



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Boston Mutual Life Insurance Company

Canton, Massachusetts

For the Period July 1, 2006 through December 31, 2007

NAIC COMPANY CODE: 61476

EMPLOYERS ID NUMBER: 04-1106240



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DIVISION OF INSURANCE

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October 6, 2008

Honorable Nonnie S. Burnes
Secretary, Northeast Zone
Commissioner of Insurance
Division of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, a comprehensive examination has been made of the market conduct affairs of

BOSTON MUTUAL LIFE INSURANCE COMPANY

at its home office located at:

120 Royall Street
Canton, MA 02021

The following report thereon is respectfully submitted.

TABLE OF CONTENTS

	<i>PAGE</i>
SCOPE OF EXAMINATION	4
EXAMINATION APPROACH	4
EXECUTIVE SUMMARY	6
COMPANY BACKGROUND	10
I. COMPANY OPERATIONS/MANAGEMENT	11
II. COMPLAINT HANDLING	24
III. MARKETING AND SALES	28
IV. PRODUCER LICENSING	38
V. POLICYHOLDER SERVICE	44
VI. UNDERWRITING AND RATING	54
VII. CLAIMS	65
SUMMARY	75
ACKNOWLEDGEMENT	76

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination of Boston Mutual Life Insurance Company ("Boston Mutual" or the "Company") for the period July 1, 2006 to December 31, 2007. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

The Company sells individual life and disability income products, group life products and healthcare reimbursement business through independent general agents and through their worksite marketing channel.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2006 NAIC Market Regulation Handbook*, ("the Handbook") the market conduct examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins and selected federal laws and regulations. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary and appropriate and effective to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

The basic business areas that were reviewed in under this examination were:

- I. Company Operations/Management
- II. Complaint Handling
- III. Marketing and Sales
- IV. Producer Licensing
- V. Policyholder Service
- VI. Underwriting and Rating
- VII. Claims

In addition to the processes' and procedures' guidance in the Handbook, the examination included an assessment of the Company's internal control environment. While the Handbook approach detects individual incidents of deficiencies through transaction testing, the internal control assessment provides an understanding of the key controls that Company management uses to run their business and to meet key business objectives, including complying with applicable laws and regulations related to market conduct activities.

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is

functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is “Report by Test,” as described in Chapter 15 Section A of the Handbook.

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EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, tests conducted, findings and observations, recommendations and, if applicable, subsequent Company actions. Managerial or supervisory personnel from each functional area of the Company should review report results relating to their specific area.

The Division considers a substantive issue as one in which corrective action on part of the Company is deemed advisable, or one in which a “finding,” or violation of Massachusetts insurance laws, regulations or bulletins was found to have occurred. It also is recommended that Company management evaluate any substantive issues or “findings” for applicability to potential occurrence in other jurisdictions. When applicable, corrective action should be taken for all jurisdictions and a report of any such corrective action(s) taken should be provided to the Division.

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.mass.gov/doi.

The comprehensive market conduct examination resulted in no recommendations with regard to complaint handling, underwriting and rating, or claims. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in each of these areas.

SECTION I -COMPANY OPERATIONS/MANAGEMENT

STANDARD I-3

Findings: None.

Observations: RNA reviewed the Anti-Fraud Plan, and confirmed that the Company began completing criminal background checks in August 2005 for prospective new employees prior to hiring them.

Recommendations: RNA recommends that the Company conduct a criminal background check for any employee for whom a criminal background check has not been conducted.

SECTION III-MARKETING AND SALES

STANDARD III-5

Findings: None.

Observations: The Company did not reduce the commission on one internal replacement from the examination period, in violation of Company policy. Testing otherwise showed that the Company's replacement procedures pertaining to Company requirements appear to be functioning in accordance with its policies, procedures and regulatory requirements. The Company subsequently reduced the commission on the internal replacement. The quarterly replacement internal audit reports adequately monitor compliance with replacement procedures. As a part of new business testing, RNA noted that the agent's statement on life applications for policies sold through worksite marketing arrangements requires the agent to attest to replacement in the context of existing insurance. The applications do not ask the general question of whether a replacement was involved in the sale. For instance, if the applicant surrendered or lapsed a policy within the previous 12 months, the sale would be considered to be a replacement.

Recommendations: The Company should develop new procedures to ensure that all reduced commission internal replacement sales are properly and timely identified, and that such reduced commissions are timely applied to the producers' commission activity. The Company's internal audit department should expand its testing and monitoring of replacements, to ensure that reduced commissions are paid on internal replacements in compliance with Company policies and procedures.

The Company should revise the agent's statement in its life applications for policies sold through worksite marketing, to ask whether the sale involved replacement. Further, the Company should communicate to worksite agents the definition of replacement to ensure that they understand that a replacement may exist although there is no existing insurance.

STANDARD III-6

Findings: None.

Observations: Based on the results of testing, life insurance advertising materials used by the Company refer to availability of a life insurance buyer's guide and policy summary. RNA noted that the producer and/or the Company timely provided policy illustrations and/or summaries and other disclosures to applicants where required. Contracts received by applicants were issued consistent with their applications, or any changes resulted in full written disclosure to the applicants. The Company represented that its general agents provide a buyer's guide to applicants for life products at the time of sale; however, the applications or other documentation do not provide evidence, such as a signature acknowledgement, that the buyer's guide was provided to life applicants.

Recommendations: The Company should consider revising its life applications and/or policy delivery receipts to include acknowledgement by the applicant of receipt of the buyer's guide.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: RNA noted that the agent in one of 10 terminations tested was never properly appointed with the Division, in violation of M.G.L. c. 175, § 162S. The Company states that this was an isolated incident.

Observations: Based on the results of RNA's testing of 47 individual life sales, nine disability income sales, and five group life, accident and disability income sales during the examination period, all of the producers who sold policies during the examination period were properly licensed, and all but three were included on the Division's list of the Company's appointed agents at the time the policies were issued. While not required by statute, it is the Company's policy to appoint all of its producers as agents. Subsequently, the Company appointed the three producers as agents.

Further, based on the results of RNA's testing, nine of 10 agents newly appointed during the examination period were processed in accordance with Company policies, procedures and statutory requirements. For the remaining new appointment, the applicant did not provide a completed application; the Company did not complete a criminal and financial background check and did not evaluate the application in compliance with Company policies and procedures. The agent appointment was subsequently terminated. The Company has enhanced its appointment procedures to ensure that Company policies and procedures are adhered to when appointing new agents.

Recommendations: The Company's internal audit department should expand its testing and monitoring of compliance with agent appointment policies, procedures and statutory requirements. Further, the Company and the Division shall complete a reconciliation of the Company's agent appointments at a mutually agreed upon date, to ensure that such appointment records are in agreement.

STANDARD IV-3

Findings: Based on the results of testing of 10 agent terminations, RNA noted that the one agent termination referred to in Standard IV-1 was never properly reported to the Division in violation of M.G.L. c. 175, § 162T.

Observations: Other than as noted above, the results of testing indicate that the Company gave timely notice of the terminations to the Division and producers.

Recommendations: The Company's internal audit department should expand its testing and monitoring of compliance with agent termination policies, procedures and statutory requirements.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-7

Findings: None.

Observations: Based upon review and testing, the unearned premium for the free looks and insured-requested cancellations for policies with cash value was accurately calculated and timely returned to the policyholder.

The Company generally timely returned unearned premium to the beneficiary or claimant, when claims were filed. However, the Company did not pay interest on unearned premium collected in error over several years for four group life claims, which were properly denied due to a lack of coverage. The errors were a result of the group policyholders improperly tracking group participant census data and paying premiums for the participants for several years after coverage for the participants had expired under the policies. When claims were filed, the Company became aware of the unearned premium paid. Thus, the Company properly returned the unearned premium once the errors were found, but did not pay interest on the unearned premium. In addition, during testing for one disability income claim, RNA noted that the Company did not properly cancel a policyholder's original policy, when it was replaced with a new policy. When a claim was filed under the new policy, the claim was paid. At that time, the Company became aware that they had not cancelled the original policy. As a result, the policyholder was unaware that he was continuing to pay the premium on both policies. Once the error became known, the Company properly returned the unearned premium for the cancelled policy, but did not pay interest on the unearned premium. The Company has subsequently paid interest on these unearned premiums.

Recommendations: The Company should establish a policy and procedures to pay interest on all unearned premiums retained more than 30 days. Further, the Company's internal audit department should expand their testing and monitoring of compliance with this policy and procedure.

COMPANY BACKGROUND

Boston Mutual is a mutual life insurance company which has traditionally offered small face whole life products to low and middle income individuals through independent general agents. Some policies are guaranteed issue, but many are underwritten in a simplified manner that does not utilize medical examinations or laboratory testing of blood samples. In addition, the Company utilizes a worksite marketing program where employers allow the Company to sell life, disability income, and accident and health products to employees, who pay the premiums through payroll deduction. The Company also writes group life, accident and disability income business, much of it produced through third party administrators.

The Company is headquartered in Canton, Massachusetts and domiciled in Massachusetts. The Company does business in all states and Puerto Rico. Boston Mutual had \$893.5 million in admitted assets and \$102.1 million in surplus as of December 31, 2007. For the year ended December 31, 2007, the Company's premiums were \$169.5 million, and net income was \$10.3 million. The Company is rated A- (Excellent) by A.M. Best Company.

The key objectives of this examination were determined by the Division with emphasis on the following areas.

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I. COMPANY OPERATIONS/MANAGEMENT

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.

Objective: This Standard addresses the audit function and its responsibilities.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's statutory financial statements are audited annually by an independent accounting firm.
- The Company's internal audit department is an independent function that performs audits of the Company's operational functions.
- The Board of Directors Audit Committee ("Audit Committee") annually approves the internal audit plan, monitors audit plan progress and results throughout the year.
- The internal audit plan is generally prepared using a risk evaluation process with input from Company management and the Audit Committee.
- The Company's internal audit department issues written reports for each audit performed. The reports discuss the procedures performed, findings, actions taken and recommendations. All audit reports are reviewed and approved by the Audit Committee.
- The Company is an Insurance Marketplace Standard Association ("IMSA") member and is required to undergo an independent assessment for compliance with IMSA standards every three years.

