

FOR FINANCIAL PROFESSIONAL USE

Compliance Guide

FOR FINANCIAL PROFESSIONALS

OVERVIEW AND PURPOSE

At Knighthead Life, our bearings hold true.

With a A- rating from AM Best, we prioritize the exceptional service and intentional innovation that our partners and clients deserve from their retirement solutions provider.



**A- RATING FROM
AM BEST**



**PART OF KNIGHTHEAD
INSURANCE GROUP**

As a professional in the insurance industry, you likely share in our vision empowering our clients to plan their future with confidence. We understand the challenges of growing a business while complying with a dynamic regulatory regime. Our goal is to make compliance rules and standards less complicated and help you develop a best practices approach to your business activities.

This Compliance Guide was created to assist you in understanding the guidelines and procedures which are the foundation of good market conduct in the eyes of the regulators. They also reflect our Company standards which you have committed to follow under the terms of your contract. In addition to understanding our position, all Financial Professionals must have knowledge and understanding of applicable laws and regulations of the states in which they solicit business.

Knighthead Life (Company) is the brand name of KHUS and its subsidiaries, Merit Life Insurance Co. and Knighthead American Life Insurance Company.

MARKETING MATERIALS

Definition of Advertising Materials

The National Association of Insurance Commissioners (NAIC) defines advertising as *“any written, electronic, or printed communication, including television and radio advertisements, marketing materials, and social media posts, that is intended to encourage the public to purchase, increase, modify, reinstate, or retain an insurance product or service.”* Advertising includes communications with both potential and existing policyholders, as well as other individuals or entities that may influence the decision to purchase or retain an insurance



product or service, such as brokers or Financial Professionals. Advertising also includes any webpages or social media posts and seminars.

Approved Advertising

All Approved Advertising, as defined above, is available on in the Financial Professionals portal of the Knighthead Life website - www.knightheadlife.com. Financial Professionals are required to only use Company approved materials and must access our website prior to any sales presentations to ensure use of the most current and accurate materials and rates.

Any materials, webpages, social media posts, or other means of advertisement as described above, **must be** approved by Knighthead Life prior to use.

ANTI-MONEY LAUNDERING (AML) POLICY

Our AML policies and procedures are designed to comply with the Anti-Money Laundering (AML) and Counter Financing of Terrorism provisions of the Bank Secrecy Act as they apply to insurance companies.

Money laundering is the process of concealing or disguising the illicit nature or source of income or assets to make them appear legitimate. AML law and regulations are aimed to prevent the insurance industry from being used for further money laundering and terrorist financing by criminals.

Financial Professionals are required to contact Knighthead life Compliance (at compliance@knightheadinsurance.com) to report any activity that appears suspicious regarding the sale of an annuity product. Information gathered during the sales process, positions Financial Professionals to be able to help identify potential attempts at money laundering and the financing of terrorist activities. Additional information regarding AML and suspicious activity can be found at www.fincen.gov.

Financial Professionals should be able to identify their customers with government issued identification. In line with the integrity expected of the profession, Financial Professionals should not ignore customer behavior that could be considered out of ordinary.

Our AML Policy requires that Financial Professionals:

- Complete AML training prior to appointment.
- Ensure all information on the application is accurate and correct.
- Identify each customer using an active government Issued form of identification as defined on the application as U.S. Passport, Driver's License or, Tribal Card.
- Promptly report any suspicious activity to Knighthead Life Compliance.



Potential Red Flags may include the following:

- Excessive concern with our compliance programs or reporting requirements to the government.
- Inability for the Financial Professional to determine an appropriate purpose for the purchase of the annuity, but the customer is insisting on proceeding with the application.
- Unclear source of funds for the annuity purchase.
- Any attempts to fund the contract with cash or cash equivalents, or indications of making multiple deposits to fund the contract.
- The purchase appears to exceed the customer's income or net worth.

