THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Market Conduct Examination of

Centre Life Insurance Company

Boston, Massachusetts

For the Period January 1, 2015 through December 31, 2015

NAIC COMPANY CODE: 80896

EMPLOYER'S ID NUMBER: 04-1589940

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE
1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • http://www.mass.gov/doi

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

December 15, 2018

Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Anderson:

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

CENTRE LIFE INSURANCE COMPANY

at their home offices located at:

165 Broadway
One Liberty Plaza
33rd Floor
New York, NY 10006

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Centre Life Insurance Company ("CLIC" or "the Company") for the period January 1, 2015 through December 31, 2015. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c." 175, 4). The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Risk and Regulatory Consulting, Inc. ("RRC" or "the Examiners") were engaged to complete the examination under the direction of the Division.

During the examination period, the Company did not issue any new policies or replacements. New Disability Income Policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the 2015 NAIC Market Regulation Handbook, ("the Handbook") the 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 supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's separate financial examination of the Company. For those objectives, RRC and the market conduct examination staff used procedures performed by the Division's financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed.

The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

The internal controls assessment is comprised of three significant steps: (a) identifying controls; (b) determining whether the control has been reasonably designed to accomplish its intended purpose in mitigating the risk; and (c) verifying that the control is functioning as intended (i.e., review or testing of the controls). The effectiveness of the internal controls was considered when determining sample sizes for transaction testing. The form of this examination report is "Report by Test," as described in Chapter 15, Section A of the Handbook.

The Division considers a "finding" to be a violation of Massachusetts insurance laws, regulations or bulletins. An "observation" is defined as a departure from an industry best practice. The Division recommends that Company management evaluate any "finding" or "observation" for applicability to other jurisdictions. All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions. The Company shall report to the Division any such corrective actions taken.

EXECUTIVE SUMMARY

This summary of the examination of the Company is intended to provide a high-level overview of the examination results highlighting where recommendations were made or required actions were noted. The body of the report provides details of the scope of the examination, the examination approach, internal controls for each standard, review and test procedures conducted, findings and observations, recommendations and required actions and if applicable, subsequent Company actions. Company managerial and supervisory personnel from each operational area should review the examination report for results relating to their specific area.

The following is a summary of all findings and observations, along with related required actions and recommendations and, if applicable, subsequent company actions noted in this examination. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at: www.mass.gov/doi.

The examination resulted in no recommendations or required actions with regard to Marketing and Sales or Underwriting and Rating. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in the examination. Further, the tested Company practices appear to meet industry best practices in these areas.

The comprehensive market conduct examination resulted in the following required actions or recommendations:

I – COMPANY OPERATIONS AND MANAGEMENT

STANDARD I-10

Observations: Based upon testing the Company's policies and procedures for providing privacy notices and handling adverse underwriting decisions appear to be functioning in accordance with its policies, procedures and statutory requirements. The Company's HIPAA Complaint Authorization to Obtain Information does not contain a form number or a revision date.

Recommendations: The Company should add a form number and revision date to the HIPAA Compliant Authorization to Obtain Information in order to maintain documentation of form revisions. The filing should be submitted.

STANDARD I-13

Findings: Based on the Examiners' review, it appears the Company has opted to send the abbreviated Notice of Information Practices as outlined in Section (c), however the abbreviated Notice of Information Practices does not contain the following in violation of M. G. L. c. 175I, §4.

(3) a right of access and correction exists with respect to all personal information collected; and
(4) the notice prescribed in subsection (b) shall be furnished to the applicant or policyholder upon request.

Observations: The Examiners noted that the Company has procedures for providing the Privacy Notice annually to policyholders.

Required Actions: The Company shall revise its' privacy notice in compliance with the provision of M. G. L. c. 175I, §4.

Subsequent Actions: The Company has provided the Examiners with an updated version of its privacy notice to address the Division's required actions. The updated notice has been reviewed by the Examiners and appears to address the Division's required actions. The updated notice will be tested as part of a future market conduct examination.

II– COMPLAINTS

STANDARD II-1

Findings: The two complaints tested were recorded in the complaint register, however, the date the complaint was received does not match the date received on the complaint log. In addition, the complaint file did not include sufficient information to confirm that the date the complaint was received by the Company matched the date on the complaint register.

Required Actions: The Company shall implement procedures to date stamp complaints if no other documentation is available to track when a complaint is received by the Company. The Company shall prepare policies and procedures for complaint handling, which includes the process for entering the date received on the complaint log.

Subsequent Actions: The Company informed the Examiners that the protocols for logging and processing complaints has been strengthened and provided a copy of the policies and procedures for

complaint handling which includes the process for entering the date received on the complaint log to the Division.

IV– PRODUCER LICENSING

STANDARD IV-2

Findings: Testing of the ten policy lapses found that each premium notice included the names of an agent or agency. As the Company did not have any appointed agents or agencies during the examination period, no premium notices should have included the names of agents or agencies. This appears to be a violation of M.G.L c.175, §162S and c.176D, §2.

Required Actions: The Company shall remove all non-appointed agent and agency names from correspondence with insureds including but not limited to premium notices, lapse notices, cancellations and reinstatements. The Company shall modify its policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds. The Company shall provide its updated policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds to the Division.

Subsequent Actions: The Company provided its updated policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds to the Division.

V – POLICYHOLDER SERVICES

STANDARD V-1

Findings: In four of the ten lapsed policies tested, the lapse notice was sent prior to the end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for two of the four policies was on a Monday and a Saturday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B.

The end of the grace period for two of the four policies was on a Sunday and a holiday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B and M.G.L. c. 4, §9.

Observations: Based upon the review and testing results, the Examiners noted that for six of the ten billing notices reviewed, the Company gave adequate notice prior to lapse in compliance with statutory requirements. Premium billing notices for six of the 10 policies tested were mailed to the policyholder with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and provided a copy of the policies and procedures to the Division. The Company further states that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

STANDARD V-2

Observations: The Company did not provide a letter to the insured confirming that the cancellation requested by the insured had been completed as requested in one of the five cancellations tested. The Company does not send policyholder surveys.

Recommendations: The Company should modify its policies and procedures to include sending a confirmation letter to an insured when a request is made to cancel a policy. The Company should consider conducting periodic policyholder service surveys for Massachusetts issued policies in order to determine customer satisfaction with the Company and their policy.