Controls Reliance: Controls, tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed all internal audit reports related to corporate complaints, needs assessment, replacement procedures, agents licensing/appointment and other selected internal audit reports issued during the examination period. In some cases, RNA reviewed the workpapers supporting the internal audit reports. The internal audit reports were discussed with management as necessary. Finally, RNA reviewed all Audit Committee minutes of meetings conducted during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports reviewed by RNA provided detailed information on the procedures performed, findings, actions taken and recommendations. The workpapers reviewed supported the information contained in the internal audit reports. Finally, the Audit Committee minutes adequately documented the Audit Committee's role in guiding and monitoring the Company's internal audit function.

Recommendations: None.

Standard I-2. The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

No work performed. All required activity for this Standard is included in the scope of the recently completed statutory financial examination of the Company.

Standard I-3. The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

18 U.S.C. § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.

Objective: This Standard addresses the effectiveness of the Company's antifraud plan.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or breach of trust or certain other offenses, and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing of all employees and producers affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company has adopted a written Anti-Fraud Plan which requires them to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The Company's procedures require employees to report suspected fraud to the Company's Special Investigative Unit ("SIU"), the Company's Chief Compliance Officer and the Company's General Counsel and to the Massachusetts Insurance Fraud Bureau.
- The Company's policy is to seek the Division's approval regarding the hiring of any "prohibited person" when it wishes to employ such a person.
- The Company's policy, commenced in August 2005, is to complete criminal background checks for all prospective employees prior to hiring them.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for addressing fraud and employee hiring due diligence.

Transaction Testing Results:

Findings: None.

Observations: RNA reviewed the Anti-Fraud Plan, and confirmed that the Company began completing criminal background checks in August 2005 for prospective new employees prior to hiring them.

Recommendations: RNA recommends that the Company conduct a criminal background check for any employee for whom a criminal background check has not been conducted.

Standard I-4. The regulated entity has a valid disaster recovery plan.

No work performed. All required activity for this Standard is included in the scope of the recently completed statutory financial examination of the Company.

Standard I-5. Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, MGAs, GAs, TPAs and management agreements must comply with applicable licensing requirements, statutes, rules and regulations.

Objective: This Standard addresses the Company's efforts to adequately monitoring the activities of the contracted entities that perform a business function.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company contracts with third parties to process disability income and, medical reimbursement claims, to perform financial and criminal background checks, and to verify USA PATRIOT Act compliance information. The Company also contracts with producers who sell the Company's products. The Company's internal audit function conducts periodic audits of these entities.
- The Company has relationships with third parties who process transactions on behalf of the Company's policyholders. As such, contracts exist between the third parties and the Company's policyholders. The contracts require the Company's approval and give the Company the right to conduct audits of these third parties. Consequently, the Company's internal audit function conducts periodic audits of these entities.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company and policyholder functions. Further, RNA reviewed supporting documentation supporting the duties performed by these third parties related to disability income and medical reimbursement claims, financial and criminal background checks and USA PATRIOT Act compliance. Finally, RNA reviewed one audit report issued by the internal audit function of a third party's operations.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA testing, it appears that the use and monitoring of third parties is conducted in compliance with Company's policies and procedures.

Recommendations: None.

Standard I-6. The regulated entity is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the regulated entity.

See Standard I-5 for testing.

Standard I-7. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Objective: This Standard addresses the adequacy and accessibility of the Company's records.

Controls Assessment: The Company has adopted written procedures noting the length of time specific documents must be retained.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed the Company's record retention policy and evaluated it for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policy appears reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

Standard I-8. The regulated entity is licensed for the lines of business that are being written.

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the lines of business written by a Company are in accordance with the authorized lines of business.

Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Company's Certificate of Authority and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Company is licensed for the lines of business being written.

Recommendations: None.

Standard I-9. The regulated entity cooperates on a timely basis with examiners performing the examinations.

M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the examination conducted in accordance with M.G.L. c. 175, § 4.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company's level of cooperation and responsiveness to examiner requests was exemplary.

Recommendations: None.

Standard I-10. The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt-out of such disclosure.

Controls Assessment: The following controls were noted in conjunction with the review of this Standard and Standards I-11 through I-17:

- The Company's definitions of Adverse Underwriting Decision, Personal Information and Pretext Interview appear to comply with Massachusetts law. Company policy prohibits pretext interviews except as allowed by law.
- The Company's practice is to provide the Notice of Information Privacy Practices ("Privacy Notice") at the policy application date. The Privacy Notice is part of the application package, and the application must be completed for all new business. The Company does not ask specific questions on the application designed to obtain information for marketing or research purposes.
- The Privacy Notice states that certain types of nonpublic personal financial and health information is collected from third parties and gives examples of such third parties and such types of information. Further, the Privacy Notice indicates that information may be disclosed in some cases, and that a right of access and correction exists.
- The Company requires that disclosure authorization in compliance with Health Insurance Portability and Accountability Act of 1996 ("HIPAA") be signed by the applicant at time of application for a policy and when a claim is filed.
- The Company does not share nonpublic personal financial information with other financial service providers and non-financial companies for marketing purposes. Thus, the Company is not required to offer an opt-out for such information sharing.
- At least annually, the Company mails the Privacy Notice to each individual customer.
- The Company provides applicants a written Notice of Adverse Underwriting Decision ("Adverse Underwriting Notice") when it declines to provide coverage, elects to provide a reduced amount of coverage or offers to provide insurance at higher than standard rates. The Adverse Underwriting Notice includes all statutory requirements.
- Company policy does not base an adverse underwriting decision on the existence of a previous adverse underwriting decision; on the basis of sexual orientation or perceived orientation; or on personal information obtained from an insurance support organization, provided that the Company can base their decision on further information obtained as a result of the initial receipt of such personal information.

- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies. Such information is provided to third parties who assist the Company in processing customer business transactions only if expressly authorized by the applicant.
- The Company will not disclose to applicants information that it obtains from medical professionals when applicants authorize medical professionals to provide such information. Rather, the Company requires applicants to obtain such information directly from those medical professionals.
- The Company provides its privacy policy on the Company's website.
- The Company annually conducts an information systems risk assessment to consider, document and review information security threats and controls. The risk assessment evaluations have resulted in continual improvements to information systems security.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information, and communicates these practices to employees and producers in training programs, compliance presentations and various memoranda. All employees and agents have taken privacy training as required by Company policy.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal financial and health information is located. Access is frequently and strictly monitored.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed underwriting and claims documentation for any evidence of the use of pretext interviews.

Transaction Testing Results:

Findings: None.

Observations: The Company's privacy practices appear to minimize any improper intrusion into applicants' and policyholders' privacy, and are disclosed to policyholders in accordance with the Company's policies and procedures. Further, based upon the results of underwriting and claims testing, RNA noted no evidence of the use of pretext interviews.

Recommendations: None.

Standard I-11. The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

The objective of this Standard relates to privacy matters and is included in Standards I-10 and I-12 through I-17.

Standard I-12. The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA sought any evidence that the Company improperly provided personal information to parties other than the applicant.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to parties other than the applicant.

Recommendations: None.

Standard I-13. The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses requirements to provide privacy notices as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt-out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for providing the Privacy Notice to applicants, and annually thereafter to policyholders. Further, RNA evaluated compliance with privacy disclosure requirements in conjunction with testing of 85 individual life and 10 disability income applications.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the applicant for each new business sale tested acknowledged on the application that he or she received the Privacy Notice. RNA also noted that the Company has procedures for providing the Privacy Notice annually to policyholders.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard addresses policies and procedures with regard to opt out rights as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to

nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: The Company does not share nonpublic personal financial information with other financial service providers and non-financial companies for marketing purposes. Thus, the Company is not required to offer an opt-out for such information sharing.

Recommendations: None.

Standard I-15. The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt-out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. Based upon underwriting and claims testing procedures, RNA looked for any evidence that the Company improperly collected, used or disclosed nonpublic personal financial information.

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

M.G.L. c. 175I, §§ 1-22.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information as required by M.G.L. c. 175I, §§ 1-22.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing underwriting declinations, claims and new application processing. Finally, RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 85 individual life and 10 disability income applications.

Transaction Testing Results:

Findings: None.

Observations: Based on testing and review, RNA noted that the HIPAA authorization disclosure was signed by each applicant for all new business applications and by claimants for claims filed. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in testing underwriting declinations, new business applications and claims filed.

Recommendations: None.

Standard I-17. Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

M.G.L. c. 175I, §§ 1-22; Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected as required by M.G.L. c. 175I, §§ 1-22. Also, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313 set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements and the consumer has not elected to opt-out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. Review of information technology access and authorization controls is also included in the scope of the recently completed statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review of the Company's information security policies and procedures, it appears that the Company has implemented an information security program which provides reasonable assurance that its information systems protect nonpublic customer information.

Recommendations: None.

Standard I-18. The regulated entity files all certifications with the Department of Insurance as required by statutes, rules, and regulations.

M.G.L. c. 175, § 25.

Objective: This Standard addresses the Company's efforts to file certifications with the Division as required.

M.G.L. c. 175, § 25 sets forth the form and content requirements for annual statements filed with the Division.

Controls Assessment: Due to the nature of this Standard, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed that certifications are filed with the Division in connection with the annual financial reporting process.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to file all required certifications with the Division.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

II. COMPLAINT HANDLING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard II-1. All complaints are recorded in the required format on the regulated entity's complaint register.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute.

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints it received from the date of its last examination. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time taken to process each complaint.

Controls Assessment: The following controls were noted in review of complaint Standards:

- Written Company policies and procedures govern the complaint handling process.
- The Company logs all written complaints, insurance department complaints, customer satisfaction survey responses and oral complaints received via the telephone that meet the Company's complaint definition in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company conducts post sale customer satisfaction surveys, and its policy is to timely and fully respond to all significant comments.
- The Company provides a telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company monitors complaint handling activity through monthly management reporting of complaint activity and trends.
- The Audit Committee monitors the Company's complaint handling practices by requiring periodic internal audits of complaint handling policies and procedures.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA read complaint handling internal audit reports issued during the examination period, and reviewed 26 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the adequacy of documentation supporting the resolution of each complaint. RNA also compared the

Company's complaint register to the Division's complaint records, to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's format for recording complaints included all necessary information, and that complaint handling internal audit reports monitor use of the proper complaint format. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

Standard II-2. The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders.

