

**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING) Order No.: S-12-0985-12-CO01
 whether there has been a violation of the)
 Securities Act of Washington by:)
)
 Bankers Life and Casualty Company; BLC) CONSENT ORDER
 Financial Services, Inc.,)
)
 Respondents.)

INTRODUCTION

WHEREAS, state regulators from multiple jurisdictions conducted coordinated investigations of Bankers Life and Casualty Company (“Bankers Life”) and BLC Financial Services, Inc. (“BLCFS”) (collectively, “Bankers”) to determine whether Bankers should have been registered as a broker-dealer and investment adviser between January 1, 2005, and December 2, 2011; and

WHEREAS, the investigators determined that Bankers has acted as a broker-dealer and investment adviser in those jurisdictions without being registered, exempt from registration, or a federal covered investment adviser, and has employed or associated with agents and investment adviser representatives who were not so registered on behalf of Bankers; and

WHEREAS, Bankers has engaged in similar conduct in Washington, in violation of RCW 21.20.040; and

WHEREAS, the conduct addressed herein has resulted in no known direct consumer harm, and the parties understand that registered agents or representatives of registered broker-dealers or investment advisers other than Bankers participated in all securities transactions and at locations that were registered with the appropriate securities authorities as broker-dealer locations of broker-dealers other than Bankers; and

WHEREAS, Bankers has cooperated with state regulators conducting the investigations by responding to inquiries, providing documentary evidence, and halting further receipt of broker-dealer and investment adviser related compensation while the investigations were pending; and

1 WHEREAS, Bankers, in order to avoid protracted and expensive proceedings in numerous states, has agreed
2 to resolve the investigations through a multistate settlement which includes this Consent Order; and

3 WHEREAS, Bankers, as part of this settlement, agrees to comply with all state and federal licensing,
4 registration, and other securities laws; and

5 WHEREAS, Bankers, without admitting or denying the Conclusions of Law set forth below and solely for the
6 purposes of this Consent Order, admits the jurisdiction of the Securities Division of the Washington State Department
7 of Financial Institutions (“Securities Division”), admits the Findings of Fact set forth in paragraphs 1-11 below,
8 voluntarily consents to the entry of this Consent Order, and waives any right to a hearing or to judicial review
9 regarding this Consent Order.

10 NOW THEREFORE, the Securities Administrator hereby enters this CONSENT ORDER.

11 **FINDINGS OF FACT**

12 1. Bankers Life is a life insurance company located in Illinois that has never been registered as a broker-
13 dealer or investment adviser.

14 2. BLCFS is a wholly-owned subsidiary of Bankers Life that also is located in Illinois. BLCFS (CRD
15 No. 126638) has been a member of NASD or FINRA since 2003 and is registered as a broker-dealer only in Illinois.
16 During its existence, BLCFS has had no business activity other than as described herein. BLCFS has never been
17 registered as a broker-dealer or investment adviser in Washington, and it has not registered any agents or investment
18 adviser representatives in Washington.

19 3. Effective January 1, 2005, Bankers Life entered into a Financial Services Agreement with UVEST
20 Financial Services Group Inc. (the “UVEST Agreement”), under which insurance agents of Bankers Life who became
21 licensed as registered representatives and/or investment adviser representatives of UVEST would provide brokerage
22 and investment advisory services out of Bankers Life branch office locations. At all relevant times, UVEST has been a
23 broker-dealer registered in Washington and (through an affiliate) a federal covered investment adviser. The UVEST
24 Agreement specified that UVEST would “exercise exclusive control” over the broker-dealer and investment advisory
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1 activities of the dual agents and assigned Bankers Life several securities-related roles, which Bankers Life did perform,
2 including:

- 3 a. appointing the persons to be dual agents and having sole discretion to withdraw appointments
4 at any time;
- 5 b. determining with UVEST the number and identity of dual agents at each office;
- 6 c. determining with UVEST the compensation to be paid to each agent;
- 7 d. determining with UVEST the “brokerage product offerings available for distribution” by the
8 dual agents;
- 9 e. approving the clearing broker selected by UVEST;
- 10 f. approving advertising and promotional material; and
- 11 g. paying for:
 - 12 i. pre-examination training for required NASD/FINRA examinations;
 - 13 ii. investment research materials used in the branch offices;
 - 14 iii. recruitment and travel costs; and
 - 15 iv. UVEST stationary and business cards.

