



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of
Commonwealth Annuity and Life Insurance Company
And
First Allmerica Financial Life Insurance Company

Southborough, Massachusetts

For the Period January 1, 2014 through December 31, 2014

NAIC COMPANY CODE: 84824 & 69140

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APPENDIX A – LIFE AND ANNUITY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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January 7, 2019

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

COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY
AND
FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

at their home offices located at:

132 Turnpike Road, Suite 210
Southborough, MA 01772

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY
FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of two Massachusetts domiciled companies which belong to the Global Atlantic Group. These companies are Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company (the “Group” or “Company”). The examination covered the period January 1, 2014 to December 31, 2014. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company could be categorized as virtual insurance companies. This means that most of the administrative and service activities for the Company are outsourced to third party administrators and vendors operating on the companies’ behalf. The Company is no longer issuing new business. The only products being sold are annuities in a niche 403(b) market. These sales take place as a result of payroll deduction offers in School Districts. The Districts facilitate contributions to the 403(b) annuities. The only other newly issued business is Conversion Life Policies. 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 INS Regulatory Insurance Services, Inc. (“INS”) were engaged to complete the examination.

The findings and observations expressed in this Report are based upon material and information provided by the Company as of September 1, 2017.

EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2014 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. The operational areas that were reviewed under this examination include company operations and management, complaints handling, marketing and sales, producer licensing, policyholder services, 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 control 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 the Company’s 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 action should be taken in all jurisdictions. The Company shall report to the Division any such corrective action taken.

EXECUTIVE SUMMARY

This summary of the examination 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. 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 recommendations and required action and, if applicable, subsequent Company action noted in this examination report. Any 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 action with regard to company operations/management, complaint handling, marketing and sales, underwriting and rating, or claims. 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.

There are two required actions for Policyholder Services.

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

Objective: This Standard addresses procedures for processing changes to insurance accounts after policy issuance. Objectives pertaining to policy issuance are included in Standard VI-6. Billing transactions are tested in Standard V-1, and insured-requested cancellations are reviewed in Standard V-2. Return of premium testing is included in Standard V-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 established standards for processing policyholder service transactions.
- The TPAs complete the policyholder service request transaction on behalf of the Company with limitations put on the threshold of approval.
- Any transaction requests over the established thresholds must be sent to the Company for approval prior to completion.
- Any financial transaction requests for variable products are handled within 24 hours per the SEC requirements.

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

Transaction Testing Procedure: INS interviewed the Company's management personnel, who described the Company's practices and procedures for processing transactions such as free looks, loan requests, surrenders, fund transfers, beneficiary/owner changes, etc. INS also reviewed a sample of 279 policyholder service request transactions.

Transaction Testing Results:

Finding 1: 2 violations were noted under M.G.L. c. 175, §123: Application for issuance of policy of life or endowment insurance; change of designation of beneficiary

No life insurance company shall accept or take action on any written request to change the designation of beneficiary under any policy of life or endowment insurance unless the signature of the person requesting the change is witnessed by a disinterested person. For purposes of this section, a disinterested person is one who is over eighteen years of age and not designated as a beneficiary in the requested change. Upon receipt and acceptance of the change of designation of beneficiary, the insurance company shall provide written notice of the change to the insured at the owner's last known address.

The beneficiary change form was not witnessed in one file, and the witness in one file appeared to be the same as the beneficiary.

Required Action: The Company shall ensure that all beneficiary change forms are properly witnessed in compliance with the law. It should be noted that the Company indicated that prior to the completion of the exam, letters were mailed to the policyholders to confirm the beneficiary changes.

Subsequent Action: In addition to receiving confirmation from the two policyholders of their desired beneficiary designation, the Company reiterated to the relevant personnel the requirement to receive the signature of a disinterested party as a witness in the case of any beneficiary changes.

Finding 2: Subsequent to the completion of the market conduct examination an issue came to the Division's attention related to a policy loan variance of \$1.8 million in the First Allmerica Financial Life Insurance Company (FAFLIC) reconciliation between the ledger and the TPA feeds. This was the result of a variable loan rate that had not been updated since calendar year 2009. It was determined that there were as many as 1,414 policies impacted nationwide. Of these, 177 policies were issued in the Commonwealth of Massachusetts. The Company was requested to provide pertinent information that would enable the Division to determine what happened and how the issue was resolved in favor of the Massachusetts policyholders. The Company provided the requested information.

The Company indicated that they discovered an error regarding the variable loan interest rate charged on their policies since 2009. What this meant was that since the 2009 policy anniversary, the interest rate charged on the policy loans (7.58%) exceeded the actual loan interest rate the Company should have charged, 4.5% or 5.0%. The Company sent out letters of apology and explained the error and indicated that the error had been corrected by reversing the interest rates charged against the policy loans and charged what should have been due each year, for the policies that were still active. The Company assured the policyholders that steps had been taken to ensure that the error did not happen again. For the policies that were no longer active, the Company sent out letters of apology plus refund checks, where applicable, which included the difference in the loan amounts, plus interest at the contract rate of 3.5%.

Required Action: The Company shall implement procedures and processes to ensure the situation will not reoccur and shall conduct periodic testing to ensure that the issue is permanently resolved. In addition, the Company shall bring similar matters to the attention of the Massachusetts Division of Insurance upon discovery.

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Subsequent Action: Following the completion of corrective action related to incorrect loan interest rates on FAFLIC policies, the Company put in place additional controls to ensure that the variable rate is verified annually. Once the Actuarial team completes the annual review, the appropriate communication with the company's third party administrator takes place to make them aware of the new rate. The Company then requires confirmation from the administrator that the new rate has been implemented. In addition, the Company will make the Division aware of any similar future events as they become aware of them.

COMPANY BACKGROUND

First Allmerica Financial Life Insurance Company (FAFLIC) was originally incorporated as a mutual insurance company, known as State Mutual Life Assurance Company of America ("State Mutual"), on March 16, 1844, under the laws of Massachusetts and commenced business on June 1, 1845. Effective October 16, 1995, State Mutual converted to a stock life insurance company pursuant to a Plan of Reorganization (the "De-Mutualization Plan") and adopted its present name. As part of the De-Mutualization Plan, the Company became a wholly-owned subsidiary of Allmerica Financial Corporation, effective December 1, 2005, and changed to its current name, The Hanover Insurance Group, Inc. ("THG").