STANDARD V-5

Observations: In ten of the fifteen policy changes tested and thirteen of fifteen billing changes tested, the Company did not provide a letter to the insured confirming that the policy change requested by the insured had been completed as requested. In policy changes that involve a renewal beyond age 65, the Company issues a premium notice with the new premium which it considers acceptance of the policy renewal but does not provide a letter to the insured confirming receipt and/or processing of the policy renewal beyond age 65.

Recommendations: The Company should modify its policies and procedures to include sending a confirmation letter to an insured when a request is made to change an address and when a request is made to continue the policy beyond age 65.

STANDARD V-6

Observations: The Company does not maintain written procedures for locating unreported deceased claimants.

Recommendations: The Company should document its procedures for comparing its policyholder databases to the Social Security Death Index to locate any potentially deceased claimants. Procedures should clearly state that the comparison and reporting procedures address both disability income and major medical claims and policies.

STANDARD V-8

Findings: In four of the fifteen reinstatements tested, the lapse notice was sent prior to end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for three of the four policies were on a Saturday. Since the policies indicate that the insureds had a 31 day grace period and the Lapse Notices indicated that the policy had

lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B.

The end of the grace period for one of the four policies was on a Sunday. Since the policies indicate that the insureds had a 31 day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108, M.G.L. c. 175, §110B and M.G.L. c. 4, §9.

Observations: The Company appears to be processing reinstatements in accordance with policy provisions.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and provided a copy of the policies and procedures to the Division .The Company further stated that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

VI – UNDERWRITING AND RATING

STANDARD VI-8

Findings: In four of the ten lapsed policies tested, the lapse notice was sent prior to end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for two of the four policies was on a Monday and a Saturday. Since the policies indicate that the insureds had a 31 day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §187C and M.G.L. c. 175, §187D.

The end of the grace period for two of the four policies was on a Sunday and a holiday. Since the policies indicate that the insureds had a 31 day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §187C and M.G.L. c. 175, §187D.

Observations: Based upon the review and testing results, the Examiners noted that for six of the ten billing notices reviewed, the Company gave adequate notice prior to lapse in compliance with statutory requirements. Premium billing notices for six of the ten policies tested were mailed to the policyholder with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and provided a copy of the policies and procedures to the Division. The Company further stated that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

VII – CLAIMS

STANDARD VII-1

Observations: In eleven of the sixty-seven claims tested, the initial claim notification in the policy system does not state who reported the claim and when claim forms were requested. The Company does not clearly document the phone call notifying them of the claim. While the system note and letter sending forms are within fifteen days, the system note does not clearly state when the initial claim forms were requested. For claims with this issue, the Company's response was the "Internal understanding and protocol is that action is taken the same date as entry or posting on the printed

document unless otherwise stated. This indicates that the request was contemporaneous with the date of the system entry."

Recommendations: The Company should modify its policies and procedures to include clearly documenting who is requesting the claim forms, the date the call was received and where the claim forms should be sent.

STANDARD VII-4

Observations: The Company responds to claim correspondence in a timely manner. In one of the sixty-seven claims tested, the Company did not send status update letters timely. The status letter was sent within thirty business days but not within thirty calendar days.

Recommendations: The Company should modify its policies and procedures to specify that if the Company is unable to affirm or deny a claim and the claim warrants additional investigation, status letters are to be sent within thirty calendar days setting forth the specific reasons for the continued delay in the settlement process.

STANDARD VII-5

Observations: In eleven of the sixty-seven claims tested, the initial claim notification in the policy system does not state who reported the claim and when claim forms were requested. The Company does not clearly document the phone call notifying them of the claim. While the system note and letter sending forms are within fifteen days, the system note does not clearly state when the initial claim forms were requested. For claims with this issue the Company's response was the "Internal understanding and protocol is that action is taken the same date as entry or posting on the printed document unless otherwise stated. This indicates that the request was contemporaneous with the date of the system entry.

In ten of the fifty-five Disability Income claims tested, no documentation was retained in the claim file to support that the insured was informed of the date period used to calculate the refund of premium. No dates were included in the approval letter and the Company was unable to provide the explanation attached to the premium refund check. The Examiner's requested that the Company "Please provide copies of the premium refund checks with the EOBs showing dates included in premium refunds." The Company provided copies of the cancelled checks but did not provide the associated explanations.

Recommendations: The Company should modify its policies and procedures to clearly document who is requesting the claim forms, the date the call was received and where the claim forms should be sent.

The Company should modify its policies and procedures to clearly indicate the dates included in the refund of premium when sending correspondence to the insured. In addition, if checks indicate the dates included in the refund of premium the Company should maintain copies of the check along with the explanation.

COMPANY BACKGROUND

The Company was acquired by Centre Reinsurance Holdings Limited and ultimately Centre Solutions (U.S.) Limited ("CSUS") on February 5, 1999 from SunLife Assurance Company of Canada (U.S.). CSUS is a Bermuda-domiciled holding company whose ultimate parent is Zurich Insurance Group Ltd. ("ZIG"). Prior to its acquisition, MCIC was a wholly owned subsidiary of Sun Life Assurance Company of Canada (U.S.). MCIC was incorporated on October 6, 1926 and commenced business on October 1, 1927.

On December 29, 1980, the Company's capital stock was purchased by Equitable Massachusetts, Inc., a subsidiary in the Equitable of Iowa Companies Group. On January 30, 1987, the Company's capital stock was acquired by a subsidiary of the Sun Life of Canada Group.

The Company is a Massachusetts-domiciled insurer which prior to its acquisition by Centre Solutions (U.S.) Limited was a writer of individual accident and health business, with virtually all of its business representing non-cancelable disability income insurance. After the acquisition of the company, while continuing to run-off such direct business, CLIC limited its new business writing to reinsurance. The Company is licensed in all 50 states and the District of Columbia.

Effective February 5, 1999, the Company entered into a servicing agreement with Disability Management Services Inc. ("DMS") to administer all run-off premiums and claim processing related to the old MCIC disability and major medical business. DMS also handles much of the accounting and postings to the general ledger for the Company, as all systems are maintained at DMS.

Effective July 1, 2000, the Company entered into a servicing agreement with DMS to administer all run-off premiums and claim processing related to the reinsured policies pursuant to the 100% Quota Share Reinsurance Agreement with Equitable Life Assurance Society. DMS also handles much of the accounting and postings to the general ledger for the Company, as all systems are maintained at DMS.