16 4. The UVEST Agreement provided for UVEST to pay Bankers Life “Revenue Sharing Payments”
17 according to a schedule that varied from 82% to 85% of the gross commissions received by UVEST for the dual
18 agents’ securities transactions. The UVEST Agreement characterized these payments as representing reimbursement
19 for the compensation Bankers Life pays to the dual agents and “payment for the use of the facilities and equipment” of
20 Bankers Life.

21 5. In March of 2005, Bankers Life determined that BLCFS should have been a party to the UVEST
22 Agreement. As a result, the three firms agreed to a new first page of the UVEST Agreement that added BLCFS as a
23 party and a new signature page, which was executed by the three parties. The revised UVEST Agreement did not
24 assign BLCFS any rights or duties separate from those of Bankers Life and made all of Bankers Life’s rights and
25 duties also apply to BLCFS.

1 6. Coincident with Bankers and UVEST terminating the UVEST Agreement, Bankers Life and BLCFS
2 entered into a similar agreement with ProEquities, Inc. (“ProEquities) effective April 30, 2010 (the “ProEquities
3 Agreement”). At all relevant times, ProEquities has been a broker-dealer registered in Washington and (through an
4 affiliate) a federal covered investment adviser. The ProEquities Agreement specifies that ProEquities will “exercise
5 exclusive control” over the broker-dealer and investment advisory activities of the dual agents and assigns the
6 following securities-related roles to BLCFS or to BLCFS and Bankers Life, which BLCFS and Bankers Life
7 subsequently engaged in:

- 8 a. consulting with ProEquities on the persons to be appointed as representatives of ProEquities;
- 9 b. identifying securities product training and marketing opportunities;
- 10 c. determining with ProEquities the securities products made available for distribution by the
11 dual agents;
- 12 d. approving the clearing broker selected by ProEquities (BLCFS only);
- 13 e. approving advertising and promotional material (BLCFS only);
- 14 f. recruiting representatives for ProEquities and assisting with the licensing and registration
15 process;
- 16 g. providing marketing, training, and support; and
- 17 h. paying for:
 - 18 i. pre-examination training for required FINRA examinations;
 - 19 ii. sales training materials;
 - 20 iii. recruitment and travel costs; and
 - 21 iv. ProEquities stationary and business cards.

22 7. Under the ProEquities Agreement, ProEquities is required to pay BLCFS between 87% and 91% of
23 revenue received by ProEquities for the securities business conducted by the dual agents. ProEquities also is required
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1 to provide reports to BLCFS of the amount of compensation to be paid to each dual agent for securities work, and
2 BLCFS is to retain the difference.

3 8. BLCFS, in its current Form BD filing, lists the following as other business:

4 “BLC Financial Services, Inc. (BLCF) provides sales support & a marketing program
5 to Bankers Life & Casualty agents who are securities licensed with ProEquities.
6 BLCFS will receive compensation from ProEquities based on these securities sales.
7 BLCFS will not have any representatives that sell to the public.”

8 9. The involvement of Bankers in securities-related roles led to confusion in the reporting and
9 responsibility hierarchies as between Bankers and the applicable broker-dealer.

10 10. At no time were the dual agents licensed as securities salespersons or investment adviser
11 representatives of Bankers Life or BLCFS. The agents were registered representatives and investment adviser
12 representatives of UVEST or ProEquities.