Commonwealth Annuity and Life Insurance Company (CwA), a stock company, was incorporated on July 26, 1974, under the laws of the State of Delaware under the name "American Variable Annuity Life Assurance Company, Inc." Effective with the close of business on December 31, 1974, a merger agreement was entered into between "American Variable Annuity Life Assurance Company" of Little Rock, Arkansas (initially incorporated in January, 1967), and the "American Variable Annuity Life Assurance Company, Inc." of Dover, Delaware. As a result of the merger, "American Variable Annuity Life Assurance Company, Inc." became the surviving and continuing company. The surviving company assumed the name "American Variable Annuity Life Assurance Company" under the terms of the merger agreement. Effective January 1, 1982, the Company's name was changed to "SMA Life Assurance Company." Effective October 1, 1995, the Company's name was changed to "Allmerica Financial Life Insurance and Annuity Company" ("AFLIAC").

Effective July 1, 1999, THG's subsidiaries engaged in an "unstacking transaction," which involved several changes in THG holding company infrastructure. This unstacking transaction was accomplished by first having a subsidiary of the Company, known as Allmerica Asset Management, Inc., merge into another subsidiary of the Company, known as SMA Financial Corp., which was the surviving entity in the transaction. SMA Financial Corp. then changed its name to Allmerica Asset Management, Inc. ("AAM"). AAM contributed certain subsidiaries that had been owned by SMA Financial Corp. (i.e., Allmerica Investments, Inc., Allmerica Investment Management Company, Inc., Allmerica Financial Investment Management Services, Inc. and Allmerica Financial Services Insurance Agency, Inc.) to Allmerica Financial Life Insurance and Annuity Company ("AFLIAC") in exchange for one share of common stock. AAM then distributed AFLIAC and another subsidiary, Allmerica Trust Company, N.A., to the Company, and the Company distributed AAM to THG.

Effective December 30, 2002, and in connection with THG's ongoing restructuring activities, AFLIAC, previously a Delaware-domiciled insurance company, re-domesticated and became a Massachusetts-domiciled insurance company. Also effective December 31, 2002, the Division approved an extraordinary dividend of all of AFLIAC's issued and outstanding stock to THG, and the contribution of all 500,001 shares of the Company's stock to AFLIAC. As a result of these transactions, the Company became a direct wholly-owned subsidiary of AFLIAC.

On December 30, 2005, THG sold all of the outstanding shares of capital stock of AFLIAC to The Goldman Sachs Group, Inc. ("Goldman Sachs"), and the Company ceded 100% of the variable life insurance and annuity business to AFLIAC in a 100% coinsurance/modified coinsurance agreement. On December 30, 2005, immediately prior to its acquisition by Goldman Sachs, AFLIAC made certain distributions to the Company and THG, as follows: AFLIAC contributed all of the outstanding shares of capital stock of certain of its subsidiaries (Allmerica Financial Investment Management Services, Inc. ("AFIMS") and VeraVest Investments, Inc.) and transferred to the Company certain other assets and

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liabilities; and (2) AFLIAC distributed all of the capital stock of the Company, AFIMS, and VeraVest Investments, Inc. to THG.

In connection with the sale of Commonwealth Annuity and Life Insurance Company (“Commonwealth Annuity” or “CwA”), the Division approved a cash dividend of \$48.6 million from the Company to THG, including the \$8.6 million ceding commission received related to the reinsurance transaction, and approved the distribution of other non-insurance subsidiaries to THG (including AFIMS, which THG subsequently transferred to Goldman Sachs). AFLIAC changed its name, effective September 1, 2006, to Commonwealth Annuity and Life Insurance Company (“Commonwealth Annuity” or “CwA”).

On January 2, 2009, following the approval of the Division, Commonwealth Annuity acquired the Company by purchasing 100% of its issued and outstanding common stock, consisting of 500,001 shares. A 100% coinsurance agreement totaling \$119.5 million in assets.

On April 30, 2013, Goldman Sachs Group, Inc. (“Goldman Sachs”) contributed several of its insurance subsidiaries, including FAFLIC, to Global Atlantic Financial Group (“GAFG”), and sold approximately 78% of the ordinary shares of GAFG to third party investors. As a result of this transaction, CwA, parent company of FAFLIC, became a wholly-owned subsidiary of Global Atlantic (Fin) Company (“Finco”), a Delaware company, which is a wholly-owned subsidiary of GAFG.

First Allmerica Financial Life Insurance Company (“FAFLIC”) is licensed for fixed and variable life and annuity business and for accident and health business in all fifty states, on both an individual and group basis. Commonwealth Annuity and Life Insurance Company (“CwA”) is similarly licensed in all states except New York.

CwA and FAFLIC, its wholly-owned subsidiary, ceased issuing new contracts in 2002. Their closed blocks of insurance and annuity products are administered by various third party administrators (“TPAs”), including se2, LLC (“se2”), Concentrix, and Dell.

Se2 administers the closed blocks of variable annuity contracts and variable life policies that were issued by both CwA and FAFLIC, as well as FAFLIC’s closed blocks of traditional life insurance policies, fixed annuities, group annuities, and pension products. Concentrix administers the closed block of universal life policies issued by CwA. In 2008, CwA assumed Fidelity Mutual Life Insurance Company’s closed block of traditional life insurance policies, which is now administered by Dell.

In addition to managing the closed blocks, CwA resumed selling new business in the summer of 2007 with the issuance of two new individual variable annuity products (“Advantage IV” and “Preferred Plus”). These products are available for purchase on a non-qualified basis and by the participants of qualified plans, with distribution focused primarily upon the 403(b) marketplace. In 2009, CwA introduced a third individual variable annuity product (“Horizon”). In 2010, CwA and FAFLIC introduced a new Whole Life product, which is intended solely for use as a conversion product in connection with previously issued term life insurance policies and life insurance riders (e.g., Other Insured Riders, Children Riders) that have conversion features. In 2013, CwA introduced a new fixed annuity product (“MYGA”), sales of which were terminated in 2014. The annuity products are administered by se2, and the Whole Life product is administered by Dell.

In 2014, the only products sold were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated the contributions to the 403(b) annuities. The only other new business issued was the Conversion Life Policy. The Company reported a

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total of 528 new issues in 2014, of which 526 were fixed annuity contracts, and two were whole life conversion policies.

Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company could be categorized as virtual insurance companies. This means that most of the administrative and service activities for the companies are outsourced to third party administrators and vendors operating on the companies' behalf. The Companies utilize SE2 for the majority of their business (annuities – both fixed and variable), Concentrix and Dell. Legal, Compliance, Operations, Actuarial, Tax, Risk, Planning/Analysis and Investments are all functions performed by Company employees.