It is the responsibility of all Financial Professionals authorized to sell our annuity products to promptly report any suspected suspicious activity to Knighthead life Compliance compliance@knightheadinsurance.com.

Financial Exploitation

Financial exploitation has the potential to impact customers who are considered "vulnerable persons." This includes seniors, or any other persons who are unable to protect themselves because of a mental or physical impairment. The Company expects Financial Professionals to take additional measures when recommending an annuity to a vulnerable person and ensure that the annuity is meeting their financial needs and that they have a complete understanding of the product, its features, and benefits. Some "red flags" that *may* indicate financial exploitation is occurring can include:

- A third party (child, caregiver, etc.) shows a high level of interest in the financial decisions being made, and the vulnerable person is unable to speak or engage in the conversation regarding their finances.
- Sudden changes in the customer's behavior that does not align with the Financial Professionals past experiences with the customer.
- Requests for beneficiary changes that do not align with past information (i.e., requests to change beneficiaries to a different family member or new individual).
- A new individual becomes involved in their financial decision making without proper legal documentation.
- An expression of fear, submissiveness, or reluctance regarding their financial matters that is out of character.

These are a few examples where financial exploitation may occur, but not an exhaustive list. Any concerns of this nature that indicate a potential for financial exploitation of a vulnerable adult should be directed to our Compliance team.



ANNUITY SUITABILITY/BEST INTEREST STANDARD

In complying with the NAIC Suitability in Annuity Transaction Model Regulation (the “Model Regulation”), we have made a commitment to ensure that the annuity products sold are in the customer’s best interest.

While not all states have adopted the Model Regulation, which includes the Best Interest Standards, the Company has made the business decision to ensure that all Financial Professionals selling its annuity products follow the standards set by the NAIC. This ensures a consistent application of suitability standards while holding the Financial Professional’s recommendations to the highest level of care.

NAIC Model Regulation

To satisfy the requirements of the NAIC Model Regulation, you must: satisfy the following obligations/standards of care identified in the Model Regulation:

Care Obligation

Financial Professionals must have a reasonable basis to believe the recommended option effectively addresses the customer’s financial situation, insurance needs and financial objectives over the life of the product, as evaluated in light of the customer profile information. The basis for the recommendation must be communicated.

If recommending a replacement, the replacement must substantially benefit the customer in comparison to the replaced product over the life of the product. A Financial Professional should be prepared to show the substantial benefit to the customer, especially considering any surrender charges, loss of benefits, and fees or miscellaneous charges.

Disclosure Obligation

Prior to a recommendation or sale of an annuity, a Financial Professional must prominently **disclose** to the customer the scope and terms of the relationship with the customer and the role of the Financial Professional; an affirmative statement of the products the Financial Professional is licensed and authorized to sell; an affirmative statement of the insurers the Financial Professional is authorized to sell products for; the sources and types of compensation to be received by the Financial Professional; and a notice of the customer’s rights to request additional information.

Conflict of Interest Obligation

Financial Professionals must disclose any potential conflicts of interest that may exist, such as compensation arrangements that may incentivize them to recommend one product over another. For example, if the Financial Professional will be receiving a higher commission for



selling one type of annuity over another, they must disclose this to the customer and explain how it may influence their recommendation.

Documentation Obligation

Financial Professionals are required to document their recommendation and maintain a file for each customer containing all relevant documents and notes to be provided at the Company's, Departments of Insurance, or any other regulatory body with oversight on the sale of the annuity. Any documentation submitted to us must be complete, accurate, and support the recommendation being in the best interest of the customer.

Training Requirements

Suitability/Best Interest regulations generally have training requirements. Understanding the standard of care requirements, as well as the specifics of an annuity product will ensure you make compliant sales.

Prior to being appointed, all Financial Professionals are required to complete a one-time four-hour CE training course on suitability in those states that have adopted the regulation. In addition, the Company requires product specific training in all states prior to soliciting an application, even if that state's regulations do not require product training. Product training is made available on SureanceBay's SureLC platform.