The Company has not written any new individual disability income business since 1998 and has not written any new major medical since the early 1980's.

The following is the 2015 direct premium and annuity considerations (which include first year and renewal business) written by the Company in Massachusetts by annual statement line of business:

Massachusetts Direct Premium and Annuity Considerations in 2015	**Total**
Individual Life Insurance Premiums	$0
Individual Annuity Considerations	$0
Accident and Health (including disability income and long term care)	$911,167
Total	**$911,167**

MASSACHUSETTS CLAIM BENEFITS PAID IN 2015

The following summarizes the approximate life insurance and annuity death claims and accident and health claims paid in Massachusetts in 2015 based on the Massachusetts Annual Statement State Page:

Massachusetts Claim Benefits Paid in 2015	
Life Insurance and Annuity Death Benefits Paid	$0
Accident and Health Benefits Paid	$842,378

I – COMPANY OPERATIONS AND 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 and data requests, and (c) a review of various types of Company files. Unless otherwise stated, the policies and procedures addressed in the Standards below applied to the Company's management of Disability Income and Major Medical business.

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

Objective: This Standard addresses the audit function and its responsibilities. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard: Internal Audit

- The Company's TPA, Disability Management Service Inc. (DMS), conducts annual audits of the Centre Life Insurance Company block of business. The DMS Audit Team is managed by a DMS in-house attorney.
- The Company also conducts independent audits of the Centre Life Insurance Company block of business.

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: The Examiners reviewed the Company's independent audit report issued during 2016.

Transaction Testing Results: Internal audit and compliance findings are included in the examination area to which they relate.

Findings: None.

Observations: The audit report reviewed was well-documented and provided management with information regarding the scope of the review and the identified issues. There were no issues identified.

Recommendations: None.

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

No work was performed during this market conduct examination. All required activity for this Standard was included in the scope of the statutory financial examination of the Company, which includes the period January 1, 2015 through December 31, 2015.

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

Objective: No work performed. All required activity for this Standard was included in the scope of the statutory financial examination of the Company.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Plan includes the requirements that the Company take all-reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The Plan outlines procedures to report suspected fraud. Cases are referred to the Company's Special Investigative Unit (SIU) in the Legal Department followed by the appropriate law enforcement authorities and the Massachusetts Insurance Fraud Bureau.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners reviewed the Company's Plan and policies and procedures regarding the identifying and reporting of suspected fraud.

Transaction Testing Results:

Findings: None.

Observations: The Examiners' review of the Company's Plan found that the policies and procedures appear to be sufficient. The Examiners further note that it does not appear that the Company hired any employees or contracted any producers meeting the criteria as defined under 18 U.S.C. §1033.

Recommendations: None.

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

No work was performed during this market conduct examination. All required activity for this Standard was included in the scope of the statutory financial examination of the Company, which includes the period January 1, 2015 through December 31, 2015.

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

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has a contractual agreement with a third party to perform a business function or action on behalf of the Company. The third party administrator, Disability Management Services Inc., administers the Company's closed block of disability income and major medical business.
- The Company periodically conducts independent audits of Disability Management Services Inc.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners interviewed Company management and staff about the use of third parties to perform Company functions. Also, the Examiners reviewed the Company's audit reports and contracts in effect with third parties. In addition, while testing other Standards as part of this examination, the Examiners reviewed for the appropriate oversight of third parties.

Transaction Testing Results:

Findings: None.

Observations: The Company has contracts in place in reference to functions performed by third parties. These contracts contain clauses that state that each party must follow state laws and protect the confidentiality of all information.

Recommendation: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: The Examiners interviewed Company management and staff about the use of third parties to perform Company functions. Also, the Examiners reviewed the Company's audit reports and contracts in effect with third parties. In addition, while testing other Standards as part of this examination, the Examiners reviewed for the appropriate oversight of third parties.

Transaction Testing Results:

Findings: None.

Observations: The Company has procedures in place to conduct periodic reviews of the Company's third party administrator.

Recommendation: None.

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The Company has adopted written procedures noting the length of time specific records must be retained. The policy details what records must be retained and, as a general rule, the Company requires that records be retained for at least a six-year period.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners reviewed the Company's Record Retention Policy and tested the Company's compliance with such policies and procedures while testing other Standards as part of this examination.

Transaction Testing Results:

Findings: None.

Observations: The Company has a record retention policy in place, and the Company was able to provide the requested documents.

Recommendations: None.

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

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the authorized lines of business. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No control assessment was performed regarding this Standard.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: As part of the examination planning process, the Examiners discussed with the Division, which lines of business the Company was licensed to write in the Commonwealth during the examination period. The Examiners reviewed the Company's premium as reflected in the Company's 2015 annual statement to determine if the Company recorded premiums for any lines of business other than those the Company was licensed to write in the Commonwealth. Finally, the Examiners 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 Examiners' review of the Company's annual statement indicated that the only premiums reported were for the lines of business the Company was licensed to write during the examination period.

Recommendations: None.

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

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No control assessment was performed regarding this Standard.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: The Company's ability to respond to requests, provide access to information and provide access to staff was assessed throughout the examination.

Transaction Testing Results:

Findings: None.

Observations: The Company was very cooperative throughout the examination and responses to Examiner requests were provided in a timely manner.

Recommendations: None.

Standard I-10. The Company 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.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers of life insurance. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following key observations were noted in conjunction with the review of this Standard:

- The Company's Law Department is responsible for identifying privacy related laws and communicating this information to impacted business units.