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company has an internal audit function completed internally by Company staff.
- The Internal Audit function reports directly to the Audit Committee of the Board of Directors.
- A new audit process was created in conjunction with the transition to a new organization under the Global Atlantic Financial Group.
- The Company has gone through the process of identifying key risks and performs regular assessment of the key risks on an ongoing basis.
- As employee resources are added and continue to be developed, continued reliance is placed on the work of Internal Audit by the External Auditors.
- The intended audit frequency for high risk functions is every 12-18 months; medium risk assessment every 36 months or sooner and low risk assessments without a regularly scheduled frequency.

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: INS interviewed the Company's Senior Vice President and Head of Internal Audit, who detailed the Company's Internal Audit Vision, Mission and Strategy. INS reviewed the general procedures for internal audits and compliance as well as a listing of fourteen internal audits performed between 2011 and 2014. A sample of 6 audits was selected and reviewed. None of the internal audits reviewed presented any items of concern to the examiners. Based on the interview, review and testing, INS determined that the Company has an up-to-date, valid internal audit program.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the effectiveness of the Company's safeguards and procedures to protect the security and integrity of the Company's Computer Information Security Program.

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

- Global Atlantic maintains a comprehensive Privacy and Information Security Program (“Program”) of which Information Security is an integral part.
- Global Atlantic’s security program is designed to protect sensitive information from unauthorized use, access, disclosure or theft.
- The Information Security aspect of the Program includes administrative, technical, and physical safeguards that are reasonably designed to safeguard the security, confidentiality, and integrity of the personal information of the customers.
- Global Atlantic Security Policies address the roles and responsibilities of authorized personnel, who have direct or indirect access to sensitive information.
- Global Atlantic works to ensure that all authorized personnel are aware of and comply with the provisions of the policies and standards as well as cybersecurity best practices.
- Global Atlantic works to address any actual, suspected, or threatened unauthorized use, access, disclosure, theft, manipulation, reproduction and/or possible security breach of sensitive information, and/or any actual, suspected or threatened security breach of any application or system associated with the accessing, processing, storage, communication and/or transmission of sensitive information (a “Security Incident”).
- For applications and systems that are designated as key systems associated with the access, processing, storage, communication and/or transmission of sensitive information, audit logs are generated. Global Atlantic maintains these logs in accordance with company retention practices and reviews them periodically.
- Global Atlantic conducts security assessments and audits from time to time and in accord with its practices to ensure compliance with our security program.
- Global Atlantic has reasonable and appropriate access controls to protect sensitive information.
- Global Atlantic has, and expects third parties to have, reasonable network intrusion detection, firewalls and anti-virus protection in place and functioning.
- Global Atlantic uses, and expects third parties to use, reasonable efforts to ensure that Operating Systems and applications that are associated with sensitive information will be patched within a reasonable time period after obtaining knowledge of any material security vulnerabilities.
- Global Atlantic expects third parties to exercise reasonable efforts to ensure that any software, systems, or networks that may interact with the other's systems, networks or any sensitive information are not and do not become infected by any computer viruses, unauthorized code, or other harmful components.
- Global Atlantic works to ensure that physical security measures are in place to control physical access to systems or output that contain sensitive information.
- Global Atlantic routinely backs up critical systems and copies of sensitive information used by such critical systems and all backup media containing personal, privacy, or health related information/data stored in an area and/or containers where access can be limited to authorized individuals, as well as conducting annual Disaster Recover testing.
- Global Atlantic retains sensitive information in accordance with its records retention program or as required by applicable law or regulation.

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: INS reviewed Company's computer information policies and procedures and determined that the Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the effectiveness of the Company's antifraud plan. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company maintains an antifraud plan.
- SIUs (Special Investigative Units) are identified as key compliance personnel at the various company locations.
- SIUs are trained on their specific responsibilities in accordance with the combined antifraud plan.
- The TPAs also have red flag reporting responsibilities.
- Fraud training is required to be completed within 90 days of employment and annual refresher training is completed.
- In addition, TPAs undergo fraud training.
- Extensive background checks are conducted on all new hires.
- Wholesalers are considered company employees and there are no independent agents currently affiliated with the company.
- The Company's process is also compliant with FINRA (Financial Industry Regulatory Authority).
- Annually, employees receive the Code of Conduct and complete a series of attestations to ensure ongoing monitoring.
- Investigations of suspected fraud are completed and reported to individual States as appropriate.
- The Company's philosophy is to err on the side of caution so reporting is done for any suspected activity.
- The Company looks at the State specific requirements or the NAIC Reporting Portal for guidance.
- When regulatory changes are required, the compliance area works with the impacted areas to ensure that modifications are made to comply with the new or updated Statute or Regulation.

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: INS reviewed the Company's Audit Manual that addressed the antifraud initiatives. INS also interviewed the Company's management personnel, who describe the Company's antifraud activities. Based on the interview and review, INS determined that the Company has comprehensive antifraud prevention guidelines designed to provide the employees with the necessary guidance and resources to effectively detect, prevent, and report suspected fraud.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's ability to recover in cases of business disruption for any reason.

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

- The Company has a Business Continuity Plan (BCP).
- The Global Atlantic BCP is intended to serve in cases of business disruption for any reason, including but not limited to natural disasters, widespread power outages, or pandemic health situations.
- Crisis Management during a business disruption is jointly owned by senior leadership and business line sponsors.
- Critical vendors are subject to annual reviews of their BCP programs, to ensure they can carry on with key functions during a crisis.
- Staff are able to work from home or, for certain functions, hand off work to other locations.
- Key applications are redundant across multiple data centers.
- Critical Vendors are now required to provide Global Atlantic with a Business Continuity Plan for their companies.
- Should an office be inaccessible, staff personnel are able to work from home utilizing remote access via VPN or SecurID web access.
- Where possible, critical staff may also relocate to other offices, and/or critical functions may be handed over to non-impacted staff in other offices

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: INS reviewed the Company's Business Continuity Plan Power Point Presentation. Based on the review, INS determined that the Company has a valid disaster recovery plan.

Transaction Testing Results

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's 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 and Standard I-6:

- The Company does not utilize MGAs.
- The Company utilizes several TPAs for the administration of the current books of business.
- The TPAs include: SE2, Dell and Concentrix (formerly IBM).
- The contracts between the Company and the TPAs comply with applicable licensing requirements, statutes, rules and regulations.