M.G.L. c. 176D, § 3(10) requires that (a) the Company has documented procedures for complaint handling (b) the procedures in place are sufficient to enable satisfactory handling of complaints received as well as to conduct root cause analyses in areas developing complaints; (c) there is a method for distribution of and obtaining and recording responses to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA read complaint handling internal audit reports issued during the examination period, and reviewed 26 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the adequacy of documentation supporting the resolution of each complaint. RNA also reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, and adequately communicates such procedures to policyholders. The Company's complaint handling internal audit reports monitor compliance with complaint handling procedures.

Recommendations: None.

Standard II-3. The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders with similar fact patterns are treated consistently and fairly.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA read complaint handling internal audit reports issued during the examination period, and reviewed 26 Massachusetts complaint files from the examination period, to evaluate the Company's actions related to complaint disposition.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint, related correspondence and the Company's complaint register information. RNA is not aware of any complainants with similar fact patterns that were not treated consistently and reasonably. Finally, the Company's complaint handling internal audit reports monitor proper disposition of complaints.

Recommendations: None.

Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with the time required for the Company to process each complaint.

Massachusetts does not have a specific complaint processing time standard in statute or regulation. However, the Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA read complaint handling internal audit reports issued during the examination period, and reviewed 26 Massachusetts complaint files from the examination period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the Company addressed each of the complaints within 14 days. It appears that the Company's processes for responding to complaints in a timely manner are functioning in accordance with its policies, procedures, and statutory requirements. The Company's complaint handling internal audit reports monitor timely disposition of complaints.

Recommendations: None.

III. MARKETING AND SALES

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

M.G.L. c. 176D, § 3; M.G.L. c. 175, §§ 18, 121, 181; 211 CMR 42.09 and Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertising materials.

Pursuant to M.G.L. c. 176D, § 3 and M.G.L. c. 175, § 181, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. M.G.L. c. 175, § 18 requires companies to conduct their business using their corporate name on policies and contracts. M.G.L. c. 175, § 121 prohibits a life company and producers from making any contract other than as plainly expressed in policies issued. 211 CMR 42.09 requires that advertising and marketing for individual disability income products not be misleading. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on the website the name of the company as it appears on the certificate of authority, and the address of its principal office.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including a provision in producer contracts requiring adherence by producers to such procedures.
- Company advertising and sales materials are reviewed and approved by Company management prior to use.
- The Company maintains a listing of approved advertising and sales materials that are available for use by producers.
- The Company discloses its name and address on its website.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA obtained a list of advertising and sales materials utilized during the examination period, and selected 15 pieces for evidence of approval prior to use. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought evidence of the use of unapproved sales and marketing materials as part of new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's process for approving advertising and sales materials prior to use is functioning in accordance with its policies, procedures and statutory requirements. The Company's website disclosure complies with Division of Insurance Bulletin 2001-02. Finally, the results of new business testing showed no evidence of the Company's or its agents' use of unapproved advertising and sales materials.

Recommendations: None.

Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has developed producer training programs which are tailored to the agents' experience and needs.
- All producer training materials are approved by Company management prior to use.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials, and reviewed three such training materials in use during the examination period for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's producer training materials appear appropriate, and testing results indicate that its process for approving training materials prior to use is functioning in accordance with policies and procedures.

Recommendations: None.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures.

Controls Assessment: The following controls were noted as part of this Standard:

- Producer communications including electronic mail and bulletins are approved by Company personnel prior to distribution.
- The Company updates producers on product and compliance matters by circulating a periodic newsletter.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA selected two communications to producers made during the examination period to test for appropriateness and approval prior to use.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, communications to producers appear appropriate and were approved prior to distribution.

Recommendations: None.

Standard III-4. Regulated entity rules pertaining to producer requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

211 CMR 34.04; 211 CMR 42.08 and 42.11.

Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement related forms.

Pursuant to 211 CMR 34.04, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant regarding whether the transaction involves the replacement of existing life insurance or annuities; and (b) a signed statement as to whether the agent or broker knows that the transaction involves or may involve a replacement. In sales involving external replacement, producers must provide a copy of the replacement notice to applicants at the time of application. For individual disability income insurance, 211 CMR 42.08 and 42.11 require the application to inquire whether the sale involves a replacement, and requires the replacing insurer or producer to furnish a proper replacement notice to the applicant.

Controls Assessment: The following controls were noted as part of this Standard:

- Written policies and procedures govern replacement handling, and the Company's definition of replacement of life insurance meets regulatory requirements. A subsequent contract issued to the same owner is considered to be a replacement if it is issued 12 months prior to application date or 13 months after the application date.
- The Company's applications require a response from the applicant and producer as to whether or not the policy applied for will replace another policy.

- Producers are required to submit applications to the Company that include copies of the Massachusetts replacement disclosure form provided to, and signed by, the applicant on the application date.
- Producers are required to submit a completed Company-developed Form NB-104, *Understanding and Definition of Replacement*, with the application documenting the merits of the replacement.
- Producers are required to submit a completed Company-developed Form NB-47 Std-A, when the applicant has existing insurance, whether or not the existing insurance is being replaced.
- Company policy requires that producers conclude that all replacement sales are in the applicants' best interests.
- The Company pays reduced commissions on certain internal replacements to discourage internal replacements.
- The Company's internal audit function conducts audits for compliance with replacement sale requirements.
- The Company's compliance department monitors agents' volume and nature of replacement sales and takes action when considered necessary.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of 25 life replacement sales from the examination period for testing, including 20 internal and five external replacements, to evaluate the Company's compliance with its policies, procedures and regulatory requirements. As a part of new business testing, RNA also reviewed the applications to ensure that the replacement question on the applications was answered. RNA also read replacement internal audit reports issued during the examination period, and reviewed the compliance department's timely monitoring of replacement activity by agent and subsequent actions taken.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company's replacement procedures pertaining to producer requirements appear to be functioning in accordance with its policies, procedures and regulatory requirements. The quarterly replacement internal audit reports adequately monitor compliance with replacement procedures. Finally, the compliance department appears to timely monitor replacement activity by agent, and appears to take actions when considered necessary.

Recommendations: None.

Standard III-5. Regulated entity rules pertaining to regulated entity requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

211 CMR 34.05 and 34.06; 211 CMR 42.08 and 42.11.

Objective: This Standard addresses appropriate replacement handling by the Company, including identification of replacement transactions on applications, use of appropriate replacement related forms, and timely notice of replacements to existing insurers.

Pursuant to 211 CMR 34.05 and 34.06, insurers must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life applications include a signed form acknowledging replacement. 211 CMR 42.08 and 42.11 require that applications for individual disability income insurance ask whether the sale involves a replacement, and require the replacing insurer or producer to furnish a proper replacement notice to the applicant.

Controls Assessment: The following controls were noted as part of this Standard:

- Written policies and procedures govern replacement handling, and the Company's definition of replacement of life insurance meets regulatory requirements. A subsequent contract issued to the same owner is considered to be a replacement if it is issued 12 months prior to application date, or 13 months after the application date.
- The Company's underwriting department reviews submitted applications, which require a signed response from the applicant and producer as to whether or not the policy applied for will replace another policy.
- The Company's underwriting department reviews submitted Massachusetts replacement disclosure forms signed by the applicant.
- The Company's underwriting department reviews the submitted Form NB-104, *Understanding and Definition of Replacement* documenting the merits of the replacement.
- The Company's underwriting department reviews the submitted Form NB-47 Std-A, when the applicant has existing insurance, whether or not the existing is being replaced.
- The Company's underwriting department evaluates whether all replacement sales are in the applicants' best interests.
- Company policy requires that all replacements be consistently recorded in the Company's replacement register.
- The Company reviews all submitted applications for undisclosed replacements. During the underwriting process, telephone interviews of applicants, when necessary, also inquire about replacement.
- The Company requires that notice to the replaced carrier be sent by the Company within seven business days from the date the application is received in the home office.
- The Company provides at least a 20 day free look on all sales including replacements, and provides an additional 10 days to allow for mailing and processing such requests.
- The Company pays reduced commissions on certain internal replacements to discourage internal replacements. Such reduced commissions are paid on the difference between the new and old premium amounts.
- The Company's internal audit function conducts audits for compliance with replacement sale requirements.

- The Company's compliance department monitors the volume and nature of replacement sales by agent, and takes action to require additional reporting by the agent and to enhance oversight of the agent when unusual replacement activity is noted.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of 25 life replacement sales from the examination period for testing, including 20 internal and five external replacements, to evaluate the Company's compliance with its policies, procedures and regulatory requirements. RNA also read replacement internal audit reports issued during the examination period, and reviewed the compliance department's timely monitoring of replacement activity by agent and subsequent actions taken.

Transaction Testing Results:

Findings: None.

Observations: The Company did not reduce the commission on one internal replacement from the examination period, in violation of Company policy. Testing otherwise showed that the Company's replacement procedures pertaining to Company requirements appear to be functioning in accordance with its policies, procedures and regulatory requirements. The Company subsequently reduced the commission on the internal replacement. The replacement internal audit reports adequately monitor compliance with replacement procedures. As a part of new business testing, RNA noted that the agent's statement on life applications for policies sold through worksite marketing arrangements requires the agent to attest to replacement in the context of existing insurance. The applications do not ask the general question of whether a replacement was involved in the sale. For instance, if the applicant surrendered or lapsed a policy within the previous 12 months, the sale would be considered to be a replacement.

Recommendations: The Company should develop new procedures to ensure that all reduced commission internal replacement sales are properly and timely identified, and that such reduced commissions are timely applied to the producers' commission activity. The Company's internal audit department should expand its testing and monitoring of replacements, to ensure that reduced commissions are paid on internal replacements, in compliance with Company policies and procedures.

