one of the following or similar situations exist:

1. There is no reasonable basis for believing that the replacement of one policy/contract for another with the same insurer results in any benefit to the policy/contract holder;
2. The replacement of the policy/contract is obtained in a fashion that is fraudulent, deceptive or otherwise misleading or that involves a deceptive omission;
3. The policy/contract holder is not informed that the policy/contract values (including, but not limited to, the cash values, loan values, or dividend values) will be reduced, forfeited or utilized in the purchase of the replacement or additional policy/contract; or
4. The policy/contract holder is not informed that the replacement or additional policy/contract will not be a paid- up policy, additional premiums will be due, or a new contestable period will apply, if applicable, and the impact of these differences.

Twisting occurs when a producer knowingly makes misleading representations, incomplete or fraudulent comparisons, or fraudulent material omissions with respect to any policy/contract for the purpose of inducing someone to lapse, forfeit, surrender, terminate, retain, pledge, assign, borrow on, or convert any policy/contract or to take out a policy/contract with another insurer.

The Lafayette Life Insurance Company, Cincinnati, OH operates in D.C. and all states except NY.