

 COMPLIANCE BULLETIN

Conflicts of Interest

Though conflicts of interest can arise in just about any profession, the insurance and financial services profession presents a number of issues and challenges for agents.

It is vitally important for you to realize that various agreements or transactions you might want to engage in with customers may be inappropriate or even unlawful. Although you fundamentally must act in the best interests of the customer and not your own when selling life insurance and annuity products, some agents fail to recognize how important it is to avoid both apparent and potential conflicts of interest.

With respect to transactions involving Accordia Life customers, you should keep in mind the following points:

- You must not be or become the owner of a policy other than one insuring your life, that of a close family member, or a business associate in whom you have a demonstrable insurable interest.
- You must not be or become the designated beneficiary of a policy other than one purchased and/or owned by you or a close family member.
- You must not be or become a collateral assignee of a policy owned by anyone other than a close family member.
- You must not be or become the trustee of a trust that owns a policy other than one insuring you or a close family member.
- You must not be or become the holder of a Power of Attorney over the property of a customer, particularly if such power is exercisable with respect to Accordia Life policies.

There are a number of very practical reasons, beyond the inherent conflict of interest, why producers should not engage in any of the acts described above.

First, especially in reference to serving as a trustee or holding a POA, you are greatly increasing your liability for any damage or detriment incurred by the customer as a result of your acts or failure to act. Your duty of care has been heightened to that of a fiduciary.

Second, most insurance agents' professional liability (errors & omissions) policies specifically exclude from coverage any acts, errors, or omissions related to the agent acting in the role of a fiduciary.

Third, applicable state laws may control the circumstances under which a licensed insurance agent or other financial services professional may act as an "attorney-in-fact" (holder of the POA) on behalf of an unrelated person and/or may expressly eliminate the ability of any attorney-in-fact to transfer ownership of a policy to him/herself or designate him/herself as the beneficiary of the policy.

Fourth, if an insurance agent is designated as the owner or beneficiary of a policy, without a demonstrable insurable interest at the time the policy is issued, it is a clear violation of state law.

It's important to recognize that even transactions involving close or immediate family members must be carefully considered. For example, if an agent sells a policy to a parent and advises the parent to designate the agent as the sole beneficiary of the policy, to the exclusion of his/her siblings, the result could be family disharmony and/or legal action on the part of the siblings. So even where insurable interest is clear, the appropriateness of an owner/beneficiary arrangement may be questionable. Likewise, if an agent becomes the trustee of an irrevocable life insurance trust insuring the life of a parent, changing family dynamics could increase the likelihood of allegations of breach of fiduciary duty or even self-dealing.

Other conflict of interest issues can arise within the context of an agent-client relationship. While strong customer relationships and persistent business are generally encouraged, the following transactions between Accordia Life producers and Accordia Life customers are prohibited:

- Lending money to a customer.
- Borrowing money from a customer.
- Commingling your funds with those of a customer.
- Making any unauthorized transactions including the submission of applications contrary to the wishes of the customer.

Engaging in any such activities does not only result in possible termination of your Accordia Life producer contract, but could be a violation of state law which would subject you to any applicable statutory fines or penalties and possibly result in revocation or suspension of your insurance license.

If you have questions on these matters, please contact Accordia Life's Compliance Department at gary.frank@gafg.com