The Company should revise the agent's statement in its life applications for policies sold through worksite marketing, to ask whether the sale involved replacement. Further, the Company should communicate to worksite agents the definition of replacement to ensure that they understand that a replacement may exist although there is no existing insurance.

Standard III-6. An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations.

211 CMR 28.09; 211 CMR 31.05; 211 CMR 42.09.

Objective: This Standard is concerned with ensuring that policy illustrations, policy summaries and buyer's guides contain all required information, and are timely provided to applicants.

211 CMR 28.09 provides rules for the delivery of life policy illustrations to applicants. Pursuant to 211 CMR 31.05, non-variable life insurance marketed through agents requires insurers to provide applicants with buyer's guides and preliminary policy summaries before the application is signed, and policy summaries before accepting premium. However, if the policy or policy summary contains an unconditional refund offer, the policy summary may be delivered with the policy. 211 CMR 42.09 requires that individual disability income insurance applicants receive disclosure forms at policy delivery, unless such forms were delivered when the application was made. Such forms require disclosure of information regarding certain policy benefits, terms, premiums, exclusions and limitations. Also, if a policy is issued other than as applied for, written disclosure must be made to the applicant. Further, the regulation sets forth disclosure requirements for Medicare-eligible applicants.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has written policies and procedures addressing the use and distribution of policy illustrations, policy summaries and buyer's guides.
- The Company reviews all submitted applications to ensure that all applicable questions are answered, and that required forms and information are consistently filed.
- The Company's general agents provide a buyer's guide to applicants for life products at time of sale. For the worksite marketing sales, the buyer's guide is provided when the policy is issued.
- The Company provides life policy summaries to applicants at the application date. The Company's policies are designed to be sold without an illustration and were approved prior to the adoption of 211 CMR 28.03-28.09. If the applicant ultimately receives a different rate class than quoted, the applicant will receive a revised policy summary reflecting those changes.
- Applicants for disability income policies receive policy summaries and other required disclosures at the application date.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing and underwriting, and obtained supporting documentation. RNA reviewed life insurance advertising materials used by the Company for reference to availability of a life insurance buyer's guide and policy summary. RNA selected 85 individual life and 10 disability income applications from the examination period for testing. RNA reviewed the policy summaries, illustrations and disclosures, and verified that they were timely provided to the applicants where required. Finally, RNA noted whether the contracts received were consistent with those applied for, and that any changes resulted in full written disclosure to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, life insurance advertising materials used by the Company refer to availability of a life insurance buyer's guide and policy summary. RNA noted that the producer and/or the Company timely provided policy illustrations and/or summaries and other disclosures to applicants where required. Contracts received by applicants were issued consistent with their applications, or any changes resulted in full written disclosure to the applicants. The Company represented that its general agents provide a buyer's guide to applicants for life products at the time of sale; however, the applications or other documentation do not provide evidence, such as a signature acknowledgement, that the buyer's guide was provided to life applicants.

Recommendations: The Company should consider revising its life applications and/or policy delivery receipts to include acknowledgement by the applicant of receipt of the buyer's guide.

Standard III-7. The regulated entity has suitability standards for its products when required by applicable statutes, rules and regulations.

Objective: This Standard is concerned with whether the Company maintains suitability or needs assessment standards for its products.

Controls Assessment: The following controls were noted as part of this Standard:

- Company policy requires that producers conclude that all sales meet the applicants' needs.
- The Company's individual life applications generally require submission of information regarding the applicant's existing life insurance coverage, family member information, occupation, monthly earnings, age and the purpose of the applied for life insurance.
- The Company's disability income applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, existing disability income coverage and family member information, to assist in determining the applicant's needs.
- The Company's internal audit function conducts periodic audits for compliance with the Company's needs assessment policies and procedures.
- The Company conducts post sale policyholder service surveys, and its policy is to timely and fully respond to all questions and responses which indicate that a policyholder was unsatisfied or did not understand his or her policy.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing and underwriting, obtained supporting documentation and reviewed the Company's needs assessment internal audit reports issued during the examination period. RNA

selected 85 individual life and 10 disability income applications from the examination period to test for evidence that the product appeared to meet the applicant's needs.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, each of the sales related to the applications selected appeared to meet the applicant's needs. Finally, the needs assessment internal audit reports adequately monitor compliance with needs assessment policies and procedures.

Recommendations: None.

Standard III-8. Pre-need funeral contracts or pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations.

No work performed. This Standard is not covered in scope of examination because the Company does not offer such products anywhere it is licensed.

Standard III-9. The regulated entity's policy forms provide required disclosure material regarding accelerated benefit provisions.

211 CMR 55.06.

Objective: This Standard is concerned with the required disclosures related to accelerated benefits coverage. See Standard VI-5 for testing of use of filed policy forms.

211 CMR 55.06 requires that a disclosure statement concerning accelerated benefit provisions on life insurance, and waiver of surrender charges for early withdrawals of annuity contracts, be provided to the applicant at the time of application.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for requesting accelerated benefits coverage, and reviewed the only request for accelerated benefits coverage made during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to provide proper accelerated benefit disclosures upon request for accelerated benefits.

Recommendations: None.

Standard III-10. Policy application forms used by depository institutions provide required disclosure material regarding insurance sales.

Gramm-Leach-Bliley Act and Rule 12 CFR Parts 14, 208, 343, and 536.

No work performed. The Company does not sell its products through depository institutions.

FOR INFORMATION PURPOSES ONLY

IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard IV-1. Regulated entity records of licensed and appointed (if applicable) producers agree with department of insurance records.

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

Objective: The Standard addresses licensing and appointment of the Company's producers.

M.G.L. c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's appointment procedures are designed to comply with statutory requirements, which state that an insurer seeking to appoint a licensed producer as agent must do so within 15 days from the date the producer's contract is executed, or when the first policy application is received.
- The Company maintains an automated producer database that tracks all appointments, terminations and other licensing changes related to its agency force.
- The Company policy is that producers must be licensed in Massachusetts prior to the Company contracting with them as agents.
- All appointed agents except worksite marketing enrollers are required to enter into a written contract with the Company prior to selling business. Standard contracts address authorities and responsibilities, producer licensing, use of sales materials and advertising, ownership of records, privacy guidelines, U.S.A. Patriot Act guidelines, telemarketing guidelines, compensation terms and termination provisions. Worksite marketing enrollers are employed by general agents and are supervised by them.

- The Company maintains fidelity bond coverage, which includes actions of its agents. Further, the Company encourages its appointed agents to maintain E&O coverage.
- The Company requires that all newly appointed agents complete Company-developed training prior to selling business.
- Company policy requires that criminal and financial background checks be completed to screen all producers including worksite marketing enrollers applying for appointment as agent.
- The Company states that it completes a periodic reconciliation of its agent appointment records with those of the Division.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent appointments and reconciliation of agent records. RNA tested agent appointment procedures in conjunction with testing of 47 individual life sales, nine disability income sales, and five group life, accident and disability income sales during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale. RNA also selected 10 agents newly appointed during the examination period, to verify that the producer applicant properly completed an application, that a criminal and financial background check was completed, that the evaluation of the application was conducted in compliance with Company procedures and that the appointed agent was timely added to the Division's list of the Company's appointed agents. Finally, in connection with testing of agent terminations, RNA looked for any evidence that terminated agents were improperly appointed.

Transaction Testing Results:

Findings: RNA noted that the agent in one of 10 terminations tested was never properly appointed with the Division, in violation of M.G.L c. 175, § 162S. The Company states that this was an isolated incident.

Observations: Based on the results of RNA's testing of 47 individual life sales, nine disability income sales, and five group life, accident and disability income sales during the examination period, all of the producers who sold policies during the examination period were properly licensed, and all but three were included on the Division's list of the Company's appointed agents at the time the policies were issued. While not required by statute, it is the Company's policy to appoint all of its producers as agents. Subsequently, the Company appointed the three producers as agents.

Further, based on the results of RNA's testing, nine of 10 agents newly appointed during the examination period were processed in accordance with Company policies, procedures and statutory requirements. For the remaining new appointment, the applicant did not provide a completed application; the Company did not complete a criminal and financial background check and did not evaluate the application in compliance with Company policies and procedures. The agent appointment was subsequently terminated. The Company has enhanced its appointment procedures to ensure that Company policies and procedures are adhered to when appointing new agents.

Recommendations: The Company's internal audit department should expand its testing and monitoring of compliance with agent appointment policies, procedures and statutory requirements. Further, the Company and the Division shall complete a reconciliation of the Company's agent appointments at a mutually agreed upon date, to ensure that such appointment records are in agreement.

Standard IV-2. The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.

18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 1998-11 and 2001-14.

See Standard IV-1 for testing.

Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company maintains an automated producer database that tracks all appointments, terminations and other licensing changes related to its agency force.
- The Company has established an agent watch list to monitor potential problem agents.
- The Company has established persistency monitoring procedures for policies sold by all agents.
- The Company's policy and practice is to notify the Division of agent terminations as required by statute.
- The Company's policy and practice is to notify the Division of the reason for agent terminations when the terminations are "for cause."
- The Company has a process for notifying agents that their appointments have been terminated, in compliance with statutory and contractual requirements.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed company employees with responsibility for processing agent terminations. RNA selected 10 terminations from the examination period to determine whether the Company gave timely notice of the terminations to the Division and the producers.

Transaction Testing Results:

Findings: Based on the results of testing of 10 agent terminations, RNA noted that the one agent termination referred to in Standard IV-1 was never properly reported to the Division, in violation of M.G.L. c. 175, § 162T.

Observations: Other than as noted above, the results of testing indicate that the Company gave timely notice of the terminations to the Division and producers.

Recommendations: The Company's internal audit department should expand its testing and monitoring of compliance with agent termination policies, procedures and statutory requirements.

Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Objective: The Standard addresses the Company's policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: See Standards IV-1 and IV-3.

