Agent Guide To The Detection and Prevention of Insurance Fraud

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What Is This Guide?
This guide is designed to explain compliance with anti-fraud and unfair business practice laws and regulations in the life insurance and annuity industry. In this guide we will provide you with insight into what constitutes fraud, how to detect and deter fraud, what to do if you suspect fraud, and what our responsibilities and requirements are as an insurance agent with respect to handling and, if necessary, reporting suspected insurance fraud.

What is Fraud?
According to the NAIC’s Insurance Fraud Prevention Model Act, a Fraud/Fraudulent Act is defined as an action or omission committed by a person who, knowingly and with intent to defraud:

- Commits or conceals any material information concerning an insurance transaction;
- Makes or provides false statements material to an insurance application, suitability form, claim form, request for payment or other policy or contract service transaction request form;
- Submits a false or improper claim for payment of benefits;
- Falsifies, improperly misdirects, conceals or otherwise inappropriately converts premium payments;
- Makes false statements as to the financial condition of the Company;
- Embezzles funds or property belonging to the Company or a consumer;
- Removes, destroys, alters, or inappropriately changes records of the Company;
- Destroys or alters a life insurance policy or annuity contract form, or other service form;
- Transacts business without a proper insurance license and/or Company contract; and
- Commits or aids in a conspiracy to commit any of the above acts.

This list is not all-encompassing; rather, it highlights those possible fraudulent activities that may be most prevalent to the current business activity of the Company.

Where Does Fraud Occur?
Potential Fraud Risks to the Company
Fraudulent Acts may originate from many sources and may occur at any time. We have identified key areas and transaction types where you, the agent, may be able to identify potential fraudulent acts. These include, but are not limited to:

- The application process for an insurance policy or annuity contract, including:
  - The suitability process of an annuity contract
  - The underwriting process of a life insurance policy
- Premiums to be paid on an insurance policy or annuity contract
- Delivery of an insurance policy or annuity contract
- Requests for payment, reimbursement, or benefits payable under an insurance policy or annuity contract, including but not limited to:
  - Death claims under an insurance policy or annuity contract
  - Surrenders
  - Partial withdrawals including lifetime income benefit rider (LIBR) payments
  - Payments made under contract or policy riders added for special events or circumstances
- Employee or producer theft
- Policy or contract service requests
- Money Laundering

Company’s Anti-fraud Policy and Procedures
Your Responsibility to the Company
You must understand that it is the policy of the Company to comply with all federal and state laws and regulations, as well as our policies, procedures and guidelines. We are committed to our customer’s safety and protection and take our responsibility to prevent the occurrence of fraud seriously. You are expected to follow all our policies and procedures and assist us in this goal.
Our intention is to provide an environment where you can perform your duties and tasks in a way that complies with all applicable federal and state laws and regulations, as well as all Company policies and procedures. We ask that you promote and actively monitor compliance with fraud detection and prevention laws. If you become aware of any suspicious activity surrounding a client or policy and/or contract, please report that suspicion to the Company through its Resolution Department. You may report suspected fraudulent activity through a variety of methods. This includes our “hot line” should you wish to remain anonymous. Company contact information is available at the end of this Guide.

**If Fraud is Suspected**

If you suspect someone of committing a fraudulent act you should immediately contact the Resolution Department. To assist in our investigation you should put together some basic information about the issue, including, but not limited to:

- Contract or policy number
- Names of individuals involved (contract owner, beneficiary, agents, other individuals such as family members or other parties involved)
- Brief description of events. This description should be as factual as possible. Please do not interject your personal feelings or conjecture about the issue. Remember that if a determination of possible fraud is made, this information will likely be turned over to regulators or law enforcement. It may also become legally discoverable and could be presented in a court of law.

**Investigations**

If a Suspected Fraudulent Act is identified the Company will open an investigation. Anytime during an investigation the Company may contact you directly to assist in determining what occurred to raise a suspicion of fraudulent activity. You are expected to cooperate with the investigation to the fullest of your ability. Being contacted by the Company as part of an investigation does not mean that fraud has occurred or that anyone is being accused of a crime.

**Reporting and Cooperation with Proper Authorities**

The Company will maintain procedures for the reporting of suspected fraudulent activity to proper authorities. Such reporting and cooperation in any investigation will be done in a manner and form containing all relevant information as prescribed by the proper authority.

In the event of the detection of fraudulent activity appropriate contact with state insurance regulators and state and/or federal law enforcement agencies will take place. We will cooperate with the state insurance departments and state and federal law enforcement agencies in the investigation and prosecution of individuals suspected of committing fraud.

You may be contacted by the investigating authorities once a report has been made. Please cooperate with these authorities to the best of your ability.

**Methods for Preventing Fraud**

We have developed methods for preventing and investigating suspected fraudulent activities. These include, but are not limited to, the development of anti-fraud controls and techniques used to identify possible Fraudulent Acts:

- A Fraud Review Team;
- Updated claims handling procedures;
- Various new business & suitability (annuities) and underwriting (life insurance) programs, including premium payment restrictions;
- Enhanced service requests, including benefit payments;
- The use of “red flag” indicators;
- Privacy and Technology Security and Safety measures; and
- Use of fraud warnings on applications and claims forms.
**Fraud Review Team**

We have established a Fraud Review Team (FRT) whose goal is to review information on fraud cases investigated by the Company, submit reports and make recommendations to Senior Management on suspected Fraudulent Acts. The FRT will also develop controls to prevent, deter and detect Fraudulent Acts as early as possible.

**Claims Handling Procedures**

We have developed procedures that require us to gather and review certain information before paying a death claim. When assisting a beneficiary in making a claim, please be aware of the Company’s requirements. Assist the beneficiary in gathering the appropriate information and documents necessary for us to properly and quickly process a claim. This information includes, but is not limited to:

- A certified death certificate;
- Proof of Claim form (form 8008) completed by the beneficiaries; and
- Other information as may be determined necessary by Claims Department personnel.

If you believe that a suspicious claim is being requested, you should immediately bring it to the attention of the Resolution Department. A suspicious claim may arise where:

- Circumstances surrounding the death are unusual;
- Beneficiary’s relationship or actions are unusual; and/or
- Information is brought to your attention that appears inconsistent or questionable.

Once you report a suspicious claim to the Resolution Department, it will be reviewed and a determination will be made as to whether or not a claim should be paid, or if a report of a suspected Fraudulent Act should be made to proper authorities. **Due to the need for confidentiality, you may not be notified further of the progress on the case.**

**New Business, Suitability & Underwriting, Programs**

You may be in a position to detect misrepresentations at time of application. Subject to our procedures, information gathered at the time of application generally includes personal financial and health information necessary for us to determine the acceptability of the application. Your accurate gathering and comparison of information is a key element in identifying potential Fraudulent Acts.

> If, in the course of taking an application and completing the suitability or underwriting process, you have concerns for any reason regarding the validity of any information or suspect fraudulent activity you should immediately contact the Resolution Department.

**Premium Payment**

You are authorized to collect ONLY the initial premium. You are not authorized to accept other funds from clients. You should never commingle client funds with your own. You should never send your own personal check to pay any premium for any client, other than your own or a close family member. You should also not help facilitate another source of funds if a client brings you cash and indicates they do not have a checking or savings account.

**Service Requests**

Potential fraudulent activity may also occur after a policy or contract is issued through inappropriate service requests. You should take care to ensure any transaction requested, or that you are asked to perform and/or assist a client with, is coming directly from the client. Have safety measures and procedures in place to assure yourself of the client’s identify when talking to them on the phone, or when receiving a written request. Always verify with your client or have proper documentation if someone other than the client is authorized to make requests, decisions and changes affecting your client’s policy and/or contract. Such procedures and safeguards should include, but may not be limited to:
• Policy/contract access and the ability to process transactions, such as employees in your office whose primary job duty is to process such transactions;
• Address change verification sent to both new and previous address;
• Confirmation notices sent to owner at time of any transfer request or change of beneficiary;
• Periodic reviews of your client’s file to verify service requests;
• Checks or wire transfers for withdrawals, surrenders and claims should be sent directly to the client, not through you or another third party; and
• Periodic reviews of requests for loans, withdrawals, surrenders and address changes to detect any unusual transactions.

If, in the course of processing any service request, you have concerns for any reason regarding the validity of any information or suspect fraudulent activity you should immediately contact the Resolution Department.

Red Flag Indicators

We have developed a list of Red Flag Indicators for your review and use. Red Flags are actions, behaviors or transactions that may indicate potential fraud, forgery or other misrepresentations. Red Flags in and of themselves do not mean fraud has occurred, but rather are intended to raise the awareness that certain actions pose a risk for potential fraudulent behavior. See the list of Red Flag Indicators at the end of this Guide.

Privacy and Technology Security and Safety

The protection of a consumer’s private information is very important. Identity theft, computer hacking, e-mail scams are all part of an increasing area of fraudulent activity. You should take special care to ensure your client’s private information is safe and secure from outside access. This includes your paper files as well as your computer files. All paper documents with customer information should be kept in locked file cabinets in an area of your office with no or very limited public access. Computers should be password protected and you should consider utilizing a firewall to protect your computer from outside attacks from the internet. If you e-mail information you should consider using encryption software for any message that contains personal information.

If you suspect that customer information has been improperly accessed or viewed you may have to report this “breach” to the Company and possibly to the authorities. You may also have a duty to inform your customer as to the extent of the breach and what information may have been compromised.

We suggest you review our Agent’s Guide to Consumer Privacy (form 4947) for more information about your duties and responsibilities in dealing with the privacy and security of your consumer’s information.

Fraud Warnings on Applications and Claims Forms

Most states require some type of warning language be printed on our application forms and claims forms. These notices are intended to inform consumers that providing false or misleading information may be considered a Fraudulent Act. You should make your customer aware of these notices.

In Conclusion

Insurance fraud is on the rise; life insurance and annuity fraud is increasing each year. Fraud costs not only the insurance company, but you and your client in hard dollars. Your action and attention can help us stop insurance fraud before it happens. If you suspect insurance fraud please report it immediately to the Resolution Department. Your help in preventing insurance fraud is greatly appreciated.

Reporting Suspected Fraudulent Activity Contact Information:

American Equity Investment Life Insurance Company®
ATTN: Tara Gorsch - Resolution Department
6000 Westown Parkway
West Des Moines, IA 50266

Anonymous Tip Hot Line: 877-633-6436
Toll-free Phone Number: 888-221-1234
Fax: 515-457-1819
E-mail: tgorsch@american-equity.com
**RED FLAGS**

*Indicating Potential Fraud, Forgery or other Misrepresentations*

Below is a list of examples—not intended to be complete—of possible red flags and suspicious activity that could indicate fraud in insurance products. Any questions should be directed to the attention of: Harley Whitfield Jr., SVP, 515-457-1782, hwhitfieldjr@american-equity.com

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Document has our company name on it but it is not ours, pages have been altered or missing, has incorrect amounts or contract numbers</td>
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<tr>
<td>2.</td>
<td>Third-party payments</td>
</tr>
<tr>
<td>3.</td>
<td>Agent paid back part or all of surrender charge incurred or part of his sales commission to the consumer</td>
</tr>
<tr>
<td>4.</td>
<td>Consumer complains about never receiving contract</td>
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<tr>
<td>5.</td>
<td>New policy issued shortly before or after existing policy lapses</td>
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<tr>
<td>6.</td>
<td>Agent had consumer make premium check payable to agent and not to the company</td>
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<tr>
<td>7.</td>
<td>Incorrect address or use of a P.O. Box number</td>
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<tr>
<td>8.</td>
<td>Agent and client have the same address</td>
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<tr>
<td>9.</td>
<td>Address changed at same time as a financial transaction is requested</td>
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<tr>
<td>10.</td>
<td>Agent or agent’s family is listed as beneficiary and the consumer is not a family member</td>
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<tr>
<td>11.</td>
<td>Check is to be mailed to agent, wired or via Federal Express</td>
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<tr>
<td>12.</td>
<td>Consumer’s birthdate is wrong on the application</td>
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<tr>
<td>13.</td>
<td>Proposed insured over the age of 40 with no medical history</td>
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<tr>
<td>14.</td>
<td>Documents sent and returned immediately (compare signatures)</td>
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<td>15.</td>
<td>Caller does not know his/her social security number or date of birth or other personal information</td>
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<td>16.</td>
<td>Frequent requests for exceptions to company policy from one agent or agency</td>
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<tr>
<td>17.</td>
<td>Client refers to their product by the wrong name—“my annuity” when they actually own a life policy, or vice versa</td>
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<tr>
<td>18.</td>
<td>Conflicting requests between consumer and agent</td>
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<tr>
<td>19.</td>
<td>Unusual transactions or special handling requests</td>
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<tr>
<td>20.</td>
<td>Consumer does not remember requesting financial transaction</td>
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<tr>
<td>21.</td>
<td>Consumer did not receive the funds or the benefit of the funds from a financial transaction</td>
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<tr>
<td>22.</td>
<td>Signature does not match other signatures on file</td>
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<tr>
<td>23.</td>
<td>Contract owner alleges not to have signed the application for insurance</td>
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<tr>
<td>24.</td>
<td>Consumer not aware of replacement</td>
</tr>
<tr>
<td>25.</td>
<td>Consumer was not aware product was insurance (sold as investment)</td>
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<tr>
<td>26.</td>
<td>Consumer was told product was like a savings account and could get funds out at any time</td>
</tr>
<tr>
<td>27.</td>
<td>Consumer told premiums were optional or that the policy is “paid up” when paid up is not on that policy</td>
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<tr>
<td>28.</td>
<td>Consumer unaware of surrender charges or other contractual aspects</td>
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<tr>
<td>29.</td>
<td>Replacement not disclosed or large number of internal or external replacements</td>
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<tr>
<td>30.</td>
<td>Stranger originated transactions</td>
</tr>
<tr>
<td>31.</td>
<td>Caller impersonation: male voice, claims to be female</td>
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For the purpose of this document, the term **Agent** is defined as—any individual or organization, including producers, brokerdealers, wholesalers, advisors or representatives licensed by a state insurance department and contracted by the Company to represent, solicit, sell and service its products to the public.