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: INS reviewed the Company's policies and procedures for contracting with third parties to perform Company functions. INS reviewed the agreements with the TPAs for reasonableness and compliance with statutory requirements. INS reviewed the TPA Audit Reports. In addition, INS interviewed the management team responsible for the oversight of the TPA activities. INS determined that the Company has reasonable policies and procedures for contracting with third parties to perform Company functions in compliance with applicable licensing requirements, statutes, rules, regulations and bulletins.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

- TPA oversight is provided using a three pronged approach: 1) Data Management; 2) Active Management; and 3) Project Management.
- Data Management includes the maintenance of a centralized data warehouse.
- Data from all TPAs is collected and managed through data mining activities. “Toxic” policy data combinations are flagged for review and oversight.
- The data collected has become reliable enough for use in General Ledger reporting, valuation and reinsurance purposes.
- Active Management includes daily hands on management through weekly meetings, monthly governance meetings and quarterly business reviews. Company management works closely with the TPAs through telephone contact, email correspondence and in person visits as needed (multiple times annually).
- The TPAs provide regular reporting of their services and any failure to provide adequate services could result in a monetary penalty to the TPA.
- Daily reports of suspense management and sub accounts tracking for active fund management are among the day-to-day responsibilities of this area.
- Project Management includes the oversight and supervision of projects designed to enhance the servicing capability of the TPAs.

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: INS reviewed the Company’s policies and procedures for contracting with third parties to perform Company functions. INS reviewed the agreements with the TPAs for reasonableness and compliance with statutory requirements. In addition, INS interviewed the management team responsible for the oversight of the TPA activities. Based on the review and management personnel interview, INS determined that the Company has processes to monitor the activities of third parties assuming a business function on the Company’s behalf, in compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: 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.

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

- The Company has adopted records retention requirements program.

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- The Company adheres to record retention procedures that satisfy applicable State and Federal regulatory requirements.
- Legal/Compliance is responsible for oversight of the records retention practices.
- The Company's procedures call for the retention of all documentation without destruction.
- This process is inefficient and expensive so the Company has recently developed policies and procedures that identify the various types of documentation maintained by each area of the Company.
- Complaints are maintained on-site for three years and are then sent off-site.
- Other records are sent off-site regularly as determined by the controlling 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: INS interviewed company management personnel, who described the Company's record retention policies. The Company indicated that a written records retention policy and accompanying retention schedules have been developed and drafted but have not yet been approved on an enterprise wide basis. The companies (and their respective third party administrators) retain all records indefinitely, pending formal approval of the retention policy by senior management. The Company's record retention policies appear reasonable. Based on the interview and testing, INS determined that records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard I-8. The regulated entity 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 lines of business authorized by the Division. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: INS reviewed the Company's certificate of authority, and compared it to the lines of business which the Company has written in the Commonwealth during the examination period. INS determined that the Company was licensed for the lines of business written.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard I-9. The regulated entity 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. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company's level of cooperation and responsiveness to examiner requests was assessed throughout the examination process. There were no concerns about Company responsiveness arising during the examination. INS determined that the Company cooperated on a timely basis with the examiners.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. Testing of compliance with adverse underwriting notice requirements is located in Underwriting and Rating Standard VI-7. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed and implemented written policies, standards and procedures for the collection, use, disclosure and management of information gathered in connection with insurance transactions.
- Privacy responsibilities fall under the Compliance Department responsibilities.
- The Company is in the process of implementing privacy standards across the organization.
- Training has been regularly conducted with the Third Party Administrators and internal staff.
- When an issue is identified, the incident is logged and addressed.
- If appropriate, credit monitoring is provided and policy numbers changed.
- Additional safeguards include encouraging the use of PIN numbers by insureds/owners and the mailing of address change notifications to the previous and new addresses.

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- Privacy notices are provided initially and annually on the life policy anniversary or mailing of a quarterly statement for annuities.
- Opt out language is not required because information is not shared across companies or for marketing purposes.

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: INS reviewed the Company's processes for privacy and information security compliance. In addition, INS interviewed the Company's Compliance Department management personnel, who described the Company's activities to ensure compliance with Federal and State privacy requirements regarding privacy protection. Based on the review and interview, INS determined that 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.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

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

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

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

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

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

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

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

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

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 insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

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

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

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

Standard I-18. All data required to be reported to departments of insurance is complete and accurate.

Objective: This Standard is concerned with data required to be filed with the Commonwealth. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company files the required data with the Commonwealth timely.

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: INS reviewed a sample of seventeen periodic reports that are made to the Massachusetts Division of Insurance. Based on the review, INS determined that the Company is in compliance with a timely response to data filing requirements.

Transaction Testing Results:

Findings: None.

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Observations: None.

Recommendations: None.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold were annuities in a niche 403(b) market. These sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

II. COMPLAINT HANDLING

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

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

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. See Appendix A for applicable statutes, regulations and bulletins.

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

- Written Company policies and procedures govern complaint handling.
- The Company's complaints are recorded in the required format on the Company's complaint register.

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: INS reviewed the policies and procedures provided by the Company. INS also interviewed the Company's management personnel, who described the Company's complaints handling process. In addition, INS reviewed the Company's complaint register. Based on review and testing, INS determined that the Company records the complaints in the required format on the Company's complaint register.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard II-2. The regulated entity 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: The following controls were noted in review of all Complaint Handling Standards:

- Written Company policies and procedures govern complaint handling.
- Complaints direct from consumers generally come in through a TPA.

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- Division of Insurance and Attorney General Complaints are sent directly to the Company's compliance unit in the Home Office for review and tracking.
- A TPA submits written complaints to the Compliance Department for logging.
- Generally, a service representative will attempt to resolve an issue or escalate the issue to a supervisor for attempts at resolution prior to the submission as a complaint for logging.
- Once logged, the complaint will be addressed by the Compliance Department and may also be escalated to the ERC (Exception Review Committee) process.
- The Company has performance benchmarks or goals used to measure and monitor complaint activity and management reporting.
- There are monthly reports made to the General Counsel and quarterly reports to the Compliance Committee of the Insurance Companies, which meets quarterly. In addition, ERC includes representation from senior management.

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

Transaction Testing Procedure: INS reviewed the Company's complaint handling procedures. INS also interviewed the Company's management personnel, who described the Company's complaints handling process. Based on review and interview, INS determined that the Company has adequate complaint handling procedures in place.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

Controls Assessment: The following controls were noted:

- A TPA submits written complaints to the Compliance Department for logging.
- Generally, a service representative will attempt to resolve an issue or escalate the issue to a supervisor for attempts at resolution prior to the submission as a complaint for logging.
- Once logged, the complaint will be addressed by the Compliance Department and may also be escalated to the ERC (Exception Review Committee) process.
- Once a file is established, the analyst may produce an acknowledgement letter if a final response cannot be mailed promptly, such as within five to seven days.
- The acknowledgement letter may be modified to include any additional information that may be needed from the complainant.

