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12 Company of the Southwest

UNITED STATES DISTRICT COURT

**CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION**

15 JOYCE WALKER, KIM BRUCE
16 HOWLETT, and MURIEL SPOONER, on
behalf of themselves and all others
17 similarly situated,

Case No.: CV 10-9198-JVS(RNBx)

DECLARATION OF SEAN L. COVI

18 Plaintiffs,

19 vs.

20 LIFE INSURANCE COMPANY OF THE
21 SOUTHWEST, a Texas corporation, and
22 DOES 1-50

23 Defendant.
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DECLARATION OF SEAN L. COVI

I, Sean L. Covi, declare as follows:

1. I have been an independent insurance agent for 17 years. I am licensed by the California Department of Insurance and appointed with Life Insurance Company of the Southwest (“LSW”). In addition to LSW, I am also licensed to sell insurance products from several other companies as well. I am also registered with FINRA and have Series 7, 24, 51, 63 and 65 certifications, and thus am licensed to sell filed securities products such as variable universal life insurance policies and mutual funds.

2. I have sold SecurePlus Paragon and SecurePlus Provider policies issued by LSW in California since September 24, 2006. Every sale of a Paragon or Provider policy is different. I am not required to and do not follow any sort of script from LSW for selling these products. I use different materials and say different things depending on the customer.

3. I have personal knowledge of the facts stated herein and, if called as a witness, I could and would testify competently thereto.

My Approach to Sales

4. I provide full financial planning services for my clients, which may (depending upon the particular client’s needs and priorities) include securities investments, retirement saving, and tax planning. I do not utilize a “one size fits all” approach in dealing with my clients.

1 5. Every insurance sale that I make is different. I do not follow any script
2 developed by any insurer, including LSW, and I do not say the same set of things to every
3 policyholder. Instead, I generally follow a process that I have developed and customized to
4 suit my own needs and my customers' needs — though the contours of each sale differ
5 (sometimes dramatically).
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7 6. Generally speaking, I obtain my clients by referrals from satisfied clients
8 (either referrals that I request or unsolicited clients). Once a client is referred to me, I
9 engage in a series of one-on-one meetings with my clients in order to tailor an
10 individualized financial plan to satisfy the particular client's idiosyncratic financial needs. I
11 do not conduct large group seminars to meet new clients.
12

13 7. The first time I meet with a client, my primary goal is often to learn as much as
14 possible about their particular financial situation and priorities. I do this, in part, by
15 reference to a questionnaire that identifies identify a clients' financial needs (a copy of
16 which is attached hereto as Exhibit A). To the best of my knowledge, this questionnaire is
17 not used by anyone other than agents contracted with my independent agency. These
18 initial meetings often last anywhere between an hour and two hours. At these initial
19 meetings, I generally do not recommend any particular types of financial products (and do
20 not mention any particular issuing company or insurer).
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1 8. On the basis of all of the information I gather at the first meeting, I attempt to
2 develop a financial plan that will satisfy all of my client's particular needs which includes
3 some or all of the following: securities investments, qualified savings (*e.g.*, IRAs, 401(k),
4 etc.), or insurance. Although I have the capability to prepare a large, bound written
5 financial plan for a fee, my clients typically do not request that I do so. Instead, I often
6 schedule a follow-up meeting with clients. During that follow-up meeting, I often take out
7 a notebook and write out the recommendations for my clients. Often, these written
8 recommendations are accompanied by hand sketched graphs or diagrams and other
9 information to explain the reasons for the recommendation (and some basic details about
10 what I recommended).