Controls Reliance: See Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA tested agent appointment procedures in conjunction with testing of 47 individual life sales, nine disability income sales, and five group life, accident and disability income sales during the examination period. RNA also selected 10 newly appointed agents and 10 terminations from the Company's records during the examination period, to test for any evidence of unfair discrimination against policyholders during performance of these tests.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted no evidence of unfair discrimination against policyholders resulting from producer appointments and terminations.

Recommendations: None.

Standard IV-5. Records of terminated producers adequately document the reasons for terminations.

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard addresses the Company's documentation of producer terminations.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected 10 terminations from the examination period to test for adequate documentation of termination reasons. Further, RNA reviewed the terminations to note whether any were "for cause," and whether any such terminations and the related reasons were communicated to the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted that the reasons for terminations were adequately documented. The Company has a process for communicating "for cause" terminations and related reasons to the Division. None of the terminations tested was "for cause."

Recommendations: None.

Standard IV-6. Debit producer accounts current (account balances) are in accordance with the producer's contract with the insurer.

Objective: The Standard is concerned with whether the Company's contracts with producers limit excessive balances with respect to handling funds.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's policies are direct billed, mitigating the possibility for excessive balances owed by producers.
- The Company has procedures to pay producers' commissions in accordance with written producer contracts. Commissions are paid as earned, and producers are not entitled to commissions on lapsed policies.

- The Company provides producers with a monthly commission statement of new and renewal premium commissions and commission adjustments.
- The Company actively monitors producers' balances to ensure that outstanding amounts are within limits it deems reasonable.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and commission processing. The Division's financial examiners evaluated producers' debit balances in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of Company procedures, the Company appears to have a process for ensuring that producer debit account balances remain reasonable.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

V. POLICYHOLDER SERVICE

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice.

M.G.L. c. 175, §§ 108, 110B, 187C and 187D.

Objective: This Standard addresses efforts to provide policyholders with sufficient advance notice of premiums due and disclosure of the lapse risk due to non-payment.

M.G.L. c. 175, § 108 requires that individual disability income policies provide a 31 day grace period on premium payments after the due date before lapse can occur. Pursuant to M.G.L. c. 175, § 110B, no individual disability income policy may lapse for nonpayment of premium until after three months from the premium due date, unless, within 10 days prior to the due date, the Company has mailed a notice to the policyholder showing the premium due and the due date, with notice that the policy will lapse if no payment is made on or before the due date. M.G.L. c. 175, § 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium.

Controls Assessment: The following observations and controls were noted in review of this Standard:

- Individual life and disability income policyholders may elect to pay premiums either monthly, quarterly, semi-annually or annually, by either electronic funds transfer or by check. For policies sold through employer worksite marketing arrangements, premiums are billed to the employer and paid by insureds via payroll deduction.
- The Company generates and mails billing notices for individual life and disability income policies that provide the minimum required statutory notice.
- If life and disability income premiums are not received by the due date, the Company mails a first reminder notice approximately 60 days prior to the lapse date. A second reminder notice is mailed approximately 30 days later, noting that the policy will lapse if payment is not made within the next 30 days. If payment is still not made the policy lapses, and a final notice of lapse and a reinstatement application are sent to the policyholder.
- The Company has written service standards to ensure the timely processing of premium billing, reminder and lapse notices.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed billing procedures with Company personnel, and obtained supporting documentation. RNA selected seven individual life policies and one disability income policy lapsed for non-payment during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, RNA noted that in each case, the Company gave adequate notice prior to lapse in compliance with statutory requirements. Further, premium billing notices appeared to be mailed to the policyholder with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Recommendations: None.

Standard V-2. Policy issuance and insured-requested cancellations are timely.

M.G.L. c. 175, § 187C; 211 CMR 34.06; 211 CMR 42.05.

Objective: This Standard addresses the Company's procedures to ensure that insured-requested cancellations are processed timely. Policy issuance testing is included in Standard VI-6.

M.G.L. c. 175, § 187C provides that by giving notice to the company or a producer, the insured may cancel his or her policy. Further, 211 CMR 42.05 requires that a 10 day free look be given on disability income and long-term care insurance policies, and 211 CMR 34.06 requires that a 20 day free look be given on life and annuity replacements.

Controls Assessment: The following controls were noted in review of this Standard:

- Upon request to cancel an insurance policy, the Company sends the policyholder required forms, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation is effective on the date the Company receives the signed form, and a check for any return premium due is sent to the policyholder.
- All policyholders have the right to return ("free look") newly purchased policies within 30 days of receiving the policies. Premium refunds are to be promptly returned to the policyholder.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.
- The Company conducts post sale policyholder service surveys, and its policy is to timely and fully respond to all questions and responses which indicate that a policyholder was unsatisfied, or did not understand his or her policy.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed free look and insured-requested cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected two individual life free looks, one disability income free look, 10 individual life insured-requested cancellations and one disability income insured-requested cancellation from the examination period, to ensure that requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the free looks and insured-requested cancellations were processed accurately and timely, in compliance with statutory requirements.

Recommendations: None.

Standard V-3. All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.

Objective: This Standard addresses the Company's procedures for providing timely and responsive information to customers.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's customer service staff responds to phone calls and written correspondence from policyholders. The staff has access to computer systems to enable them to view contract history, policy values and other information to assist policyholders.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.
- The Company conducts post sale policyholder service surveys, and its policy is to timely and fully respond to all significant comments.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed correspondence procedures with Company personnel, obtained supporting documentation and reviewed two post sale policyholder surveys to ensure that any necessary responses were timely provided. RNA also evaluated the Company's efforts to correspond with policyholders in various complaint handling and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to timely respond to post sale policyholder surveys as necessary.

Recommendations: None.

Standard V-4. Whenever the regulated entity transfers the obligations of its contracts to another regulated entity pursuant to an assumption reinsurance agreement, the regulated entity has gained the prior approval of the insurance department and the regulated entity has sent the required notices to its affected policyholders.

No work performed. This Standard is not applicable as the Company did not enter into assumption reinsurance agreements during the examination period.

Standard V-5. Policy transactions are processed accurately and completely.

M.G.L. c. 175, §§ 110H, 123, 126, 139 and 142.

Objective: This Standard addresses procedures for processing beneficiary and ownership changes, conversions, interest rates, policy loans and maturities.

M.G.L. c. 175, § 110H requires notice to the policyholder for accident and sickness insurance, including disability income coverage cancelable at age 65, at least 60 days prior to cancellation. M.G.L. c. 175, § 123 requires a disinterested witness for beneficiary changes; M.G.L. c. 175, § 126 limits beneficiary changes once a married woman is named as beneficiary; M.G.L. c. 175, § 139 limits face amounts of conversions for rewritten policies with an effective date prior to the exchange application date; M.G.L. c. 175, §§ 142 addresses loan interest rates for non-variable whole life policies.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy provides for beneficiary and ownership change requests to be effective upon the signing and mailing of a properly completed form. Company policy requires a witness signature to process beneficiary and ownership changes.
- Company policy requires a signed written request and a witness signature to process policy loan requests. Other policy changes may be made in writing or by phone.
- The Company gives written notice to disability income policyholders prior to maturity.
- The Company gives written notice to life policyholders prior to policy maturity, and advises them of various settlement options.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed policy change procedures with Company personnel, and obtained supporting documentation. RNA selected eight beneficiary change requests (seven life and one disability income), four life ownership change requests, and three policy loan requests from the examination period, to ensure that the Company processed transactions accurately, timely and in accordance with statutory requirements and policy provisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to process policyholder transactions accurately, timely and in accordance with statutory requirements and policy provisions.

Recommendations: None.

Standard V-6. Reasonable attempts to locate missing policyholders or beneficiaries are made.

M.G.L. c. 200A, §§ 5A, 5B, 7-7B, 8A and 9.

Objective: This Standard addresses efforts to locate missing contract owners and beneficiaries, and to comply with escheatment and reporting requirements.

M.G.L. c. 200A, §§ 5A, 5B, 7-7B, 8A and 9 state that a matured life policy, annuity contract and unclaimed dividends are presumed abandoned if unclaimed for more than three years after the funds become payable. Annual reporting to the State Treasurer's Office regarding efforts to locate owners is required, and the statutes require payments to the State Treasurer's Office for escheated property.

Controls Assessment: The following controls were noted in review of this Standard:

- Company policy requires that unclaimed maturities, including premium refunds and uncashed checks for death claims, be reported and escheated when the owner can not be found.
- The Company has implemented procedures for locating lost owners through searches of Company records and public databases. Once unclaimed amounts have been outstanding for several months, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner.
- The Company annually reports escheatable funds to the State Treasurer on May 1st as required by statute. Prior to escheatment of funds, a final attempt is made to locate the owner.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed the Company's procedures for locating missing policyholders and escheatment of funds with Company personnel, and reviewed supporting documentation. RNA reviewed the escheatment filings made to the State Treasurer for 2006 and 2007.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders and beneficiaries, and appears to make reasonable efforts to locate such individuals. Finally, the Company appears to report unclaimed items and escheat them as required by statute.

Recommendations: None.

Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

M.G.L. c. 175, §§ 119B, 119C, 187C and 187D.

Objective: This Standard addresses the calculation and timely return of unearned premiums.

M.G.L. c. 175, § 119B requires that proceeds payable under life policies include reimbursement for unearned premiums paid. M.G.L. c. 175, § 119C requires interest to be paid on proceeds left on deposit beginning 30 days after death. M.G.L. c. 175, § 187C requires that return premium be made in accordance with the policy upon cancellation. M.G.L. c. 175, § 187D precludes remittance of unearned premiums where the premium was not paid.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company's policy administration systems automatically calculate the unearned premium on cancelled policies and unearned premium after an insured's death. Such amounts are returned to owners or beneficiaries.
- Upon request to cancel an insurance policy, the Company sends the policyholder required forms, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation is effective on the date the Company receives the signed form, and a check for any return premium due is sent to the policyholder.
- All policyholders have the right to free look newly purchased policies within 30 days of receiving them. Premium refunds are to be promptly returned to the policyholder.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected two individual life free looks, one disability income free look and five individual life insured-requested cancellations for policies with cash value from the examination period, to ensure that unearned premiums were properly calculated and timely returned. Further, during claim testing, RNA tested claims where unearned premium was due to the beneficiary or claimant, to ensure that unearned premium was timely paid.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the unearned premium for the free looks and insured-requested cancellations for policies with cash value was accurately calculated and timely returned to the policyholder.