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- The analyst will initiate an investigation which may include reviewing the application file and subsequent transactions, examining the policy's financial history and/or statements, listening to recorded phone calls, etc.
- If the analyst determines that the investigation and final response will not be completed within approximately two weeks, the analyst will send an interim letter to the complainant confirming that the investigation remains in progress and, if appropriate, providing an estimate as to when a final response will be mailed.
- The analyst will present applicable cases to the Exception Review Council (ERC) as prescribed by the attached ERC Guidelines.
- After the analyst mails the response to the complainant, summary information regarding the complaint, such as the final disposition and the date closed, are entered in the complaint log.
- A copy of the response and all attachments are placed in the complaint file.
- If subsequent correspondence is received from the complainant, this is added to the existing complaint file.

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: INS reviewed the Company's complaint handling procedures. INS also interviewed the Company's management personnel, who described the Company's complaints handling process. In addition, INS reviewed the nine complaints received during the examination period. Based on review and testing, INS determined that the Company takes adequate steps to finalize and dispose of the complaints in accordance with applicable statutes, rules and regulations and contract language.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the time required for the Company to process each complaint.

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

- Once logged, the complaint will be addressed by the Compliance Department and may also be escalated to the ERC process.
- Once a file is established, the analyst may produce an acknowledgement letter if a final response cannot be mailed shortly, such as within five to seven days.
- The analyst will initiate an investigation which may include reviewing the application file and subsequent transactions, examining the policy's financial history and/or statements, listening to recorded phone calls, etc.

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- If the analyst determines that the investigation and final response will not be completed within approximately two weeks, the analyst will send an interim letter to the complainant confirming that the investigation remains in progress and, if appropriate, providing an estimate as to when a final response will be mailed.

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: INS reviewed the Company's complaint handling procedures. INS also interviewed the Company's management personnel, who described the Company's complaints handling process. In addition, INS reviewed the 9 complaints received during the examination period. Based on review and testing, INS determined that the time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

III. MARKETING AND SALES

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

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

No work was performed for this Standard. The only products sold during the experience period were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. Advertising was not done by the Company.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

Standard III-5. The insurer's rules pertaining to replacements are in compliance with applicable statutes, rules and regulations.

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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 for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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

The Company maintained suitability standards for the annuity products that were sold in the 403(b) market, and those standards were met by delegating the suitability review function to the FINRA broker/dealer. Those suitability standards met FINRA standards and each annuity application was signed off by broker dealer principals.

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 for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

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

No work was performed for this Standard. The Company indicated that there are a limited number of policies with accelerated benefit riders on the books, and that it is rare, if ever, that a request for accelerated benefits is exercised.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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.

The Company maintained suitability standards for the annuity products that were sold in the 403(b) market, and those standards were met by delegating the suitability review function to the FINRA broker/dealer. Those suitability standards met FINRA standards and each annuity application is signed off by broker dealer principals.

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

The Company maintained suitability standards for the annuity products that were sold in the 403(b) market, and those standards were met by delegating the suitability review function to the FINRA broker/dealer. Those suitability standards met FINRA standards and each annuity application is signed off by broker dealer principals.

Standard III-13. The insurer has procedures in place to educate and monitor insurance producers and 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 for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Companies did not have any captive agents.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took

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place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Companies did not have any captive agents.

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 for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company did not sell any fixed-index annuities 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 index life, and all sales are in compliance with applicable statutes, rules and regulations.

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

Standard III-17. The insurer's underwriting requirements and guidelines pertaining to travel are in compliance with applicable statutes, rules and regulations.

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

IV. PRODUCER LICENSING

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

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

Objective: This Standard is concerned with the Company's producer licensing activities during examination period. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted:

- Any new agents come from existing relationships and are not recruited.
- Because of the nature of the products offered, new agents are typically replacements for a long time servicing agent that is retiring or has otherwise left the business.
- Appointments, contracting and background investigations are completed as soon as the new agent is identified.
- The licensing and appointment activities are verified with the Division of Insurance records through manual oversight.
- Agent terminations are completed and reported to the Division as they occur.

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: INS interviewed the Company's management personnel who described the Company's producer recruitment, contracting and appointment processes. INS also compared the Company list of producers authorized in Massachusetts with the Division's records. Based on review and testing, INS determined that the Company's records of licensed and appointed producers agree with insurance department records.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard IV-2. The 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 is concerned with the Company's producer licensing activities during examination period. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted:

- Any new agents come from existing relationships and are not recruited.
- Because of the nature of the products offered, new agents are typically replacements for a long time servicing agent that is retiring or has otherwise left the business.
- Appointments, contracting and background investigations are completed as soon as the new agent is identified.

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: INS interviewed the Company's management personnel who described the Company's producer recruitment, contracting and appointment processes. INS also verified the licensing and appointment of producers in a sample of eighty-six annuity contracts issued. Based on review and testing, INS determined that the producers were properly licensed and appointed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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 is concerned with the Company's producer licensing activities during examination period. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted:

- The Company has not had a termination for cause but would work with the Compliance Department to address the termination should a need occur.
- Agents are terminated generally at the agent's request.
- Agent terminations are completed and reported to the Division as they occur.
- There is a very low volume of terminations so they are completed as required.

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: None. The Company did not terminate any producers during the examination period.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's producer licensing activities during examination period.

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

- Any new agents come from existing relationships and are not recruited.
- Because of the nature of the products offered, new agents are typically replacements for a long time servicing agent that is retiring or has otherwise left the business.
- Appointments, contracting and background investigations are completed as soon as the new agent is identified.
- The Company has not had a termination for cause but would work with the Compliance Department to address the termination should a need occur.
- Agents are terminated generally at the agent's request.
- Agent terminations are completed and reported to the Division as they occur.

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: INS interviewed the Company's management personnel who described the Company's producer recruitment, contracting and appointment processes. Based on the interview, INS determined that the Company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

No work was performed for this Standard. The Company did not terminate any producers during the

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examination period.

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

No work was performed for this Standard. The Company does not allow for debit account balances with respect to its agents (producers).

V. POLICYHOLDER SERVICES

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

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

Objective: This Standard addresses whether the Company provides policyholders with sufficient advance notice of premiums due. See Appendix A for applicable statutes, regulations and bulletins.