- The Company's Law Department is responsible for maintaining the Privacy Program. The Law Department is the primary privacy contact for consumers.
- The Company's policy is to provide the Privacy Notice to customers when making a policy change or requesting a reinstatement.
- The Company's abbreviated Privacy Notice referred to as Important Information Regarding Your Privacy describes the Company's general policy for sharing information, what information it collects, how it uses the information collected and the customers' privacy choices for limiting disclosure of personal information. This Notice was designed to meet the requirements of M.G.L. c. 175I, § 4
- Company policy is to disclose nonpublic personal health information it obtains only as required or permitted by law to regulators, law enforcement agencies and third parties who assist the Company in processing business transactions for its customers. This information is shared only if expressly authorized in writing by the applicant.
- The Company's policy is to not share personal information which is in compliance with M.G.L. c. 175I, § 13. As such, there is no opt out of information sharing and procedures.
- Annual privacy notices are mailed to households that have one or more accounts.
- All employees must participate in privacy related training that focuses on the information that the Company collects, utilizes, and the safeguarding of the information. In addition, Company employees are required to participate in an annual privacy training.
- 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.
- The Company's definitions of "personal information", "pretext interview" and "adverse underwriting decision" comply with M.G.L. c. 175I, § 2. Company policy prohibits pretext interviews except as allowed by law.
- The Internal Audit, Independent Audit, and Compliance Departments conduct reviews that may include privacy functions.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures to evaluate compliance with M.G.L. c. 175I, §§1-22 and Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313. The Examiners also reviewed policyholder service and claims documentation for any evidence of the use of pretext interviews where the Company did not properly identify itself in obtaining information from consumers or claimants. The Examiners also reviewed the Company's compliance with the initial privacy disclosure requirements in conjunction with the test of 15 reinstatements. The review included verifying that the Company

provided the required Privacy Notice at the time of reinstatement and that they protect the privacy of nonpublic personal information relating to its customers and former customers.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's policies and procedures for providing privacy notices and handling adverse underwriting decisions appear to be functioning in accordance with its policies, procedures and statutory requirements. The Company's HIPAA Complaint Authorization to Obtain Information does not contain a form number or a revision date.

Recommendations: The Company should add a form number and revision date to the HIPAA Compliant Authorization to Obtain Information in order to maintain documentation of form revisions.

Standard I-11. The Company has developed and implemented written policies for the management of insurance information.

Details of the Company's controls and testing related to privacy matters were included in the Scope of Standards I-10 and I-12 through I-17.

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

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: The Company did not have any denials of reinstatement applications during the examination period. Therefore, no transaction testing was conducted.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses requirements to provide privacy notices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: The Examiners reviewed the Company's policies and procedures for providing the Privacy Notice to applicants, and annually thereafter to policyholders. Further, the Examiners evaluated compliance with privacy disclosure requirements in conjunction with testing of 15 reinstatements.

Transaction Testing Results:

Findings: Based on the Examiners' review, it appears the Company has opted to send the abbreviated Notice of Information Practices as outlined in Section (c), however the abbreviated Notice of Information Practices does not contain the following in violation of Massachusetts General Law 175I Section 4.

(3) a right of access and correction exists with respect to all personal information collected; and

(4) the notice prescribed in subsection (b) shall be furnished to the applicant or policyholder upon request.

Observations: The Examiners noted that the Company has procedures for providing the Privacy Notice annually to policyholders.

Required Actions: The Company shall revise its' privacy notice in compliance with the provision of Massachusetts General Laws Chapter 175I, §4.

Subsequent Actions: The Company has provided the Examiners with an updated version of its privacy notice to address the Division's required actions. The updated notice has been reviewed by the Examiners and appears to address the Division's required actions. The updated notice will be tested as part of a future market conduct examination.

Standard I-14. If the Company 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.

Objective: This Standard addresses policies and procedures with regard to opt out rights. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: The Examiners 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 consumer information outside of exceptions permitted by law and therefore does not maintain any opt out policies.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based on the Examiners' review of the Company's policies and procedures the Company appears to properly collect, use and disclose 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 company 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.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: The Examiners interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. The Examiners also sought evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing underwriting declinations and claims processing.

Transaction Testing Results:

Findings: None.

Observations: The Examiners did not note any instances where the Company improperly disclosed nonpublic personal health information in testing underwriting declinations or claims files.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures in place governing the protection of nonpublic customer information.
- The Company's data security policy requires that its information technology department implement and maintain practices to effectively manage its technology-related risk.
- The Company conducts annual risk assessments of its information systems. The risk assessments evaluate potential threats to information security, and implement improvements to protect against unauthorized access to or use of information that might cause harm to customers.
- Only individuals approved by Company management are granted access to the Company's electronic and operational areas where non-public 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: The Examiners 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 statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon the Examiners' 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. All data required to be reported to department of insurance is complete and accurate.

Objective: This Standard addresses the Company's efforts to file complete and accurate certifications with the Division as required. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No control assessment was performed regarding this Standard.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: As part of the examination planning process, the Examiners discussed with the Division whether all data required to be reported to the Division was complete and accurate during the examination period. The Examiners reviewed the Company's premiums as reflected in the Company's 2015 annual statement to determine if the Company recorded premiums for any lines of business other than those, the Company was licensed to write in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Examiners' review of the Company's annual statement indicated that the only premiums reported were for the lines of business the Company was licensed to write during the examination period.

Recommendations: None

Standard I-19. The Company files all certifications with the insurance department, as required by statutes, rules and regulations.

Objective: This Standard addresses the Company's efforts to file certifications with the Division as required. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No control assessment was performed regarding this Standard.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: As part of the examination planning process, the Examiners discussed with the Division whether all data required to be reported to the Division was complete and accurate during the examination period. The Examiners reviewed the Company's premium as reflected in the Company's 2015 annual statement to determine if the Company recorded premiums for any lines of business other than those the Company was licensed to write in the Commonwealth.

Transaction Testing Results:

Findings: None.

Observations: The Examiners' review of the Company's annual statement indicated that the only premiums reported were for the lines of business the Company was licensed to write during the examination period.

Recommendations: None.

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 and data requests, and (c) a review of various types of Company files.

Standard II-1. All complaints are recorded in the required format on the Company complaint register.

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard, and Standards II-2 through II-4:

- As required by M.G.L. c. 176D, Section 3(10), Centre Life has written policies and procedures to manage the complaint handling process for disability income and major medical complaints.
- The Company's definition of a complaint is similar to the statutory definition. Centre Life defines a complaint as any written communication received from a client that primarily expresses a grievance. Verbal complaints are handled in the same manner as written complaints received through the mail.
- The Company logs all complaints received in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the date responded to, the person making the complaint, the insured, the policy/client number, state of residence, the classification by line of insurance, the nature, and the NAIC disposition code of each complaint.
- The Company provides consumers with telephone numbers and addresses in multiple ways, including their policies/contracts and correspondence.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt. The Company's standard for resolving consumer complaints is within 30 days of receipt.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners interviewed Company management and staff responsible for complaint handling. During the exam period, the Division received a complaint, which was received by the Company in 2014. According to the Company log, the Company received one direct complaint and one complaint from the Division pertaining to this policyholder. Each complaint received was reviewed for completeness including whether the complaint had been recorded in the Company's standardized format for recording complaints. The Company's complaint register was also compared to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: The two complaints tested were recorded in the complaint register, however, the date the complaint was received does not match the date received on the complaint log. In addition, the complaint file did not include sufficient information to confirm that the date the complaint was received by the Company matched the date on the complaint register.