13 11. From January 1, 2005, through November 31, 2011, Bankers received, on a nationwide basis, a total of
14 approximately \$21 million from UVEST and ProEquities under their respective agreements for variable annuity and
15 securities transactions and investment advice. Approximately \$15 million of this amount was passed on by Bankers to
16 the dual agents as compensation, leaving approximately \$6 million retained by Bankers or used by Bankers for
17 expenses.

18 **CONCLUSIONS OF LAW**

19 1. The Securities Division has jurisdiction over this matter pursuant to the Securities Act of Washington,
20 RCW 21.20.

21 2. Under RCW 21.20.040(1), a person may not act as a broker-dealer in Washington unless registered or
22 exempt from registration.

23 3. Similarly, a person may not act as an investment adviser in Washington unless registered, exempt
24 from registration, or a federal covered investment adviser pursuant to RCW 21.20.040(3).

25 4. Under RCW 21.20.040(2) a broker-dealer may not employ or associate with a salesperson, as defined
in RCW 21.20.010(15), unless the employee or associated person is registered as a salesperson of the broker-dealer.

5. Under RCW 21.20.040(5)(a) an investment adviser may not employ or associate with an investment

1 adviser representative unless the employee or associated person is registered as an investment adviser representative of
2 the investment adviser.

3 6. By engaging in the conduct set forth above, Bankers acted as an unregistered broker-dealer and
4 investment adviser in Washington in violation of RCW 21.20.040(1) and RCW 21.20.040(3).

5 7. Furthermore, by employing or associating with dual agents who were not licensed as salespersons or
6 investment adviser representatives of Bankers, Bankers violated RCW 21.20.040(2) and RCW 21.20.040(5)(a).

7 8. Such conduct is grounds for an order imposing sanctions under RCW 21.20.390.

8 9. As a result, this Consent Order and the following relief are appropriate and in the public interest.

9
10 **CONSENT ORDER**

11 On the basis of the Findings of Fact, Conclusions of Law, and the consent of the Respondents to the entry of
12 this Consent Order,

13 1. IT IS AGREED AND ORDERED THAT Bankers shall **CEASE AND DESIST** from (1) acting as a
14 broker-dealer or investment adviser in Washington unless and until registered to do so; (2) employing or associating
15 with agents or investment adviser representatives in Washington who are not registered on behalf of Bankers; or
16 otherwise violating RCW 21.20; provided, however, that nothing in this Consent Order shall prevent Bankers from
17 employing or associating with insurance producers who are also registered representatives or investment adviser
18 representatives of a licensed broker-dealer so long as all securities-related functions are carried out consistent with the
19 conditions set forth below.

20 2. IT IS AGREED AND ORDERED THAT in accordance with the terms of the multistate settlement,
21 Bankers Life and/or BLCFS shall pay \$9.9 million to be distributed among the states where dual agents were located
22 during the period from January 1, 2005, through December 2, 2011, allocated according to a schedule provided by the
23 multi-state investigation working group. Bankers shall pay \$323,072.90 to the Securities Division as its portion of the
24 total amount, which portion shall be considered a fine. Such payment shall be made within ten days from the date this
25 Consent Order is signed by the Securities Administrator.

1 3. IT IS AGREED AND ORDERED THAT Bankers Life and/or BLCFS shall pay past licensing and
2 registration fees totaling \$260,000 to the states where dual agents were located during the period from January 1, 2005,
3 through December 2, 2011, allocated according to a schedule provided by the multi-state investigation working group.
4 Bankers shall pay \$5,000 to the Securities Division for its portion of the total past fees within ten days from the date
5 this Consent Order is signed by the Securities Administrator.

6 4. IT IS AGREED AND ORDERED THAT Bankers Life and/or BLCFS shall pay \$106,000 to fund
7 state audits to ensure compliance with this Consent Order and similar orders, decrees, and agreements in other states,
8 allocated in accordance with a schedule provided by the multi-state investigation working group. Bankers Life and/or
9 BLCFS shall pay \$2,000 to the Securities Division for its portion of the state audit funds within ten days from the date
10 this Consent Order is signed by the Securities Administrator.