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

- Billing notices are sent according to the automation rules established at the time of data conversion.
- Since most of the business is annuity business, there are no billings notices required.
- There are some list billings for a limited amount of group life and some of the 403(b) annuities as a contribution tool.
- In general, life grace periods are 62 days with an initial premium due notice, a second notice at 22 days, a third notice at 42 days and a final lapse notice when the grace period ends.

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: INS reviewed the Company's billing notice procedures. INS also interviewed the Company's management personnel, who described the Company's billing process. In addition, a review of all 82 policies cancelled for non-payment of premiums disclosed that the Company provided adequate notice prior to lapse for each policy tested. Based on review and testing, INS determined that the Company's premium notices and billing notices are sent out with an adequate amount of advance notice.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to ensure that policyholder cancellation requests are processed timely. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has established standards for processing policyholder transactions like policy cancellation requests.
- The TPAs complete the cancellation requests on behalf of the Company with limitations put on the threshold of approval.
- Any transactions requests over the established thresholds are sent to the Company for approval prior to completion.

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: INS interviewed the Company's management personnel, who described the Company's practices and procedures for processing transactions such as insured-requested cancellations. INS also reviewed a sample of 160 policyholder cancellation requests during the examination period. Based on the interview and testing, INS determined that the Company has policies and procedures to process insured-requested cancellations timely.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures for providing timely responses to customers. Complaints are covered in the Complaint Handling Section, and claims are covered in the Claims Section. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has established standards for processing policyholder transactions like policy cancellation requests.
- Correspondence and phone inquiries are handled by the TPAs and are required to be handled within negotiated service times.
- Correspondence is scanned and put into the work queue for the processing team.
- Any phone requests are also added to the queue for processing.
- Some limited transactions are available for consumers to make via internet access.
- All telephone calls are recorded and retained.
- The companies receive continuous reporting of the number of requests received by the TPAs.
- This information, along with the performance standard measurements, is used to offer continuous supervision to the TPA activities.

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: INS also interviewed the Company's management personnel, who described the Company's practices and procedures for handling correspondence received and phone inquiries from policyholders and contract holders. INS also reviewed a sample of 279 policyholder service request transactions during the examination period. Based on the interview and testing, INS determined that all correspondence directed to the Company is answered in a timely and responsive manner.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

There was no work performed for this Standard. The Company did not enter into any assumption reinsurance agreements during the examination period.

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

Objective: This Standard addresses procedures for processing changes to insurance accounts after policy issuance. Objectives pertaining to policy issuance are included in Standard VI-6. Billing transactions are tested in Standard V-1, and insured-requested cancellations are reviewed in Standard V-2. Return of premium testing is included in Standard V-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 established standards for processing policyholder service transactions.
- The TPAs complete the policyholder service request transaction on behalf of the Company with limitations put on the threshold of approval.
- Any transaction requests over the established thresholds must be sent to the Company for approval prior to completion.
- Any financial transaction requests for variable products are handled within 24 hours per the SEC requirements.

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

Transaction Testing Procedure: INS interviewed the Company's management personnel, who described the Company's practices and procedures for processing transactions such as free looks, loan requests, surrenders, fund transfers, beneficiary/owner changes, etc. INS also reviewed a sample of 279 policyholder service request transactions. Based on the interview and testing, INS determined that the policy transactions are processed accurately and completely.

Transaction Testing Results:

Finding 1: 2 violations were noted under M.G.L. c. 175, §123: Application for issuance of policy of life or endowment insurance; change of designation of beneficiary

No life insurance company shall accept or take action on any written request to change the designation of beneficiary under any policy of life or endowment insurance unless the signature of the person requesting the change is witnessed by a disinterested person. For purposes of this section, a disinterested person is one who is over eighteen years of age and not designated as a beneficiary in the requested change. Upon receipt and acceptance of the change of designation of beneficiary, the insurance company shall provide written notice of the change to the insured at the owner's last known address.

The beneficiary change form was not witnessed in one file, and the witness in one file appeared to be the same as the beneficiary.

Required Action: The Company shall ensure that all beneficiary change forms are properly witnessed in compliance with the law. It should be noted that the Company indicated that prior to the completion of the exam, letters were mailed to the policyholders to confirm the beneficiary changes.

Subsequent Action: In addition to receiving confirmation from the two policyholders of their desired beneficiary designation, the Company reiterated to the relevant personnel the requirement to receive the signature of a disinterested party as a witness in the case of any beneficiary changes.

Finding 2: Subsequent to the completion of the market conduct examination an issue came to the Division's attention related to a policy loan variance of \$1.8 million in the First Allmerica Financial Life Insurance Company (FAFLIC) reconciliation between the ledger and the TPA feeds. This was the result of a variable loan rate that had not been updated since calendar year 2009. It was determined that there were as many as 1,414 policies impacted nationwide. Of these, 177 policies were issued in the Commonwealth of Massachusetts. The Company was requested to provide pertinent information that would enable the Division to determine what happened and how the issue was resolved in favor of the Massachusetts policyholders. The Company provided the requested information.

The Company indicated that they discovered an error regarding the variable loan interest rate charged on their policies since 2009. What this meant was that since the 2009 policy anniversary, the interest rate charged on the policy loans (7.58%) exceeded the actual loan interest rate the Company should have charged, 4.5% or 5.0%. The Company sent out letters of apology and explained the error and indicated that the error had been corrected by reversing the interest rates charged against the policy loans and charged what should have been due each year, for the policies that were still active. The Company assured the policyholders that steps had been taken to ensure that the error did not happen again. For the policies that were no longer active, the Company sent out letters of apology plus refund checks, where applicable, which included the difference in the loan amounts, plus interest at the contract rate of 3.5%.

Required Action: The Company shall implement procedures and processes to ensure the situation will not reoccur and shall conduct periodic testing to ensure that the issue is permanently resolved. In addition, the Company shall bring similar matters to the attention of the Massachusetts Division of Insurance upon discovery.

Subsequent Action: Following the completion of corrective action related to incorrect loan interest rates on FAFLIC policies, the Company put in place additional controls to ensure that the variable rate is verified annually. Once the Actuarial team completes the annual review, the appropriate communication with the company's third party administrator takes place to make them aware of the new rate. The Company then requires confirmation from the administrator that the new rate has been implemented. In addition, the Company will make the Division aware of any similar future events as they become aware of them.