Observations: None.

Required Actions: The Company shall implement procedures to date stamp complaints if no other documentation is available to track when a complaint is received by the Company. The Company shall prepare policies and procedures for complaint handling, which includes the process for entering the date received on the complaint log.

Subsequent Actions: The Company informed the Examiners that the protocols for logging and processing complaints has been strengthened and provided a copy of the policies and procedures for complaint handling which includes the process for entering the date received on the complaint log to the Division.

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

Objective: This Standard addresses whether the Company has adequate complaint handling procedures, and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: The Examiners interviewed Company management and staff responsible for complaint handling. During the examination period, the Division received a complaint, which was received by the Company in 2014. According to the Company log, the Company received one direct complaint and one complaint from the Division pertaining to this policyholder. The Examiners requested the complete complaint files for review, including whether the Company responded to the complaints within 14 calendar days as required by the MA DOI and appeared to include all the necessary documentation to support the handling of the complaint.

Transaction Testing Results:

Findings: None.

Observations: The Testing performed by the Examiners found that the Company's complaint handling procedures include the information necessary to ensure that complaints are recorded accurately on the complaint register as noted in the Examiner's Observations for Standards II-1. The complaint files tested included documentation supporting the resolution of the complaint and that complaints are handled in a timely and consistent manner.

Recommendations: None.

Standard II-3. The Company should take 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 or consumers with similar fact patterns are treated consistently and fairly.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: The Examiners interviewed Company management and staff responsible for complaint handling. During the examination period, the Division received a complaint, which was received by the Company in 2014. According to the Company log, the Company received one direct complaint and one complaint from the Division pertaining to this policyholder. The Examiners requested the complete complaint files for review. All complaints were reviewed for completeness, including whether the Company fully addressed the issues raised and appeared to include all the necessary documentation to support the handling of the complaint.

Transaction Testing Results:

Findings: None.

Observations: The Examiners found that the Company responded to all issues identified in the state complaint and the file documentation appeared to be complete.

Recommendations: None.

Standard II-4. The timeframe within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: The Examiners interviewed Company management and staff responsible for complaint handling. During the exam period, the Division received a complaint, which was received by the Company in 2014. According to the Company log, the Company received one direct complaint and one complaint from the Division pertaining to this policyholder. The Examiners requested the complete complaint files for review. All complaints received by the Company were reviewed for timeliness and completeness, including whether the Company responded to the complaints within fourteen calendar days and appeared to include all the necessary documentation to support the handling of the complaint.

Transaction Testing Results:

Findings: None.

Observations: The Company responded to complaints within fourteen calendar days as required by the Division and appeared to include all the necessary documentation to support the handling of the complaint.

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 and data requests, and (c) a review of various types of Company files.

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

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No testing was performed regarding this Standard as the Company did not market any new products during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Not Applicable

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard III-2. Company 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. Sales materials that are producer-related are tested in Standard III-1. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-1.

Controls Reliance: See Standard III-1.

Transaction Testing Procedure: See Standard III-1.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard III-3. Company 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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standards III-I and III-2

Controls Reliance: See Standards III-I and III-2

Transaction Testing Procedure: See Standards III-I and III-2

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement-related forms. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No testing was performed regarding this Standard as the Company did not issue any new policies

or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life Policies or Annuities at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement-related forms. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-4.

Controls Reliance: See Standard III-4.

Transaction Testing Procedure: See Standard III-4.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

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

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

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

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

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

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

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

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-11. Insurer rules pertaining to producer requirements with regard to suitability in annuity transactions are in compliance with applicable statutes, rules and regulations.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-12. Insurer rules pertaining to requirements in connection with suitability in annuity transactions are in compliance with applicable statutes, rules and regulations.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-13. The insurer has procedures in place to educate and monitor compliance with insurer-specific education and training requirements and with applicable statutes, rules and regulations regarding the solicitation, recommendation and sale of annuity products.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-14. The insurer has product-specific training standards and materials designed to provide producers with adequate knowledge of the annuity products recommended prior to soliciting the sale of annuity products. The insurer must also have reasonable procedures in place to require its producers to comply with applicable producer training requirements.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-15. The insurer has procedures in place to provide full disclosure to consumers regarding all sales of products involving fixed-index annuity products, and all sales are in compliance with applicable statutes, rules and regulations.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-16. The insurer has procedures in place to provide full disclosure to consumers regarding all sales of products involving fixed-index annuity products, and all sales are in compliance with applicable statutes, rules and regulations.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

Standard III-17. The insurer has procedures in place to provide full disclosure to consumers regarding all sales of products involving fixed-index annuity products, and all sales are in compliance with applicable statutes, rules and regulations.

No work was performed under this market conduct examination, as the Company did not offer the products covered by this Standard during the examination period.

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 and data requests, and (c) a review of various types of Company files.

Standard IV-1. Company records of licensed and appointed producers agree with department of insurance records.

Objective: The Standard addresses licensing and appointment of the Company's producers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: No testing performed as the company did not have any active or terminated agents during the examination period.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard IV-2. Producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken.

Objective: This Standard addresses the requirement that producers must be licensed and agents must be appointed. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: While no specific testing was performed of active or terminated agents, testing was performed to determine if the Company is communicating with non-appointed agents and if the Company includes agents on communications with insureds.

Transaction Testing Results:

> *Findings*: Testing of the ten policy lapses found that each premium notice included the names of an agent or agency. As the Company did not have any appointed agents or agencies during the examination period, no premium notices should have included the names of agents or agencies. This appears to be a violation of M.G.L c.175, §162S and c.176D, §2.
>
> *Observations*: None.

Required Actions: The Company shall remove all non-appointed agent and agency names from correspondence with insureds including but not limited to premium notices, lapse notices, cancellations and reinstatements. The Company shall modify its policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds. The Company shall provide its updated policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds to the Division.