Our Position on Suitability/Best Interest

Potential Automatic Declines: in certain situations, we may decline the issuance of an annuity contract.

Potential reasons for a decline include:

Initial Funding and Recommendation

- Reverse mortgage, whether it is used to fund the annuity or not.,
- Applicant is a resident of a nursing home. Applications from residents in assisted living facilities will be evaluated on a case-by-case basis.
- Purchasing the annuity to qualify for certain government benefit programs.
- Financial needs and/or objectives are not in line with the recommended annuity product.
- Anticipated distributions will incur fees and the product does not offer free withdrawal provisions (or they have not been elected).
- Customer anticipates adverse changes in assets, expenses, or income during the annuity withdrawal charge period.
- Customer is over the age of 85.



Replacements & Exchanges

Where a Replacement transaction is recommended, it must also be in the best interests of the customer. The considerations for and evaluation of a replacement transaction are inextricably tied to suitability.

- Replacements with a net surrender loss. This includes any surrender charges and market value adjustment on the external policy.
- Replacements where a customer is surrendering a high death benefit, or death benefit rider value.
- Replacements where a customer is surrendering a large income benefit or income account value, without appropriate reasoning or documentation.

Other Reasons:

- Customer's income is less than their expenses.
- Customer does not have adequate liquid assets to cover monthly expenses after the annuity purchase.
- Total amount of a customer's net worth inside of annuities would be too highly concentrated in the same product.

REPLACEMENTS

Our Position on Replacements

Knighthead Life does not encourage or condone the systematic or deliberate replacement of existing life insurance and/ or annuity policies and contracts (sometimes referred to as "churning and/or twisting") as a marketing practice or method of doing business. At the same time, we acknowledge that not all replacements are improper, and that many are appropriate.

NAIC Model Regulation

The NAIC considers a replacement to have occurred when a new policy or contract is to be purchased, and it is known or should be known to the proposing Financial Professional, that by reason of the transaction, an existing policy or contract has been or is to be:

- Lapsed, forfeited, 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 using nonforfeiture benefits or other policy values.
- Amended to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid.
- Reissued with any reduction in cash value; or
- Used in a financed purchase.



The definition is broad and applies not just to full surrenders of life insurance policies or annuity contracts, but also extends to new policies or contracts purchased with any funds (e.g., withdrawals or partial surrenders) from existing policies or contracts.

Most states have adopted the NAIC Life Insurance and Annuities Replacement Model Regulation. Our guidelines are derived largely from the Model Regulation. It is vital that you understand what is considered a replacement, as well as your responsibilities under the NAIC model law.

Financial Professional Responsibilities

The NAIC Life Insurance and Annuities Replacement Model Regulation requires additional duties for Financial Professionals in states which have adopted it:

- ask the applicant if he/she has any existing policies or contracts as part of the application process, even if no replacement is proposed.
- present the replacement disclosure form ("Important Notice: Replacement of Life Insurance or Annuities") and obtain the signature of the applicant. You must sign the form as well.
- ask the applicant if they would like the replacement disclosure form to be read aloud. If they do not, they must initial the bottom of the first page.
- provide a copy of the signed form to the customer at time of application.
- provide copies of all sales materials that you used in the sales process to the customer at time of application.
- certify to us that you left all sales materials used with the applicant (owner).
- provide copies of all such materials when requested by the state insurance department.