11 5. IT IS AGREED THAT Bankers shall contract with an independent third party, with disclosure of any
12 prior relationship to Bankers and with a scope of work not unacceptable to the Securities Administrator for the State of
13 Maine, for the purpose of reviewing Bankers' compliance with the terms of this Consent Order. The independent third
14 party shall submit annual reports of the same, including findings and recommendations, to the Maine Securities
15 Administrator, which report shall be delivered on or before September 30 of each year commencing with the
16 September 30, 2012, report and ending with the September 30, 2014, report. Bankers shall make no claim of privilege
17 or other protection from disclosure to the Maine Securities Administrator of the reports or any information received or
18 considered by the independent third party, and Bankers shall not take any action to prevent or impede the Maine
19 Securities Administrator from sharing the reports or information with other state securities regulators.

20 6. IT IS AGREED THAT if any state securities regulator determines not to accept the settlement offer of
21 Bankers reflected herein, including the amount allocated to the applicable state according to the schedules referenced
22 in paragraphs 2 through 4 above, the payments to Washington shall not be affected and Bankers shall not be relieved
23 of any of the non-monetary provisions of this Consent Order.

24 7. IT IS AGREED THAT Bankers shall not attempt to recover any part of the payments addressed in this
25 Consent Order from dual agents, UVEST, ProEquities, or customers of Bankers (including through premium

1 increases); provided, however, that nothing in this Consent Order prohibits Bankers from modifying its premiums or
2 expenses for reason(s) unrelated to the payments referenced herein.

3 8. IT IS AGREED THAT Bankers shall fully cooperate with any investigation or proceeding related to
4 the subject matter of this Consent Order.

5 9. IT IS AGREED THAT Bankers has an existing relationship with ProEquities, a third party licensed
6 broker-dealer. From the date of this Consent Order through March 31, 2015 and while Bankers has dual agents that
7 are registered representatives or investment adviser representatives of a third party broker-dealer, any agreement
8 between Bankers and the third party broker-dealer shall be consistent with the provisions set forth below, provided,
9 however, Bankers may seek leave with the applicable securities administrators for relief from this provision:

- 10 a. The third party broker-dealer (“TPBD”) must be solely responsible for the hiring, training,
11 supervision and conduct of each of its registered representatives and investment adviser
12 representatives as that conduct relates to securities or other TPBD products and the provision
13 of investment advisory services.
- 14 b. Bankers Life and its affiliates, including without limitation BLCFS, (“Bankers affiliates”)
15 shall have no responsibility for the hiring, training, supervision and conduct of any registered
16 representative or investment advisor representative as that conduct relates to securities or other
17 TPBD products and the provision of investment advisory services.
- 18 c. Bankers affiliates shall not:
- 19 i. Exercise any control over who the TPBD appoints as registered representatives or
 - 20 investment adviser representatives;
 - 21 ii. Identify securities product training and marketing opportunities;
 - 22 iii. Determine with the TPBD the securities products made available for distribution;
 - 23 iv. Approve the clearing broker selected by the TPBD;
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- 1 v. Approve advertising and promotional material, provided, however, that Bankers shall
2 maintain the right to object to advertising or promotional material that is either in
3 violation of the law or in any way refers to Bankers;
- 4 vi. Pay for pre-examination training, sales training materials, travel costs, or TPDB
5 stationary and business cards for registered representatives or investment adviser
6 representatives.
- 7 d. The TPBD must be solely responsible for commission payments to registered representatives
8 and investment adviser representatives, including the commission grid applicable to each
9 registered representative and investment adviser representative, as that grid may be modified
10 from time to time at the sole discretion of the TPBD.
- 11 e. Bankers affiliates shall provide no compensation to registered representatives and investment
12 advisers based on securities production including, without limitation payment of expenses
13 associated with the annual convention, provided, however, Bankers may continue to reimburse
14 convention-related expenses to the extent they are based on insurance production.
- 15 f. Bankers may be compensated for its costs associated with the registered representatives and
16 investment adviser representatives and the office space and equipment by the TPBD in the
17 form of an administrative fee. The administrative fee must be reasonable and may not be
18 based in any way on securities production, securities gross dealer compensation, or the
19 number of securities transactions.
- 20 g. Bankers shall not conduct or permit its branches, employees, or insurance agents to conduct
21 securities statement or referral contests on an individual or group basis or otherwise create
22 incentives for obtaining securities statements from customers or prospective customers,
23 regardless of whether the contest or incentive is based partly on chance.
- 24 h. Bankers Life shall promptly provide:
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- 1 i. any information or visitation requested at any time by the Securities Administrator or
2 any other state securities regulator regarding the relationship, including, but not limited
3 to, documents; written statements; testimony of agents, employees, or other
4 representatives; and unannounced examinations of dual offices; and
5 ii. written notification of any complaint from a broker-dealer or investment adviser client
6 to the state securities regulators in the states where the complainant and all involved
7 agents or representatives are located so that the notification is received within 15 days of
8 the complaint.