Subsequent Actions: The Company provided its updates policies and procedures to remove all non-appointed agent and agency names from correspondence with insureds to the Division.

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.

Objective: This Standard addresses the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard IV-4. The Company'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. See Appendix A for applicable statutes, regulations and bulletins.

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

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

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the Company's documentation of producer terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer's contract with the Company.

Objective: The Standard is concerned with whether the Company's contracts with producers limit excessive balances with respect to handling funds. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: Not Applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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 and data requests, and (c) a review of various types of Company files.

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

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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's Billing Application uses the policy paid to date to determine when the policyholder is billed. The frequency or mode of notices sent can be scheduled for monthly, quarterly, semi-annually or annually. Policyholders can pay premiums by electronic funds transfer or check.
- The billing schedule for the Premium Due Notices is 30 days prior to the due date. This notice states that the policy will lapse if the premium due is not received. This notice contains a lapse warning notice as required by M.G.L. c. 175, § 110B.
- The Company sends a Late Pay Offer Notice 15 days after the due date. This notice advises that the policy will lapse and indicates the grace period.
- Lapse Notice is sent 31 days after the due date and recites that reinstatement applications are considered within six months after the premium due 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: The Examiners discussed billing procedures with Company personnel, and obtained supporting documentation. In addition, the Examiners selected a sample of ten policies that lapsed for non-payment during the examination period to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: In four of the ten lapsed policies tested, the lapse notice was sent prior to the end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of

the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for two of the four policies was on a Monday and a Saturday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B.

The end of the grace period for two of the four policies was on a Sunday and a holiday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B and M.G.L. c. 4, §9.

Observations: Based upon the review and testing results, the Examiners noted that for six of the ten billing notices reviewed, the Company gave adequate notice prior to lapse in compliance with statutory requirements. Premium billing notices for six of the ten policies tested were mailed to the policyholder with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and provided a copy of the policies and procedures to the Division. The Company further states that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

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

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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has procedures in place to ensure the timely processing of insured request cancellations.
- Cancellation requests can be submitted in writing by the insured.
- 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. This process is in effect to meet the requirements of M.G.L. c. 175, §187B and M.G.L. c. 175, §187C.

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: The Examiners discussed insured-requested cancellation with Company personnel, and obtained supporting documentation. In addition, the Examiners selected a sample of five insured requested policy cancellations to ensure that transactions were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: The Company did not provide a letter to the insured confirming that the cancellation requested by the insured had been completed as requested in one of the five cancellations tested. The Company does not send policyholder surveys.

Recommendations: The Company should modify its policies and procedures to include sending a confirmation letter to an insured when a request is made to cancel a policy. The Company should consider conducting periodic policyholder service surveys for Massachusetts issued policies in order to determine customer satisfaction with the Company and their policy.

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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has a call center in which 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 has procedures regarding the proper handling of customer complaints.

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: The Examiners discussed correspondence procedures with Company personnel, obtained supporting documentation and reviewed policyholder requests to ensure that any necessary responses were timely provided. The Examiners 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 customer inquiries including complaints, claims, and policyholder requests as necessary.

Recommendations: None.

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

No work was performed under this market conduct examination, as the Company did not enter into such agreements covered by this Standard during the examination period.

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

Objective: This Standard addresses loan interest rates and procedures for processing beneficiary and ownership changes, conversions, policy loans and maturities. See Appendix A for applicable statutes, regulations and bulletins.

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

- Policy changes must be submitted in writing.
- 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: The Examiners discussed policy change procedures with Company personnel, and obtained supporting documentation. In addition, the Examiners selected a judgmental sample of fifteen insured requested policy change transactions and fifteen billing change transactions. The Examiners conducted these reviews to ensure that the Company processed transactions accurately, timely and in accordance with statutory requirements and policy provisions.

Transaction Testing Results:

Findings: None.

Observations: In ten of the fifteen policy changes tested and thirteen of fifteen billing changes tested, the Company did not provide a letter to the insured confirming that the policy change requested by the insured had been completed as requested. In policy changes that involve a renewal beyond age 65, the Company issues a premium notice with the new premium which it considers acceptance of the policy renewal but does not provide a letter to the insured confirming receipt and/or processing of the policy renewal beyond age 65.

Recommendations: The Company should modify its policies and procedures to include sending a confirmation letter to an insured when a request is made to change an address and when a request is made to continue the policy beyond age 65.

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

Objective: This Standard addresses efforts to locate missing contract owners and beneficiaries, and to comply with escheatment and reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has policies and procedures in place to locate missing policyholders and claimants by utilizing external sources such as the Death Master File from the Social Security Administration.
- The Company policy requires that outstanding checks, including claim payments and premium refunds be reported as unclaimed property and escheated to the state when the policy owner cannot be found.
- Prior to reporting an unclaimed amount to a state, a final attempt is made to contact the individual. The number of days prior to escheatment that the final contact is made is dependent upon the individual state law.
- Based on the state dormancy period for each property type the Company uses a commercial software program called Chesapeake Software to generate the pertinent state reports, which consist of details of the funds being remitted, an affidavit declaring the amounts being escheated and an electronic file containing all of the information regarding the property being escheated
- The Company annually reports escheatable funds to the State Treasurer as required under M.G.L. c. 200A, §§ 7-7B, 8A.

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: The Examiners discussed the Company's procedures for locating missing policyholders and escheatment of funds with Company personnel, and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company does not maintain written procedures for locating unreported deceased claimants.

Recommendations: The Company should document its procedures for comparing its policyholder databases to the Social Security Death Index to locate any potentially deceased claimants. Procedures should clearly state

that the comparison and reporting procedures address both disability income and major medical claims and policies.

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.

Objective: This Standard addresses the calculation and timely return of unearned premiums. See Appendix A for applicable statutes, regulations and bulletins.

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

- Cancellation requests can be submitted in writing by the insured.
- The Company's administration systems automatically calculate the amount of the policyholder's unearned premium for a cancelled policy and payments are processed to the policyholder in accordance with M.G.L. c. 175, §187B and M.G.L. c. 175, §187C .
- The Company has written service standards to ensure the timely processing of policyholder service transactions. Premium refunds are to be returned to the policyholder within 20 days of receiving requests.