11
12 9. If I believe that a client has a need for life insurance, I usually mention
13 insurance as one aspect of the financial plan I am recommending at this follow-up meeting.
14 However, even if insurance is a part of my recommendation, it is rarely the first thing I
15 discuss with my clients (and, therefore, this follow-up meeting rarely gets into details
16 regarding the particular insurer or insurance product I recommended). Instead, my clients
17 typically begin implementing their financial plan by making securities investments.
18 Sometimes, the knowledge that they develop in making securities investments assists them
19 in evaluating and understanding their later insurance purchases.
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1 10. If a client has a need and interest in life insurance, I usually address it in detail
2 at a later meeting (after the initial follow-up meeting in which I present an overview of the
3 financial plan I am recommending). When I do so, I begin by spending 5-10 minutes
4 discussing the various types of life insurance (term, whole, variable, permanent) and some
5 of the pros and cons associated with each of them. After that, the meeting is primarily a
6 dialogue between me and my client, customized to suit the particular client's unique
7 financial situation. Generally, I try to start with over-arching concepts and then drill down
8 into greater details that are relevant to a particular customer.

10 11. I may (and have) recommended any or all of the different types of life
11 insurance to my clients, depending on which product suits my clients' needs. Within each
12 type of life insurance, I have recommended various insurers, again depending on the
13 particular contours of each company's offerings (so, for example, I do not recommend
14 LSW to my clients if LSW's products are not a fit with my clients' needs).

16 12. Every one of my clients is different, and they all have different needs.

17 13. Sometimes, I recommend LSW's Paragon or Provider policies to clients
18 because they provide long-term death benefit protection with the ability to obtain living
19 benefits in the event that the client develops a serious illness. I believe that, for some
20 clients, these features provide important financial protection for their family and heirs.

1 14. Sometimes, I recommend LSW's Paragon or Provider policies to clients in
2 order to replace old insurance policies that, for one reason or another, are not functioning in
3 a way that provides maximum benefits to my clients. For example, in some circumstances,
4 I have recommended LSW policies to replace older policies that charged cost of insurance
5 fees based on older, more expensive mortality tables.
6

7 15. On some occasions, I recommend LSW's Paragon or Provider policies
8 primarily to clients who have disposable income and who are also saving/investing
9 substantial amounts into other financial accounts toward various goals. I may suggest that
10 they dedicate some of their remaining disposable income to Paragon or Provider for the
11 ability to take loans from cash value. If a client is not so invested, I do not recommend
12 Paragon or Provider for their loan features (and, in fact, may not even discuss loans).
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14 16. There are other reasons I recommend LSW's Paragon or Provider policies in
15 addition to those listed above. In some circumstances, there are multiple reasons to
16 recommend these policies — *e.g.*, a client may need death benefit protection *and* need to
17 replace an older, non-functional policy.

18 17. Once I have discussed, in general terms, the reasons why I think the Paragon
19 or Provider product is appropriate for a client, I often go into further detail in order to
20 ensure that the client understands what the policy can do for them and how the policy
21 operates. I often tell my clients that we cannot possibly foresee what the future will hold
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1 for their policy, and they should not base their decision on any firm assumption about the
2 values associated with the policy. Instead, they should only purchase the policy if they can
3 afford the policy on a long-term basis. Accordingly, I do not recommend that my clients
4 purchase Paragon or Provider unless they are capable of and intend on making at least 10
5 annual premium payments (and oftentimes, many more, including up to and including
6 annual or monthly premium payments for the rest of their lives).
7

8 18. If I discuss the policy loan features of Paragon or Provider with my clients, I
9 tell them that if they have policy loans outstanding, they need to keep their policy in force,
10 or they may face very substantial tax liabilities.

11 19. When I recommend Paragon or Provider, I inform my clients in some form of
12 words that the policies charge a cost of insurance that will increase as they grow older. I
13 tell them that the policies maintain cash values, in part to offset that increasing cost of
14 insurance.
15