- 9 i. Within 60 days of Bankers entering into an agreement with a TPBD other than ProEquities,
10 the independent third party reviewer referenced in paragraph 5 above shall review the
11 agreement with the TPBD to confirm its compliance with this paragraph and shall submit a
12 report of the same, with any relevant findings and recommendations, to the Securities
13 Administrator for the State of Maine.

14 10. IT IS AGREED THAT Bankers Life shall comply with the following practices:

- 15 a. An insurance producer who is not licensed to give advice concerning securities products (an
16 “Insurance Producer”) may gather all financial information necessary to complete a Bankers
17 Factfinder or similar document or tool required to determine insurance product suitability and
18 may provide the consumer with a business card of, and pre-addressed stamped envelope to, a
19 person properly licensed/registered to provide advice concerning securities products. The
20 Insurance Producer shall not obtain a copy of the consumer’s statement(s) for securities
21 products or discuss any other aspect of the securities products and the Insurance Producer
22 cannot arrange for the consumer to meet with a person properly registered to provide advice
23 concerning securities products. The Insurance Producer may explain that the Insurance
24 Producer is not licensed to discuss securities products.
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1 b. While gathering information for the Bankers' Factfinder or similar document or tool, an
2 Insurance Producer shall not inquire into a consumer's satisfaction with the consumer's
3 current investments in securities or with the consumer's current broker-dealer, investment
4 adviser, registered representative, or investment adviser representative or make comparisons
5 between securities and non-securities products. As used in this subparagraph, "securities"
6 refers both to specific securities products and to securities in general.

7 c. No commissions or other compensation derived from a securities transaction shall be paid to
8 or split with an Insurance Producer.

9 11. IT IS AGREED THAT pursuant to a Consent Order entered with the Maine Securities Administrator,
10 on April 27, 2012, BLCFS made the filings necessary to withdraw its registration as a broker-dealer with the Securities
11 and Exchange Commission and the State of Illinois and terminate its membership with FINRA. BLCFS shall not
12 reapply for registration or membership.

13 12. IT IS AGREED THAT this Consent Order concludes the investigation by the Securities Division and
14 any other action that the Securities Administrator could commence under applicable law on behalf of Washington as it
15 relates to the violations described above, up to and including activity occurring through December 2, 2011; provided,
16 however, that excluded from and not covered by this paragraph are any claims by the Securities Division arising from
17 or relating to the "Order" provisions contained herein.