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

Objective: This Standard addresses efforts to locate missing policyholders or 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 escheatment and missing policyholder or beneficiary guidelines in place.
- Since 2012, the Company has engaged in continuous comparisons of data against the Social Security Death Master File (SSDMF).
- The Pension Benefit Information (PBI) is utilized as a vendor to conduct checks against the SSDMF.
- The TPAs send feeds directly to PBI for comparison.
- When a positive or fuzzy match is identified, a list is sent back to the TPA and Companies for review and handling.
- Accurant is used to validate information and contact is attempted through telephone and mail.
- The Company has a detailed process overview that shows continuous efforts to contact beneficiaries or policy owners prior to escheatment.
- There are typically five attempts to reach an individual prior to escheatment.
- When attempts to reach a contract holder, policyholder or beneficiary are unsuccessful, the Company utilizes a vendor called RYAN for handling unclaimed property.
- Any checks or benefits are put into the queue for escheatment.
- If there is additional contact made, the TPA contacts RYAN to notify of the additional contact for purposes of resetting the aging period.
- Returned mail is processed and the Company utilizes the US Postal Service's National Change of Address (NCOA) database when mail is returned.
- If additional addresses are not identified, the file remains dormant until a hit is made against PBI's database and the SSDMF search is completed.
- Uncashed checks are held in a Suspense Account with letters sent at 60 days (amounts \$5 and greater), 90 days (amounts \$10 and greater) and 120 days (amounts \$10 and greater).
- If no response is received, the TPA hands off the information for queuing into the escheatment process.
- The Company performs continuous monitoring by sending regular data feeds to PBI for comparison to the SSDMF.

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: INS interviewed the Companies' management personnel, who described the procedure for escheating unclaimed funds and the processes for locating missing policyholders and beneficiaries. Based on the interview, INS determined that the Company makes reasonable attempts to locate missing policyholders and/or beneficiaries.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. 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 service standards to ensure the accurate and timely processing of unearned premium refunds.
- The TPAs complete the task on behalf of the Company with limitations put on the threshold of approval.
- The refund check and applicable letter are mailed to the policy owner/payer.

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: INS reviewed the Company's premium refund procedures. INS also reviewed all ten policy premium refund transactions processed during the examination period. Based on the review and testing, INS determined that the unearned premium was accurately calculated and returned in a timely manner and in accordance with applicable statutes, rules and regulations.

Transaction Testing Results:

Findings: None.

Observations: None.

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 allows for reinstatement without proof of medical status if the request is received within 90 days of the last premium due date.
- Any exception requests would be reviewed and approved by the Exception Review Committee.
- If beyond the 90 days, the request would be forwarded to CRL Plus (outsourced underwriting for se2 and Concentrix) or to LOGiQ3 (outsourced underwriting for Dell) for underwriting review. CRL purchased Hooper Holmes' underwriting services in 2014.
- Any determination about eligibility is made by CRL Plus or LOGiQ3 with the decision forwarded to the TPA for proper notification and handling.

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: INS interviewed the Company's management personnel, who described the Company's policies and procedures with regard to reinstatement requests. INS also reviewed all eleven reinstatement requests processed during the examination period. Based on the interview and testing, INS determined that the Company processed the reinstatement requests in accordance with the policy provisions.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard evaluates notification to life policyholders regarding non-forfeiture options, and requires application of these options in accordance with the contract. See Appendix A for applicable statutes, regulations and bulletins.

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

- The non-forfeiture option provision is included in all life insurance policies.
- The Company has established procedures and guidelines for processing non-forfeiture options.
- A policyholder service request form is required for a voluntary non-forfeiture option request.

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- The claims processing system will process a non-forfeiture option by default if the policy is past due for over 60 days.
- A confirmation letter is sent to the policyholder once the non-forfeiture option is processed.

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: INS reviewed the Company's non-forfeiture option guidelines. Based on the review, INS determined that non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses periodic disclosure to the policyholder of contract information. See Appendix A for applicable statutes, regulations and bulletins.

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

- Variable annuity contract owners receive statements quarterly.
- The statements are sent within 30 days after the end of the quarter.
- Whole Life, Fixed Annuities and Universal Life products administered by the companies are sent annually at the policy anniversary 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: INS interviewed the policyholder service management personnel, who described the Company's practices and procedures for providing policyholders with the required annual or quarterly reports. Based on the interview, INS determined that the Company has adequate procedures for providing policyholders with timely Reports in accordance with the statute, rules and regulations.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

No work was performed for this Standard. This Standard was not covered in the scope of the examination because the Company did not offer new business with accelerated benefits in Massachusetts during the examination period. There are a limited number of life policies with accelerated benefit riders on the books. According to the Company, it is rare, if ever, that a request for accelerated benefits is exercised.

VI. UNDERWRITING AND RATING

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

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

Objective: This Standard addresses whether the Company is charging premiums using properly filed rates. See Appendix A for applicable statutes, regulations and bulletins.

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

- The rates charged for the Whole Life product were in accordance with the rates filed.
- The Company's whole life product filing did not use the 1980 CSO or prior life rate tables.
- There was no perceived unfair discrimination in setting rates and benefits for any of the insurance products issued.
- There was no change to the guaranteed minimum credited rate on any product.
- For policies issued after January 1, 2009, the Company used the 2001 CSO table consisting of separate tables for males and females.
- The Company did not use mortality tables with any annuity products during the examination period.

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: INS reviewed the Companies SERFF filing and the rating explanation provided. The Company indicated that the Whole Life issued during the examination period was used for conversion privileges from the Company's blocks of life insurance business. The Company also indicated that the other products issued were annuity products, which were not filed with any specified rates. Based on review of the SERFF filing and the information provided, INS determined that the Company was in compliance with the Standard.

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Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business consisted of two Whole Life conversion policies.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

Standard VI-4. The regulated entity 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 work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

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

Objective: This Standard addresses whether policy forms and endorsements are filed with the Division for approval. See Appendix A for applicable statutes, regulations and bulletins.

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

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- The Company maintains a list of forms used.
- The forms used during the examination period were filed as required.

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: INS reviewed nineteen forms used by the Company during the examination period: Based on review, INS determined that all the forms in use during the examination period were filed as required.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies. The Company did not have any captive agents.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

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

No work was performed for this Standard. Commonwealth Annuity and Life Insurance Company and First Allmerica Financial Life Insurance Company marketed limited products during the examination period. The only products sold in early 2014 were annuities in a niche 403(b) market. The sales took place as a result of payroll deduction offers in School Districts. The Districts facilitated contributions to the 403(b) annuities. The only other newly issued business was two Whole Life conversion policies.