16 20. I often discuss the various crediting methodologies available under the
17 Paragon or Provider policies for these cash values. In particular, I tell clients that their
18 policy will accumulate value based on the returns of the S&P 500 index (filtered through a
19 participation rate and earnings cap, which I identify for my clients). I tell clients that the
20 cash value is guaranteed not to go down when the market goes down because the cash value
21 has a 0% annual floor. In the case of Provider, I also tell them that if, after five years, their
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1 cash value has not grown a minimum of 2% per year, LSW will retrospectively credit the
2 difference so that they obtain a minimum of 2% per year over that period. Similarly, in the
3 case of Paragon, I tell them that if, over their lifetime or upon surrender, their cash value
4 has not grown a minimum of 2.5% per year, LSW will retrospectively credit the difference
5 so that they obtain a minimum of 2.5% per year over the duration of the policy.
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7 21. I often tell my clients that this crediting methodology means that, on some
8 years, their policy cash value will not grow at all (0%), some years it will grow at the
9 earnings cap (e.g., 12% for example), and some years it will grow at some rate between
10 those two limits on a relatively volatile basis, and that the volatility will have an effect on
11 their cash values.

12 22. These discussions are dialogues between myself and my clients, who ask
13 questions along the way that I try to answer to the best of my ability. When I do not know
14 the answer to a client's question, or when I believe that additional information about a
15 policy would be useful to my clients, I consult an Agent Guide that I received from LSW
16 for these products, and report this information to my clients.
17

18 23. All of the information I provide to my clients is conveyed orally or written
19 down during our meetings on a notebook.

20 24. I never use any printed materials (other than the questionnaire attached as
21 Exhibit A) when I present Paragon and Provider to my clients. I never use any "sales
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1 illustration” when I present the concept or strategy for these policies. I do not use any
2 carrier illustration, of any kind, until my clients have already decided that they wish to
3 purchase a Paragon or Provider policy.

4 25. After a client decides that they wish to purchase a Paragon or Provider policy,
5 we collectively prepare their application and, together, review an illustration of their policy
6 (which I explain and elaborate upon as necessary to help my client understand the
7 document). In reviewing the illustration, I never focus on the specific illustrated values—
8 because as I tell my clients, the illustrated values are based on a large number of
9 assumptions that are almost certain to change, and therefore the particular values are almost
10 certain to differ from the values illustrated. I also point out the difference between the
11 guaranteed and “current” values (and explain that the “current” values mean “non-
12 guaranteed” values). When I prepare these illustrations, I adjust the assumed non-
13 guaranteed accumulation rate so that the illustrations I provide assume a much lower rate of
14 accumulation (often as much as 200-250 basis points lower).
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17 26. When presenting a Provider illustration to my clients, I sometimes point out
18 that the illustrated values include a non-guaranteed Account Value Enhancement after ten
19 policy years, but that (again) this is not guaranteed and may never happen.

20 27. After my clients’ Paragon or Provider policies are issued, I schedule a meeting
21 with my clients and we review the terms of the policy and the reasons why we decided,
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1 together, to apply for the policy. Again, my clients often ask questions at this meeting, and
2 I answer them.

3 **Training Sessions**

4 28. I am the individual primarily responsible for conducting training for agents in
5 my independent agency. The training sessions that I conduct are not mandatory. These
6 sessions cover a large range of topics, ranging from discussing specific features of specific
7 products to general sessions discussing industry-wide issues.

9 29. Every training session I hold is different. I have conducted a few training
10 sessions that pertained to LSW's Paragon or Provider products. I have personally prepared
11 these training sessions. LSW does not dictate the substance of these training sessions.
12 Although I may draw upon materials from LSW for some of these sessions, I never use any
13 LSW materials without extensive customization (removing some pages that do not fit the
14 training session and adding others based on my own input). Usually, these sessions
15 conclude with a question and answer session, during which I answer any questions the
16 attendees may have on the subjects we discussed.

18 30. I have participated in a few "train-the-trainer" sessions held by LSW. These
19 sessions were not mandatory—it was my choice to participate in them. The sessions are
20 informal in nature, and LSW does not require me or the other attendees to implement any of
21 the recommendations made during these sessions.

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I declare under the penalty of perjury that the foregoing is true and correct. Executed
this 10 day of July, 2012, at Montpelier, VT.

By: Sean Covi
Sean Covi