18 13. IT IS AGREED THAT if payments are not made by Bankers Life or BLCFS, or if Bankers defaults in
19 any of its obligations set forth in this Consent Order, the Securities Administrator may vacate this Consent Order, at
20 his sole discretion, upon 10 days notice to Bankers and without opportunity for administrative hearing or judicial
21 review, and commence a separate action.

22 14. IT IS AGREED THAT nothing herein shall preclude Washington, its departments, agencies, boards,
23 commissions, authorities, political subdivisions and corporations, other than the Securities Division and only to the
24 extent set forth herein, (collectively, "State Entities") and the officers, agents or employees of State Entities from
25 asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages,

1 administrative, civil, criminal, or injunctive relief against Bankers, provided, however, that this Consent Order shall
2 not be deemed to constrain, estop or preclude Bankers in asserting any legal or factual position, response or defense,
3 provided, however, Bankers admits the facts set forth in Findings of Fact in paragraphs 1-11 herein.

4 15. IT IS AGREED THAT this Consent Order is not intended by the Securities Administrator to subject
5 any person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto
6 Rico, or the Virgin Islands including, without limitation, any disqualification from relying upon the state or federal
7 registration exemptions or safe harbor provisions.

8 16. IT IS AGREED THAT this Consent Order and the order of any other state in related proceedings
9 against Bankers (collectively, the "Orders") shall not disqualify any person from any business that they otherwise are
10 qualified, licensed or permitted to perform under applicable securities laws of Washington, and any disqualifications
11 from relying upon this State's registration exemptions or safe harbor provisions that arise from the Orders are hereby
12 waived.

13 17. IT IS AGREED THAT this Consent Order and any dispute related thereto shall be construed and
14 enforced in accordance with, and governed by, the laws of Washington without regard to any choice of law principles.

15 18. IT IS AGREED THAT this Consent Order shall be binding upon Bankers, its relevant affiliates,
16 successors and assigns.

17 19. IT IS AGREED THAT this Consent Order is entered into solely for the purposes of resolving the
18 referenced multistate investigation, and is not intended to be used for any other purpose. For any person or entity not a
19 party to the Consent Order, this Consent Order does not create any private rights or remedies against Bankers, create
20 liability of Bankers, or limit or preclude any legal or factual positions or defenses of Bankers in response to any claims.

21 20. IT IS AGREED THAT except as set forth above, the Securities Division agrees to take no action
22 adverse to Bankers or its agents based solely on the same conduct addressed in this Consent Order. However, nothing
23 in this Consent Order shall preclude the Securities Division from: (a) taking adverse action based on other conduct;
24 (b) taking this Consent Order and the conduct described above into account in determining the proper resolution of
25 action based on other conduct; (c) taking any and all available steps to enforce this Consent Order; or (d) taking any

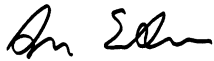
1 action against other entities or individuals, regardless of any affiliation or relationship between Bankers and the entities
2 or individuals.

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4 SIGNED and ENTERED this 23rd day of July 2012.

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9 _____
10 William M. Beatty
11 Securities Administrator

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13 Approved by:

14 

15 _____
16 Suzanne Sarason
17 Chief of Enforcement

18 Reviewed by:

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20 _____
21 Jack McClellan
22 Financial Legal Examiner Supervisor

23 Presented by:

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25 _____
26 William McGinty
27 Financial Legal Examiner

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CONSENT TO ENTRY OF CONSENT ORDER

Bankers, by signing below, admits paragraphs 1-11 of the Findings of Fact set forth above, agrees to the entry of this Consent Order, and waives any right to a hearing or to judicial review.

Bankers states that no promise of any kind or nature whatsoever that is not reflected in this Consent Order was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

_____ William D. Fritts, Jr. _____ (name) represents that he or she has been authorized to enter into this Consent Order on behalf of Bankers Life and Casualty Company.

Bankers Life and Casualty Company

By: _____ /S/ _____

Title: __SVP Regulatory and Government Affairs__

Date: ____July 17, 2012_____