The Company generally returned unearned premium timely to the beneficiary or claimant, when claims were filed. However, the Company did not pay interest on unearned premium collected in error over several years for four group life claims, which were properly denied due to a lack of coverage. The errors were a result of the group policyholders improperly tracking group participant census data, and paying premiums for the participants for several years after coverage for the participants had expired under the policies. When claims were filed, the Company became aware of the unearned premium paid. Thus, the Company properly returned the unearned premium once the errors were found, but did not pay interest on the unearned premium. In addition, during testing for one disability income claim, RNA noted that the Company did not properly cancel a policyholder's original policy, when it was replaced with a new policy. When a claim was filed under the new policy, the claim was paid. At that time, the Company became aware that they had not cancelled the original policy. As a result, the policyholder was unaware that he was continuing to pay the premium on both policies. Once the error became known, the Company properly returned the unearned premium for the cancelled policy, but did not pay interest on the unearned premium. The Company has subsequently paid interest on these unearned premiums.

Recommendations: The Company should establish a policy and procedures to pay interest on all unearned premiums retained more than 30 days. Further, the Company's internal audit department should expand their testing and monitoring of compliance with this policy and procedure.

Standard V-8. Reinstatement is applied consistently and in accordance with policy provisions.

M.G.L. c. 175, § 108, 132(11) and 187G.

Objective: This Standard addresses consistent reinstatement processing in compliance with policy provisions.

M.G.L. c. 175, §§ 108 (individual disability income) and 132(11) (life) state that policies must allow for reinstatement. M.G.L. c. 175, § 187G states that for life policies which lapse during a strike by producers, in the case where the premiums are collected by the producers, the insured is entitled to reinstatement without evidence of insurability within thirty-one days of the authorized termination of the strike.

Controls Assessment: The following controls were noted in review of this Standard:

- A reinstatement application is attached to all lapse notices sent to the policyholder.
- The policyholder must undergo various levels of underwriting prior to reinstatement, depending upon when the policy lapsed. Unpaid premiums must be paid to reinstate the policy.
- In addition to reinstatement noted above, the Company allows for reinstatement by redating the policy when such a policy lapses with no value. The policy is redated to the current date, with no requirement that the policyholder pay unpaid premium.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed reinstatement procedures with Company personnel and obtained supporting documentation. RNA selected nine life reinstatements from the examination period, to ensure that reinstatements were handled consistently, timely and in accordance with policy provisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company consistently and timely processed each of the reinstatement transactions in accordance with policy provisions.

Recommendations: None.

Standard V-9. Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.

M.G.L. c. 175, §§ 134A, 143, 144, 146 and 146A.

Objective: This Standard evaluates notification to life policyholders regarding non-forfeiture options, and requires application of these options in accordance with the contract. Testing of the selection of life dividend or non-forfeiture options is completed in Standard VI-10.

M.G.L. c. 175, § 134A states that an individual certificate holder under a group life insurance policy who is entitled under the terms of the policy to convert to another policy type within a specified time after occurrence of an event, shall be notified of such privilege and its duration within 15 days after the occurrence. M.G.L. c. 175, § 143 states that life policies and deferred annuity contracts are subject to laws limiting forfeiture applicable on the date of issue. M.G.L. c. 175, § 144 allows life policyholders to elect to receive cash value upon policy surrender, to take a specified paid-up non-forfeiture benefit or to receive an actuarially equivalent benefit in the event of default. M.G.L. c. 175, § 146 applies the provisions of M.G.L. c. 175, § 144 to industrial life insurers, with the provisions related to cash surrender values applicable after premiums have been

paid for five years. Under M.G.L. c. 175, § 146A, a lapse for nonpayment after three years of an insured making premium payments requires that the insurer send a notice within six months of lapse, setting forth any non-forfeiture benefit other than one elected by the insured.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company uses policy and contract forms that are designed to meet statutory and regulatory requirements, and files these with the Division for approval prior to use.
- The Company provides applicants for life policies with several dividend or non-forfeiture options, which are listed on the application.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed non-forfeiture procedures with Company personnel, and reviewed supporting documentation. As part of life new business testing, RNA tested the selection of life dividend or non-forfeiture option checked on the application.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of policies and contracts issued, the Company appears to communicate non-forfeiture options to policyholders, and to apply selected options in accordance with the policy contract.

Recommendations: None.

Standard V-10. The regulated entity provides each policy owner with an annual report of policy values in accordance with statute, rules and regulations and, upon request, an in-force illustration or contract policy summary.

211 CMR 28.10.

Objective: This Standard addresses periodic disclosure to the policyholder of contract information. Policy summary and illustration requirements are tested in Standard III-7.

211 CMR 28.10 requires that the company provide an annual report of policy values for non-variable life policies.

Controls Assessment: The following controls were noted in review of this Standard:

- The Company mails annual reports to life policyholders disclosing policy current value, policy cash value, policy insured value, benefits cost, mortality cost, accrued interest and dividends and projected values for the next year.
- The Company has written service standards to ensure the timely processing of annual reports to policyholders.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA discussed annual report disclosure procedures with Company personnel, and selected 13 annual reports sent to life policyholders during the examination period for testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to have adequate procedures for providing life policyholders with timely annual reports in compliance with Company policies and regulatory requirements.

Recommendations: None.

Standard V-11. Upon receipt of a request from policyholder for accelerated benefit payment, the regulated entity must disclose to the policyholder the effect of the request on the policy's cash value, accumulation account, death benefit, premium, policy loans and liens. Regulated entity must also advise that the request may adversely affect the recipient's eligibility for Medicaid or other government benefits or entitlements.

211 CMR 55.06(1)(b) and 55.11.

This Standard is similar to Standard VII-12 and is therefore tested in that Standard.

VI. UNDERWRITING AND RATING

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures, (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the regulated entity rating plan.

M.G.L. c. 175, §§ 108 and 190B; M.G.L. c. 176D, § 3(7); 211 CMR 42.06.

Objective: This Standard addresses whether the Company uses and charges proper premium rates.

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. M.G.L. c. 175, § 108 prohibits the issuance or delivery of any individual disability income or long-term care policy until rates have been on file with the Division for 30 days, or until the Division has approved the policy within that period. Pursuant to M.G.L. c. 175, § 190B, no mass marketed life insurance may be sold if the Commissioner finds that the total charges for the insurance are unreasonable in relation to the benefits provided. Finally, 211 CMR 42.06 requires that individual accident and health insurance rates be filed with the Division.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has written underwriting and rating policies and guidelines, which are designed to assure reasonable consistency in classification and rating of new business.
- The Company's individual life policies are generally offered in tobacco and non-tobacco classes, with some products using a "unismoke" class for all applicants. In addition, underwriters determine the premium rate based on the applicant's age and health condition.
- The Company determines the premium rate for individual disability income policies based on the applicant's occupation, age and health condition.
- The Company's underwriting department determines group life, accident and disability income rates based on the size of the group, age range of the group and prior claim experience of the group.
- All policy rates are filed with the Division for approval prior to use.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected one individual life and one disability income application processed during the examination period, and re-rated the premium charged for each application.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to be charging premiums in accordance with rate information filed with the Division, and the rate classification process appears to comply with statutory requirements.

Recommendations: None.

Standard VI-2. All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.

This Standard addresses mandated disclosures for insurance policies which are required in accordance with statutes, regulations and Company policy. Requirements to provide illustrations, buyer's guides and policy summaries are included in Standard III-6. Replacement disclosures are included in Standards III-4 and III-5 and adverse underwriting notices are included in Standard VI-7.

Standard VI-3. Regulated entity does not permit illegal rebating, commission cutting or inducements.

M.G.L. c. 175, §§ 177, 182, 183 and 184; M.G.L. c. 176D, § 3(8).

Objective: This Standard prohibits illegal rebating, commission cutting or inducements in Company correspondence to producers, and in advertising/marketing materials.

M.G.L. c. 175, § 177 prohibits payment of any form of compensation to an unlicensed producer for acting as producer. Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, no Company, or agent thereof may pay, allow, or offer to pay or allow, any valuable consideration or inducement not specified in the contract, or any other special favor. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to make or offer an insurance or annuity contract other than as expressed in the insurance contract, or to pay, allow or give, any premium rebate, valuable consideration or inducement not specified in the contract as inducement for such a contract.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has procedures for paying producers' commissions in accordance with written producer contracts.
- Company policies, procedures and producer contracts prohibit special inducements and rebates.
- The Company's policy to discourage internal replacements is to pay reduced first year commissions when the previous policy was lapsed, cash surrendered, pledged or subjected to borrowing 12 months prior to the application date, or 13 months after the application date.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed company personnel with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, improper commission cutting or inducements. RNA also evaluated the Company's response to the Division's survey on broker activities. Further, RNA selected five group life, accident and disability income applications from the examination period, to ensure that the related commission payments were in accordance with contractual terms and did not indicate any unusual activity. Finally, during testing of 85 individual life and 10 disability income applications from the examination period, RNA looked for indications of rebating, improper commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing and review of the Company's response to the Division's survey on broker activities, tested commission payments appeared proper and the Company's processes for prohibiting rebating, improper commission cutting or inducements are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-4. The regulated entity's underwriting practices are not to be unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations, and regulated entity guidelines in selection of risks.

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120, and 120A -120E; M.G.L. c. 176D, § 3(7); 211 CMR 32.00 et seq.

Objective: This Standard addresses unfair discrimination in underwriting.

Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between insureds of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120, and 120A-120E prohibit discrimination in the issuance of life insurance based on gender, and against those with mental retardation. For individual disability income and long-term care insurance discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. Finally, mortality tables must conform to the requirements set forth in 211 CMR 32.00 et seq.