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: The Examiners discussed cancellation procedures with Company personnel, and obtained supporting documentation. In addition, the Examiners selected a random sample of five disability income cancellations.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the insured request cancellations and surrenders were processed accurately and timely in compliance with statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses consistent reinstatement processing in compliance with policy provisions. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has policies and procedures regarding the reinstatement process and such information is designed to align with state requirements including M.G.L. c. 175, §108.
- Premium notices that are sent to insureds after their policies have lapsed include information regarding reinstatements of coverage. The policy contracts allow insureds to apply for reinstatement of their insurance coverage up to six months past the premium due date and the insured needs to complete a short form 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: The Examiners discussed reinstatement procedures with Company personnel and obtained supporting documentation. In addition, the Examiners selected a random sample of 15 reinstatements from the examination period to ensure that reinstatements were handled consistently, timely and in accordance with policy provisions.

Transaction Testing Results:

Findings: In four of the fifteen reinstatements tested, the lapse notice was sent prior to end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for three of the four policies were on a Saturday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the

policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108 and M.G.L. c. 175, §110B.

The end of the grace period for one of the four policies was on a Sunday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §108, M.G.L. c. 175, §110B and M.G.L. c. 4, §9.

Observations: The Company appears to be processing reinstatements in accordance with policy provisions.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and provided a copy of the policies and procedures to the Division The Company further states that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

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

No work performed. This Standard is not covered in the scope of the examination because the Company's products do not build non-forfeiture values.

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

No work performed. This Standard is not covered in the scope of the examination because the Company products do not require an annual report.

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

This Standard is similar to Standard VII-12 and is therefore addressed 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 and data requests, and (c) a review of various types of Company files.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements. Adverse underwriting notices are included in Standard V-8 (Reinstatements).

Standard VI-3. The Company does not permit illegal rebating, commission-cutting or inducements.

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any

time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

Standard VI-8. Cancellation/nonrenewal, discontinuance and declination notices comply with policy provisions, state laws and the regulated entity's guidelines.

Objective: This Standard addresses whether the non-underwriting 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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written procedures for cancellation of insurance coverage in accordance with statutory requirements such as M.G.L. c. 175, §§ 108 (3)(a)(2), 132(2), 187C and 187D; M.G.L. c. 175I, § 10; M.G.L. c. 176D, § 3(7).
- 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 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: The Examiners selected a judgmental sample of five policies cancelled for non-payment of premium during the examination period to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: In four of the ten lapsed policies tested, the lapse notice was sent prior to end of the grace period. In each of the four policies, the end of the grace period was a day the office was closed (i.e. weekend or holiday) and the lapse notice did not identify the specific date of policy lapse. Printing of the lapse notices was done prior to the weekend or holiday. The Lapse Notice includes the following language:

> We have not yet received the premium of $X due MM/DD/YYYY on your Disability Income policy number XXXXXXX. Therefore, the policy has lapsed.

Since the lapse notice is dated and includes the language above, sending a letter prior to the end of the grace period was incorrect.

The end of the grace period for two of the four policies was on a Monday and a Saturday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §187C and M.G.L. c. 175, §187D.

The end of the grace period for two of the four policies was on a Sunday and a holiday. Since the policies indicate that the insureds had a thirty one day grace period and the Lapse Notices indicated that the policy had lapsed while still in the grace period without specifically identifying the date of policy lapse, this is a violation of M.G.L. c. 175, §187C and M.G.L. c. 175, §187D.

Observations: Based upon the review and testing results, the Examiners noted that for six of the ten billing notices reviewed, the Company gave adequate notice prior to lapse in compliance with statutory requirements. Premium billing notices for six of the ten policies tested were mailed to the policyholder

with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Required Actions: The Company shall modify its policies and procedures to send the letter after the end of the grace period to accurately reflect that the policy has lapsed. The Company shall provide a copy of the policies and procedures to the Division.

Subsequent Actions: The Company informed the Examiners that it has modified its print procedures for Final Lapse Notice correspondence to note the last day of the end of the grace period rather than the print date and Company provided a copy of the policies and procedures to the Division The Company further states that correspondence will be mailed the day after the last day of the end of the grace period if that day is a weekend day or the day after if that day is an observed holiday.

Standard VI-9. Rescissions are not made for non-material misrepresentation.

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review 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, within the first two years of the policy issuance date for Massachusetts policies, the Company will rescind a policy if fraud or material misrepresentations are made. After the said two year period, the Company will rescind a policy only if fraudulent misstatements were made by the applicant during the application process.
- 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 the Underwriting Department, Special Investigation Unit, Claims Management and Legal Department.

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: The Company did not have any rescissions during the period of review. The

Examiners reviewed for evidence of improper rescissions during testing of complaints and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the Examiners did not note any instances of improper rescissions during the testing of complaints and claims.

Recommendations: None.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

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

No testing was performed regarding this Standard as the Company did not issue any new policies or replacements during the examination period. New Disability Income policies were last issued by the Company in 1998. New Major Medical policies were last issued by the Company prior to 1980. The Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not have any life or annuity replacements.

Standard VI-12. Producers are properly licensed and appointed (if required) for the jurisdiction where the application was taken.

Refer to Standards IV-1 and IV-2 in the Producer Licensing Section.

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 and data requests, and (c) a review of various types of Company files.

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

Objective: The Standard addresses the timeliness of the Company's initial contact with the claimant. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard, and Standards VII-2 through VII-13:

- Once a claimant returns the initial claim forms all claims are entered into and tracked by the Company's claims system.
- Claim notifications are received by phone, fax or mail.
- Once a claim notification is received, a Claims Specialist accesses the system and sends the insured the initial claim packet.
- All claims correspondence, including referrals and final claim approval or denial, is documented in the system's file notes. When reviewing a claim on a policy within the contestable period, the adjuster obtains all documents needed to verify the information the applicant supplied on the reinstatement was true and correct. If material misrepresentation is discovered, the adjuster refers the claim to the Underwriting Department for review.
- Once the initial claim forms are received, the Vice President of Claims reviews the claim to determine if there were prior claims, determine the contract type, the policy benefits and assigns the claim to an adjuster.
- During the normal review, the insured is notified of any outstanding requirements. The adjuster will set the follow up date in the system.
- The Company maintains time and service standards for claim handling. Each month, the Company reviews its claim handling statistics to assess the timely handling of the claims.
- All claim appeals are directed to senior management for review. An experienced senior adjuster or the Vice President of the Department reviews the appeal and the claim file, and renders a decision. The claimant may also choose to file an appeal through the Massachusetts Division of Insurance. Senior claims staff or the Vice President of the Department respond to the Division regarding the appeal.
- All claims payments over $25,000 must be countersigned. Before issuing the first benefit check, the system requires a second approver. A check will not be issued by the system until it is properly

approved. The Company has written policies and procedures to provide oversight of the claim handling process.