To determine if a replacement is appropriate for the customer, you and your customer must look at all aspects of the new policy or contract compared to the old policy or contract as well as the financial needs and objectives of the customer. It is prudent to consider a number of factors including:

Annuity to Annuity Replacement Considerations

- Surrender charges incurred if current policy is replaced
- Surrender charges of proposed policy (duration and amount)
- Death benefit provisions
- "Free" withdrawal amounts and limitations
- Customer's financial status and objectives (inc. retirement income and liquidity need)
- Flexibility of income/annuitization provisions



- Available riders and their associated costs/benefits
- Use of 1035 exchange process to prevent taxable gain, carry over cost basis

Life Insurance to Annuity Exchange Considerations

- Health of insured (especially if short life expectancy)
- Purpose for the proposed annuity (income needs vs. legacy)
- Beneficiaries will receive substantially less upon death of insured
- Loss of tax-free death benefit
- Clear disclosure of annuity surrender charges/other liquidity limitations

Monitoring Replacement Business

The Company monitors replacement activity on an ongoing basis. Where the replacement activity of a specific Financial Professional or agency presents a concern, we will investigate further and discuss its findings with the Financial Professional or agency. Frequent replacements will be monitored and investigated as they can imply a Financial Professional is engaged in the churning to generate commissions.

NON-RESIDENT AND CROSS BORDER SALES

A non-resident sale occurs when a customer purchases an annuity outside of their resident state. It is the Company's interpretation that the following states prohibit cross-border sales for primary residents of those states.

- Arkansas, Idaho, Massachusetts, Minnesota, Oregon, Utah, Washington, and Wisconsin.

We will decline any applications for cross-border sales for the residents of these states.

If the solicitation for the sale of an insurance product takes place in a state that is not the state of residence of the applicant/owner, you must comply with the following requirements:

1. Provide accurate and complete disclosure of the actual location of solicitation, application, and delivery. Please note that the solicitation, signing of the application, and contract delivery must all occur in the same non-resident state.



2. Complete the Non-Resident Sales Form the connection between the applicant/owner and the non-resident state in which the sale occurs.
3. Provide evidence that the customer was in the non-resident state for reasons other than merely to purchase a product at the time of application e.g., the customer's former residence or second home is in the non-resident state or their business, office, or employment in the non-resident state.

Additionally, Financial Professionals must be licensed in the non-resident state and be familiar and comply with all rules and regulations in each state for which a non-resident license is held.

COMPLAINT HANDLING

The Company is committed to being responsive to any expressions of dissatisfaction or criticism expressed by its customers in relation to the sale or servicing of its products. Complaints can be received through various channels, including phone, email, mail, or in-person, and may be escalated to a formal complaint process if they are not resolved satisfactorily.

Customers may contact you with questions, services request, grievances or for other reasons. Please be mindful and courteous in your interactions. Should you receive a complaint directly from a customer, you should promptly forward it to complaints@knighttheadinsurnace.com.

CONTRACT DELIVERY REQUIREMENTS

Contract Issue

As a Financial Professional, we want you to have all the information necessary to complete any requirements and forms for the business that you submit. When cases are not submitted in good order, the number of outstanding issue requirements increases, the chance of errors in processing is greater, and unnecessary delays may arise.

Additionally, customers may elect e-delivery of their annuity contract. When e-delivery is elected and email address provided, the Company will electronically deliver the annuity contract to the customer.

Financial Professionals are not permitted to use their personal/business email address to facilitate electronic delivery of an annuity contract to a customer.



Delivery Requirements

Where the customer agrees to utilizing electronic records, the Company will e-deliver the annuity contract directly to the customer.

The Company requires that the customer confirm delivery by signing a Delivery Receipt, and any other items requested by us that require the contract owner's signature at delivery.

Free-Look Period Cancellation

Requests for free-look returns with a refund of any premiums paid will be addressed promptly. To cancel a contract during the free-look period, the contract-owner must do the following:

1. Sign and date a written request to cancel the contract within a specified amount of time following delivery; and
2. Submit the written request to Knighthead Life.
3. If you as the agent receive the written request, you must promptly forward the request to Knighthead Life.



If you need us,
we're here to help.

CALL US AT (833) 637-4854

OR VISIT WWW.KNIGHTHEADLIFE.COM