Controls Assessment: The following controls were noted as part of this Standard:

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written underwriting guidelines are designed to assure reasonable consistency in classification and rating of risks.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and classification of risks. RNA selected 85 individual life and 10 disability income applications from the examination period, to verify that the applications were approved by underwriting without discriminatory contract provisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's underwriting and sales practices do not appear to be unfairly discriminatory, and the Company appears to adhere to related statutes, rules and regulations.

Recommendations: None.

Standard VI-5. All forms including contracts, riders, endorsement forms and certificates are filed with the department of insurance, if applicable.

M.G.L. c. 175, §§ 2B, 22, 24 108, 132, 134, 139, 193F and 193H; 211 CMR 42.06 and Division of Insurance Bulletin 2001-05.

Objective: This Standard addresses the required filing of all policy forms and endorsements.

Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance may be delivered to more than 50 policyholders until it has been on file with the Division for 30 days, or the Division approves the form during that time. Further, no life, endowment or annuity form may be delivered unless it complies with readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions, and M.G.L. c. 175, § 108 sets forth a 30 day filing requirement, and identifies mandated provisions for individual disability income and long-term care insurance. M.G.L. c. 175, § 24 permits the inclusion of accidental death and disability benefits as part of a life insurance policy. M.G.L. c. 175, § 132 similarly sets forth a 30 day filing requirement, and identifies mandated provisions for life, endowment and annuity forms. M.G.L. c. 175, § 134 similarly sets forth a 30 day filing requirement, and identifies mandated provisions for group life contracts. M.G.L. c. 175, § 139 permits the exchange or conversion of life or endowment insurance or an annuity contract at the policy owner's request. M.G.L. c. 175, §§ 193F and 193H permit the 30 day filing requirements to be extended, and provide for an appeal procedure in the event that the company wishes to contest the Division's decision. 211 CMR 42.06 includes policy form requirements for individual disability income insurance, including the proper form

and content of such policies. Division of Insurance Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company's written underwriting guidelines and policy forms are designed to assure reasonable consistency in classification of risks.
- The Company obtains Division approval of all policy forms, contract riders, endorsement forms and illustrations prior to use.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA selected 85 individual life, 10 disability income and five group life, accident and disability income applications from the examination period for testing. RNA selected the most commonly used policy forms and endorsements to ensure that these were approved by the Division prior to use.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing performed, the Company utilized policy forms, riders, and endorsement forms approved by the Division prior to their use.

Recommendations: None.

Standard VI-6. Policies and riders are issued or renewed accurately, timely and completely.

M.G.L. c. 175, §§ 108, 123, 130 and 131.

Objective: This Standard addresses whether the Company issues life and disability income policies timely and accurately. See Standard V-8 for testing of reinstatements.

M.G.L. c. 175, § 108 sets forth a form filing requirement, and identifies mandated provisions for individual disability income and long-term care insurance. M.G.L. c. 175, §§ 123 and 131 require a written application for issuance of life policies, and a signed application to be attached to a life or annuity contract. M.G.L. c. 175, § 130 requires that no life policy or annuity issued be dated more than six months prior to the application date if the applicant would rate at an age younger than the age at the nearest birthday on the application date.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has written underwriting guidelines and procedures that require compliance with statutory requirements.
- Company underwriters review all insurance applications and supporting forms to ensure that they are complete and internally consistent, and obtain any additional information needed to make underwriting decisions.

- The Company's practice is to issue policies and riders in a timely and complete manner.
- The Company conducts post sale policyholder service surveys, and its policy is to timely and fully respond to questions and responses, which indicate that a policyholder was unsatisfied, or did not understand his or her policy.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance. RNA selected 85 individual life, 10 disability income and five group life, accident and disability income applications from the examination period, to determine whether policies were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that policies are issued timely, accurately, completely and in accordance with Company policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-7. Rejections and declinations are not unfairly discriminatory.

M.G.L. c. 175, §§ 108A, 108C, 108G, and 108H, 120, 120A -120E; M.G.L. c. 175I, § 12 and M.G.L. c. 176D, § 3(7).

Objective: This Standard addresses whether application denials are fair.

Pursuant to M.G.L. c. 175, §120, no Company may discriminate between applicants of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 108A, 108C, 108G, 108H, 120, and 120A-120E prohibit discrimination in the issuance of life, individual disability income and long-term care insurance against those with mental retardation (life only), blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests.

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. M.G.L. c. 175I, § 12 states that an adverse underwriting decision for life, disability income and long-term care insurance applicants may not be based, in whole or in part, on a previous adverse underwriting decision, on personal information received from certain insurance-support organizations or on sexual orientation.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- The Company revised its underwriting declination procedures and the format of the Adverse Underwriting Notice in early 2007, to ensure that the Adverse Underwriting Notice complies with statutory requirements.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the Adverse Underwriting Notice be provided when the Company declines applications, elects to provide a reduced amount of coverage and when it offers coverage at higher than standard rates. From a list of declined applications after the revised procedures were adopted, RNA tested 15 individual life and disability income underwriting declinations for evidence that the Company provided a timely Adverse Underwriting Notice. Additionally, as part of new business testing, RNA noted four individual life applications where the Company either declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates, and verified that the Company provided a timely Adverse Underwriting Notice to the applicants.

Transaction Testing Results:

Findings: None.

Observations: For the applications tested, the Company provided the Adverse Underwriting Notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing Adverse Underwriting Notices appear to be functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-8. Cancellation/non-renewal reasons comply with policy provisions and state laws and company guidelines.

M.G.L. c. 175, §§ 108 (3)(a)(2), 108A, 108C, 108G, 108H, 120, 120A-E and 132(2); M.G.L. c. 175I, § 10; M.G.L. c. 176D, § 3(7).

Objective: This Standard addresses whether the reasons for a cancellation are valid according to policy provisions and state laws. Compliance with Adverse Underwriting Notice requirements are tested in Standard VI-7.

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual disability income policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years. M.G.L. c. 175, §§ 108A, 108C, 108G, 108H, 120, and 120A-120E prohibit discrimination

in the issuance of life, individual disability income and long-term care insurance against those with mental retardation (life only), blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists.

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. M.G.L. c. 175I, § 10 provides guidance on the content and timely issuance of adverse underwriting notices.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company has written procedures for cancellation of insurance coverage in accordance with statutory requirements.
- Although rare, the Company may rescind coverage in cases of fraud or material misrepresentation.
- The Company's policy is to give adequate notice in cases where the Company's cancels insurance coverage for non-payment.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA selected seven individual life policies and one disability income policy cancelled for non-payment of premium during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, RNA noted no instances of improper cancellation for non-payment of premium, and noted that in each case the Company gave adequate notice prior to cancellation.

Recommendations: None.

Standard VI-9. Rescission is not made for non-material misrepresentation.
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M.G.L. c. 175, §§ 108 (3)(a)(2) and 132(2).
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Objective: The Standard addresses whether (a) rescinded policies indicate a trend toward post-claim underwriting practices; (b) decisions to rescind are made in accordance with applicable

statutes, rules and regulations; and (c) Company underwriting procedures meet incontestability standards.

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual disability income policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years. M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company does not have a contractual right to cancel insurance coverage absent the conditions set forth in statutes or regulations.
- Although rare, the Company may rescind coverage in cases of fraud or material misrepresentation.
- The Company's underwriting process considers the risk of material misrepresentation by applicants, and attempts to corroborate information received including health status.
- Cases considered for rescission are reviewed by underwriting department and legal department management.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: Because grounds for rescission in Massachusetts are limited and such incidents are rare, RNA did not test the Company's rescission procedures, but looked for evidence of improper rescission during testing of complaints, cancellations, underwriting declinations and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, RNA noted no instances of improper rescission.

Recommendations: None.

Standard VI-10. Pertinent information on applications that form a part of the policy is complete and accurate.

Objective: This Standard addresses whether (a) the requested coverage is issued; (b) the Company verifies the accuracy of application information; (c) applicable non-forfeiture and dividend options are indicated on the application; (d) changes and supplements to applications are initialed by the applicant; and (e) supplemental applications are used where appropriate.

Controls Assessment: The following controls were noted as part of this Standard:

- The Company's individual life applications generally require submission of information regarding the applicant's existing life insurance coverage, family member information, occupation, monthly earnings, age and the purpose of the applied for life insurance.
- The Company's disability income applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, existing disability income coverage and family member information, to assist in determining the applicant's needs.
- The Company's group life, accident and disability income applications require submission of information regarding the applicant's nature of employment, type and amount of coverage requested, group eligibility guidelines, employee contributions, waiting periods, benefit termination guidelines and rate guarantees.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 85 individual life, 10 disability income and five group life, accident and disability income applications from the examination period for testing. RNA verified that each of the applications was signed and completed in accordance with Company policy, and that each of the individual life applications selected a dividend or non-forfeiture option as applicable. RNA further reviewed each application package, and confirmed that the policy was issued consistent with the application or that any changes resulted in disclosure to the applicant.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the application submitted for each sale was signed and completed in accordance with Company policy. Each policy was issued consistent with the application, or any changes resulted in disclosure to the applicant.

Recommendations: None.

Standard VI-11. The regulated entity complies with the specific requirements for AIDS-related concerns in accordance with statutes, rules and regulations.

211 CMR 36.04-36.08.

Objective: This Standard addresses procedures to ensure that the Company does not use medical records indicating AIDS-related concerns to discriminate against applicants, without medical evidence of disease.

211 CMR 36.04 sets forth prohibited practices with respect to AIDS-related testing and information. Pursuant to 211 CMR 36.05, an applicant must give prior written informed consent

before an insurer may conduct an AIDS-related test. 211 CMR 36.06 specifies that the insurer notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. 211 CMR 36.07 requires insurers to maintain applicant information as confidential. 211 CMR 36.08 prohibits insurers from requesting any information about the applicant's, policyholder's or beneficiary's sexual orientation.