VII. CLAIMS

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

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

Objective: This 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:

- Written policies and procedures govern the Company's claims handling processes.
- Claims are handled via the contracted TPA.
- Claim notifications are received and placed in the processing queue.
- The TPA sends the correct forms to the customer with the necessary instructions, for completion.
- Once the required documentation and forms are received, the claim is immediately processed.

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: INS interviewed the Company's management personnel, who described the Company's general practices and procedures for processing and handling claims. INS also reviewed the Company's claims handling procedures. In addition, INS reviewed all 264 claims received during the examination period. Based on the interview, review and testing, INS determined that the Company's initial contact with the claimant is within the required time frame.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

Objective: The Standard addresses the timeliness and completeness of the Company's claim investigations. See Appendix A for applicable statutes, regulations and bulletins.

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

- Written procedures govern the Company's claims handling processes.
- Claims are handled via the contracted TPA.

- Claim notifications are received and placed in the processing queue.
- The TPA sends the correct forms to the customer with the necessary instructions, for completion.
- Once the required documentation and forms are received, the claim is immediately processed.
- Claims are generally paid within one day of receiving all the required information.

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: INS reviewed the claims handling policies and procedures. INS also reviewed all 264 claims received during the examination period. Based on review and testing, INS determined that timely claim investigations are conducted.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

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

- Written procedures govern the Company's claims handling processes.
- Claims are handled via the contracted TPA.
- Claim notifications are received and placed in the processing queue.
- The TPA sends the correct forms to the customer with the necessary instructions, for completion.
- Once the required documentation and forms are received, the claim is immediately processed.
- Claims are generally paid within one day of receiving all the required information.

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: INS reviewed the Company's claims handling procedures. INS also reviewed all 264 claims received during the examination period. Based on review and testing, INS determined that the claims are resolved in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the timeliness of the Company's response to all claim correspondence. See Standard VI-6 for testing of statutorily-required non-claim correspondence. See Appendix A for applicable statutes, regulations and bulletins.

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

- Written procedures govern the Company's claims handling processes.
- The Company handles claims correspondence in a timely manner.
- Correspondence and phone inquiries are handled by the TPA and are required to be handled within negotiated service times.

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: INS interviewed the Company's management personnel, who described the Company's general practices and procedures for processing and handling claims. INS also reviewed the Company's claims handling procedures. In addition, INS reviewed all 264 claims received during the examination period. Based on review and testing, INS determined that the Company responds to claim correspondence in a timely manner.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: None.

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: INS reviewed all 264 claims received during the examination period. The Company provided the file documentation that was requested. Based on testing, INS determined that the claim files are adequately documented.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses whether the claim appears to have been paid for the appropriate amount to the appropriate claimant/payee and whether the Company provides appropriate protection of confidential information. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company procedures require reference to the policy contract for claim provisions.
- The Company has specific procedures designed to maintain appropriate controls of personal and confidential claimant information.
- The Company maintains physical, electronic and procedural safeguards intended to protect all non-public, personal information.

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: INS reviewed all 264 claims received during the examination period. Based on the testing, INS determined that the Company's claim handling processes are functioning in accordance with policy provisions and applicable statutes, rules and regulations.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the Company's use of claim forms that are proper for the type of product. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company receives claim notifications from a variety of sources.
- The Company provides the appropriate forms to the claimants for completion.

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: INS reviewed this Standard during the testing of the 264 claim file reviews. Based on the testing, INS determined that the Company is using appropriate claim forms for the product offerings and is in compliance with this Standard.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the Company's process to establish and monitor claim reserves for reported losses.

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

- The Company has established claim reserve procedures.
- On a monthly basis the Company's actuarial team is notified of all pending claims.
- The actuarial team then reserves the full amount of the benefit plus an estimate of the interest that will be payable for each claim.
- Pending claim reserves are updated monthly on the Ledger.

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: Not applicable.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

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

- Written procedures govern the Company's claims handling processes.
- The claims are handled in accordance with policy provisions and state law.

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: None. There were no denied claims or claims closed without payment during the examination period. The Company indicated that it is unusual for a policy claim to be denied since the life policies are far outside the contestability period, and that should an unusual event take place, the Company would rely on guidance from the compliance area to handle the issue.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: The Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Not applicable.

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: INS reviewed all 264 claims received during the examination period. The benefit check payments were considered as part of the file review process. Based on testing, INS determined that the Company's cancelled benefit checks reflect appropriate claim handling practices.

Transaction Testing Results:

Findings: None.

Observations: None.

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 due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Not Applicable.

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: INS reviewed all 264 claims received during the examination period. There were no findings of unfair transactions made by the Company during the claims process that would compel litigation. Based on testing, INS determined that the Company's claim handling practices did not compel claimants to institute litigation in order to recover amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

No work was performed for this Standard. This Standard was not covered in the scope of the examination. The Company indicated that there are a limited number of life policies with accelerated benefits riders on the books, and that it's rare, if ever, that a request for accelerated benefits is exercised.

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

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: Not Applicable.

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: This Standard was tested during the review of the claim files. There were no findings of discrimination among insureds with differing or similar qualifying events covered under the policy. Based on testing, INS determined that 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.

Transaction Testing Results:

Findings: None.

Observations: None.

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

Objective: The Standard addresses whether the Company's claim handling practices allow the beneficiary to identify available settlement options and to make appropriate settlement option decisions.

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

- Written procedures govern the Company's claims handling processes.
- Claims are handled via the contracted TPA.
- Claim notifications are received and placed in the processing queue.
- The TPA sends the correct forms to the customer with the necessary instructions, for completion.
- The Claimant's Statement contains the settlement options that are available to the beneficiary.

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: INS also reviewed all 264 claims received during the examination period. INS noted that the Claimant's Statement for Annuity Contracts contained the settlement options. Based on review and testing, INS determined that the Company provides the beneficiary, at the time a claim is made, written information describing the settlement options available under the policy.

Transaction Testing Results:

Findings: None.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
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FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

Observations: None.

Recommendations: None.

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REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF
COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY
FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

SUMMARY

Based on the procedures performed in this examination, INS has reviewed and tested company operations/management, complaints handling, marketing and sales, producer licensing, policyholder services, underwriting and rating, and claims in accordance with the standards as set forth in the *2014 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. The Division has required action to address concerns in the area of policyholder services, Standard V-5.

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with INS Regulatory Insurance Services, Inc., applied certain agreed-upon procedures to the corporate records of the Company in order for the Division of Insurance of the Commonwealth of Massachusetts to perform a comprehensive market conduct examination of the Company.

The undersigned's participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the NAIC and the Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report.

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



Shelly Schuman
Supervising Insurance Examiner,
The INS Companies on behalf of
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts