

LARGE CASE DESIGN MEMORANDUM

Patriot Games

The financial services business has become increasingly regulated and significantly more difficult to comply with. Much of the added layer of compliance procedures stems from the Patriot Act, one of the most pernicious relics of the Bush era. This gem of government overreach effectively appoints all financial services professionals as Big Brother. We are expected to know where our client's money comes from, how they obtained it, and how many acquaintances they have with the last name Bin Laden.

As a BD we receive a bi-weekly list of names from the federal government that resembles the Islamabad phone book and we are required to match the names with our entire client data base to uncover any potential evil-doers. I don't remember applying for this job and I resent the 'guilty until proven innocent' overtone of this process. Nevertheless, we continue to perform this task for the government without remuneration and at great risk to ourselves since the penalties for missing the next underwear bomber are draconian.

Of course, gems of the investment world like Bernie Madoff and countless others perpetrating similar financial frauds didn't help. And even though the Patriot Act was a response to the 9/11 attacks, it conveniently covers all manner of financial money laundering and skulduggery. This is an inconvenient pain in the collective rear-end for all of us who make our living selling financial products.

As unlikely as you may believe it to be, the federal government is convinced that our clients may use the purchase of life insurance and annuities to launder their illegally obtained cash. Unfortunately,

we have no choice but to continually attest to our anti-money laundering prowess by conducting weekly AML reviews and answering a battery of inane, repetitive questions in order to satisfy the newly minted legions of compliance people hired by the carriers to enforce these rules. None of this is new, and we've tried to make it as easy as possible for our brokers to comply with the rules. Yet we still receive a lot of questions about certain parts of the application process and licensing procedures. By way of friendly reminder please allow me to elaborate on the answers to a few of the most asked questions:

- 1) No, ***we cannot complete your AML training for you.*** Thanks to the Patriot Act you are required to prove that you can identify money launderers, terrorists, drug lords, and all manner of miscreants. Thanks to the insurance industry all carriers adhere to slightly different versions of the test. Even though the system is supposed to be standardized, there are a few outliers who want something the others don't. It literally takes less time to take the short quizzes than to complain about them. You need to stay current with this requirement; many carriers will refuse to issue a policy without your completion of their version of AML training.
- 2) Yes, we really do need financial documents to support your client's need for insurance. Due to their misadventures with SOLI/IOLI, and compounded by the Patriot Act, carriers are now more diligent than ever about justifying the need for coverage. ***A detailed cover letter summarizing the client's financial situation and his or her need for the amount applied for has never been more important.*** Yet we receive very few of these. Even more frustrating is that

agents are reluctant to ask their clients for financial documents to support the amount applied for.

We cannot convince underwriters to give you whatever amount you apply for without proper documentation. This may have happened in the past, but thanks to all of the lawsuits that came out of the SOLI/IOLI mess it is not going to happen now.

We can assist you with this by speaking with your client. ***We have been very successful at making even the most difficult arguments for increased coverage. However, none of those successes were achieved without legitimate documentation.***

- 3) No, we cannot accept a third party check. Policies owned by trusts ***must be paid for with a check or wire transfer from the trust account.*** Policies owned by corporations must be paid for with a check or wire transfer from the proper corporate account.

If you've done your AML training you know that a third party check is a red flag. Carriers are no longer accepting money orders, third party checks (even if the third party is the insured), or cash. Please instruct your clients to open a trust account prior to the policy being issued. The carriers will not make exceptions.

- 4) No, we are not clairvoyant. If you omit important data on the application we cannot find it in the cosmic ether or read it in our tea leaves. ***Please take the time to provide all requested data.*** As much as we'd like to have shorter, less intrusive applications, they do not

seem to be forthcoming. Have you considered ACCU-APP? If not, you should be calling Anthony Giannone for details.

Unfortunately for all of us, the government still seems intent on making financial transactions as cumbersome and difficult as possible. We understand your frustration with these additional complications to the application and delivery process, and we do our very best to handle as much of it as possible.

Some of these issues can be avoided by allowing us to speak directly with the client. Some, like AML training, are beyond our ability to control.

More to the point, why are agents so squeamish about asking clients all of the questions on the application, especially the financial ones? The mere process of asking for financial justification gives clients a much needed look into the world of insurable interest. It makes them think about the need for insurance and often uncovers additional needs. By shirking this responsibility agents are reinforcing the public's negative views about insurance and about themselves as glorified order takers.

Get involved, tell your clients what to expect, and don't be afraid to ask them the tough questions. The more you distance yourself from this process the less important you become to the client. Don't miss the opportunity to become an important part of your client's advisory team.

- Ron Sussman

The opinions expressed in this memorandum are those of the author and are intended to provoke discussion and positive change within the industry.



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We invite you to learn more about our unmatched services. Please contact Anthony Giannone, Account Manager or visit our website.

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