Controls Reliance: The Examiners tested the Company's controls by reviewing policies and procedures and/or conducting transaction testing.

Transaction Testing Procedure: The Examiners interviewed Company management and staff responsible for claims handling. Also, utilizing ACL, the Examiners selected all paid Disability Income claims, all denied Disability Income claims and a random sample of ten major medical claims for review. This sample is referenced again in other standards within this section.

Transaction Testing Results:

Findings: None.

Observations: In eleven of the sixty seven claims tested, the initial claim notification in the policy system does not state who reported the claim and when claim forms were requested. The Company does not clearly document the phone call notifying them of the claim. While the system note and letter sending forms are within fifteen days, the system note does not clearly state when the initial claim forms were requested. For claims with this issue, the Company's response was the "Internal understanding and protocol is that action is taken the same date as entry or posting on the printed document unless otherwise stated. This indicates that the request was contemporaneous with the date of the system entry."

Recommendations: The Company should modify its policies and procedures to include clearly documenting who is requesting the claim forms, the date the call was received and where the claim forms should be sent.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: Testing performed indicated that the Company's policies and procedures appear to be sufficient and in compliance with statutory requirements.

Recommendations: None.

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

Objective: The Standard is concerned with the timeliness of the Company's claims settlements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: In all the claims tested, the Examiners found that the Company settled claims timely in compliance with M.G.L. c. 176D, § 3(9)(f) and M.G.L. c. 175, §108.

Recommendations: None.

Standard VII-4. The Company responds to claims correspondence in a timely manner.

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: The Company responds to claim correspondence in a timely manner. In one of the sixty-seven claims tested, the Company did not send status update letters timely. The status letter was sent within thirty business days but not within thirty calendar days.

Recommendations: The Company should modify its policies and procedures to specify that if the Company is unable to affirm or deny a claim and the claim warrants additional investigation, status letters are to be sent within thirty calendar days setting forth the specific reasons for the continued delay in the settlement process.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: In eleven of the sixty-seven claims tested, the initial claim notification in the policy system does not state who reported the claim and when claim forms were requested. The Company does not clearly document the phone call notifying them of the claim. While the system note and letter sending forms are within fifteen days, the system note does not clearly state when the initial claim forms were requested. For claims with this issue the Company's response was the "Internal understanding and protocol is that action is taken the same date as entry or posting on the printed

document unless otherwise stated. This indicates that the request was contemporaneous with the date of the system entry".

In ten of the fifty-five Disability Income claims tested, no documentation was retained in the claim file to support that the insured was informed of the date period used to calculate the refund of premium. No dates were included in the approval letter and the Company was unable to provide the explanation attached to the premium refund check. The Examiners requested that the Company "Please provide copies of the premium refund checks with the EOBs showing dates included in premium refunds." The Company provided copies of the cancelled checks but did not provide the associated explanations.

Recommendations: The Company should modify its policies and procedures to clearly document who is requesting the claim forms, the date the call was received and where the claim forms should be sent.

The Company should modify its policies and procedures to clearly indicate the dates included in the refund of premium when sending correspondence to the insured. Also, if checks indicate the dates included in the refund of premium the Company should maintain copies of the check along with the explanation.

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

Objective: This Standard addresses whether appropriate claim amounts including applicable interest have been paid to the appropriate beneficiary/payee. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: In all the claims tested, the Examiners found that the Company settled claims in compliance with the applicable laws, rules and regulations.

Recommendations: None.

Standard VII-7. The Company claim forms are appropriate for the type of product.

Objective: The Standard addresses the use of claim forms that are appropriate for the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: In all claims tested, the Examiners found that the Company was using the appropriate claim forms.

Recommendations: None.

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

No testing was performed regarding this Standard in this market conduct examination. All required activity for this Standard is included in the scope of the Division's statutory financial examination of the Company which includes the period January 1, 2015 through December 31, 2015.

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

Objective: The Standard addresses the use of claim forms that are appropriate for the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: In all the denied claims tested, the Examiners found that the Company handled claims in compliance with M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Recommendations: None.

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

Objective: The Standard addresses the Company's procedures for issuing claim checks. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: 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 policies by offering substantially less than is due under the policy.

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. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: The Examiners testing found no instances where claimants needed to institute litigation to receive claim payments or where claimants were required to accept less than the amount due under the policy. Testing of the claims indicated that the Company's policies and procedures appear to be sufficient and in compliance with statutory requirements such as M.G.L. c 176D, Sections 3(9((g) and 3(9)(h) to prevent claimants from needing to institute litigation to receive claim payments or accept less than the amount due under the policy.

Recommendations: None.

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

No testing was performed regarding this Standard as the Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not offer accelerated benefit payments.

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

Objective: The Standard is concerned with whether the Company's claim handling practices discriminate against claimants with similar qualifying events covered under its policies. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: The Examiners found that the Company does not unfairly discriminate against claimants with similar qualifying events covered under its policies as prohibited under M.G.L. c. 176D, § 3(7). Testing revealed that the Company's claim handling policies and procedures do not appear to discriminate against claimants with similar qualifying events covered under its policies.

Recommendations: None.

Standard VII-14. The regulated entity provides the beneficiary, at the time a claim is made, written information describing the settlement options available under the policy and how to obtain specific details relevant to the settlement options.

No testing was performed regarding this Standard, as the Company never issued Life or Annuity at any time during or prior to the examination. Therefore, the Company does not offer accelerated benefit payments.

SUMMARY

During this examination, RRC 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 NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. RRC has identified required actions for which the Company needs to report to the Division by specified dates as well as recommendations the Company should consider addressing in the future.

ACKNOWLEDGMENT

This is to certify that the undersigned is duly qualified and that 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 market conduct examination of the Company.

The undersigned's participation in this 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 *NAIC Market Conduct Examiners' Handbook.* This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the examination 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.

Robert W. McManus, CIE, MCM
Examiner-In Charge
Risk & Regulatory Consulting, LLC