Controls Assessment: The following controls were noted as part of this Standard:

- The underwriting department's procedures require that an applicant give prior written informed consent before the Company may conduct an AIDS-related test, and that the applicant acknowledge in writing that he or she understands his or her rights regarding AIDS-related tests.
- A standard form that includes required Massachusetts AIDS-related test disclosures is provided to the applicant at the time an application is taken.
- Policies sold through worksite marketing do not require the applicants to undergo AIDS-related tests.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA selected 65 individual life applications submitted by general agents from the examination period, to verify that the Company obtained signed Massachusetts AIDS testing disclosure notices from the applicants when necessary. In testing of underwriting declinations, RNA looked for evidence of unfair discrimination.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company obtains the Massachusetts' AIDS testing disclosure notice from applicants in accordance with Company policies, procedures and statutory requirements. RNA noted no evidence of unfair discrimination based on sexual orientation in underwriting declinations.

Recommendations: None.

VII. CLAIMS

Evaluation of the Standards in this business area is based on (a) an assessment of the Company's internal control environment, policies and procedures (b) the Company's response to various information requests, and (c) a review of several types of files at the Company.

Standard VII-1. The initial contact by the company with the claimant is within the required time frame.

M.G.L. c. 176D, § 3(9)(b) and M.G.L. c. 175, § 108.

Objective: The Standard addresses the timeliness of the Company's initial contact with the claimant.

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to promptly address communications for insurance claims. M.G.L. c. 175, § 108, requires disability income claim forms to be sent to a claimant within 15 days of receiving notice of the claim.

Controls Assessment: The following controls were noted in review of all claims Standards:

- Written policies and procedures govern the Company's claims handling processes.
- Death claims are reported through an agent, by mail, or through the Company's 800 phone number. The claim is registered in the claim tracking system and acknowledged within one or two days. The insurance contract is researched to determine its status, and to ascertain if other policies or contracts are in-force. The contract is then pended in the applicable policy administration system; a claims examiner is assigned based on a predetermined dollar authority limit, and a claim form is sent to the claimant.
- Short-term individual disability income claims are reported through an agent, by mail, or the company's 800 phone number. The claim is registered, and a claim form is sent to the claimant within one or two days. A phone call is made to the claimant to ensure that the claimant received the form, which includes the HIPAA authorization disclosure allowing the Company to communicate with the claimant's attending physician to obtain his or her statement.
- The Company contracts with third parties to process group and individual long-term disability income claims, and all medical reimbursement claims. The contracts contain performance standards requiring timely and accurate claims processing. The Company's internal audit function conducts periodic audits of these entities to ensure compliance with Company policies and procedures.
- Once the Company receives a death claim form in the home office, a claims examiner investigates the claim to ensure that it includes the death certificate, a signed claim form, and any other information needed. The Company contests few claims, as most are received after the two-year contestable period has passed. When such claims are investigated, a referral to the SIU and/or legal department is made. The claim settlement amount includes the payment of interest at 3% from the date of death, and may also include return premium amounts, pro-rata dividends, or netting of policy loans amounts as applicable. The Massachusetts Department of Revenue website is checked to ensure compliance with the Intercept Program requirements for unpaid child support and taxes, and receipt of public assistance. A checklist documenting the examiner's review and approval is completed and included in the claim file. A supervisory review function

ensures that all death claims are reviewed to ensure compliance with Company policies and procedures.

- Once the Company receives a disability income claim, medical records are ordered, and the claim is appropriately investigated. Any cases of suspected fraud are concurrently sent to the SIU and/or legal department. Claim documentation and history notes are maintained in the claim file. All disability income claims are evaluated based on total and partial disability using the definitions in the policies. Supervisors review all claims to ensure compliance with Company policies and procedures.
- The payees for all claim disbursements are checked against the Office of Foreign Asset Control list as required by Law.
- Claims management periodically reviews open claims to evaluate pending issues and ensure appropriate reserves have been established.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.

Controls Reliance: Controls tested via documentation inspection, procedure observation and/or corroborating inquiry appear to be sufficiently reliable to be considered in determining the extent of transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: The claim transactions tested were processed according to the Company's policies and procedures, and the initial contact by the Company was timely. Based on the results of testing, it appears that the Company's processes for handling death, disability income and medical reimbursement claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-2. Investigations are conducted in a timely manner.

M.G.L. c. 176D, § 3(9)(c) and Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with the timeliness of the Company's claims investigations.

Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. Division of Insurance Bulletin 2001-07 requires that, upon receipt of a claim and proof of death, the

Company is required to diligently search its records and those of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim investigation processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures, to verify that it conducts timely investigations and, when required, to verify that searches for multiple policies involving the claimant are conducted.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of testing, it appears that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-3. Claims are settled in a timely manner.

M.G.L. c. 176D, § 3(9)(f) and M.G.L. c. 175, § 108.

Objective: The Standard is concerned with the timeliness of the Company's claims settlements.

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failure to effectuate prompt, fair and equitable claim settlements. Pursuant to M.G.L. c. 175, § 108, complete claims must be settled within 45 days of submission or a notice must be sent to the claimant noting reasons for non-payment.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim settlement practices, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of testing, it appears that the Company resolves claims timely in compliance with Company policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-4. The regulated entity responds to claim correspondence in a timely manner.

M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence.

Pursuant to M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e), respectively, unfair claims settlement practices include failure to promptly address communications for insurance claims, and failure to affirm or deny claim coverage within a reasonable time after the claimant has given proof of loss.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to verify that policyholder claim correspondence was answered timely.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that correspondence for the tested claims was answered timely. Based upon the results of testing, it appears that the Company timely responds to claim correspondence, in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling processes and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that files for the tested claims were adequately documented. Based on the results of testing, it appears that the Company's claim handling processes for documenting claim files are functioning in accordance with their policies and procedures.

Recommendations: None.

Standard VII-6. Claims are properly handled in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 24F, 110F, 119B, 119C, 125 and 135.

Objective: This Standard addresses whether appropriate claim amounts, including applicable interest, have been paid to the appropriate beneficiary/payee.

Pursuant to M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), respectively, unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation, and failure to effectuate prompt, fair and equitable settlement of claims in which liability has become reasonably clear. M.G.L. c. 175, § 22I allows insurers to deduct unpaid premiums from claim settlements. M.G.L. c. 175, § 24D requires interception of non-recurring payments for past due child support. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes. M.G.L. c. 175, § 110F requires that benefits due under a disability policy not be reduced by an increase in Federal social security benefits once payment of benefits has commenced. M.G.L. c. 175, §§ 119B and 119C require that prepaid premium be returned after death of the insured, and that once proof of death is provided, the Company must pay interest on claims beginning 30 days after the insured's death. M.G.L. c. 175, §§ 125 and 135 define situations where beneficiaries' and group life certificate holders' creditors have claims to policy proceeds or prepaid premium.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to verify that claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the tested claims were reported according to the Company's policies and procedures, and that the claim files were handled in accordance with policy provisions. When required, the Company properly verified that claim recipients were not subject to the intercept requirements in M.G.L. c. 175, §§ 24D and 24F prior to making the claim payment. Based upon the results of testing, it appears that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-7. Regulated entity claim forms are appropriate for the type of product.

Objective: The Standard addresses the use of claim forms that are appropriate for the policy.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that that claim forms for the tested claims were appropriate and used in accordance with the Company's policies and procedures.

Recommendations: None.

Standard VII-8. Claim files are reserved in accordance with the regulated entity's established procedures.

Objective: The Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 40

death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period to evaluate claims reserving policies and procedures. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the reserves for the tested claims were evaluated, established and adjusted according to the Company's policies and procedures. Based upon the results of testing, it appears that the Company's processes for establishing reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.

M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: This Standard is concerned with the adequacy of the Company's decision-making, and its documentation of denied and closed-without-payment claims.

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he was entitled to receive. Finally, M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denying a claim an unfair claims settlement practice.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 16 death claims, five disability income claims and 18 medical reimbursement claims from the examination period that were denied or closed without payment. RNA reviewed the claim correspondence and investigative reports, and noted whether the Company handled the claims timely and properly before closing them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the files for the denied or closed without payment claims tested appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it

appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.

Objective: The Standard addresses the Company's procedures for issuing claim checks.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. The Company does not require a signed release when a claim is settled.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each claim selected for testing was recorded according to the Company's policies and procedures, and that claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of testing, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under the policy by offering substantially less than is due under the policy.

M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h).

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than what the policy contract provides for.

Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered, and attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to review claims handling practices. When applicable, RNA verified the date the claims were reported, reviewed correspondence and investigative reports, and noted the whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the selected claims appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

Standard VII-12. The regulated entity provides the required disclosure material to policyholders at the time an accelerated benefit payment is requested.

211 CMR 55.06(1)(b) and 55.11.

Objective: The Standard addresses required disclosures when accelerated benefits are requested.

211 CMR 55.06(1)(b) and 55.11 require carriers to issue a disclosure statement to policyholders containing specific information when a request is made for an accelerated benefit payment.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA tested the only request for accelerated benefits made during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the selected claim appeared complete, including correspondence and other documentation. Based upon the results of testing, it appears that the Company provides the proper disclosures to policyholders when accelerated benefits are requested, and processes such claims timely and accurately.

Recommendations: None.

Standard VII-13. The regulated entity does not discriminate among insureds with differing qualifying events covered under the policy, or among insureds with similar qualifying events covered under the policy.

M.G.L. c. 176D, §3(7).

Objective: The Standard is concerned with whether the Company's claim handling practices discriminate against claimants with similar qualifying events covered under its policies.

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to make or permit any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 40 death claims, 31 disability income claims and 29 medical reimbursement claims from the examination period, to verify that there is no unfair discrimination against claimants.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of testing, it appears that the Company's processes do not discriminate against claimants with similar qualifying events covered under its policies.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims as set forth in the 2006 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. We have made recommendations to address various concerns in the areas of Company Operations/Management, Marketing and Sales, Producer Licensing and Policyholder Service.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination (“comprehensive examination”) of the Company.

The undersigned’s participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (“NAIC”) and the *2006 NAIC Market Regulation Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition to the undersigned, Dorothy K. Raymond of the Division’s Market Conduct Section participated in this examination and in the preparation of the report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the examination is hereby acknowledged.

Matthew C. Regan, III
Director of Market Conduct &
Examiner-In-Charge
Commonwealth of Massachusetts
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