



THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT ON THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF

**JOHN HANCOCK LIFE INSURANCE COMPANY AND
JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY
BOSTON, MASSACHUSETTS**

FOR THE PERIOD JANUARY 1, 2002 THROUGH DECEMBER 31, 2002

NAIC COMPANY CODES: 65099 AND 90204

EMPLOYER ID NUMBERS: 04-1414660 AND 04-2664016

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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

February 26, 2004

Honorable Julianne M. Bowler
Commissioner of Insurance
Division of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

JOHN HANCOCK LIFE INSURANCE COMPANY
And
JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

at their home offices located at:

John Hancock Place
Boston, MA 02117

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of John Hancock Life Insurance Company (“JHLIC”) and John Hancock Variable Life Insurance Company (“JHVLIC”) (collectively, the “Company”) for the period January 1, 2002 to December 31, 2002. JHLIC and JHVLIC are operating subsidiaries of John Hancock Financial Services, Inc. (“JHFS”). The Company was last examined as of September 3, 1999 for the period from January 1, 1995 to December 31, 1997. The current examination was called pursuant to authority in M.G.L. c. 175, § 4 and was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. This examination reviewed only the operations of the Company as they impact residents, policyholders, and claimants residing in the Commonwealth of Massachusetts. PricewaterhouseCoopers LLP (“PwC”) was engaged by the Division to complete certain agreed-upon procedures.

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

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

The examination did not include a review of credit life insurance, group life insurance or privacy.

EXAMINATION APPROACH

A tailored examination approach was developed to perform the examination of the Company using the guidance and standards and requirements of the *NAIC Market Conduct Examiner's Handbook* (the “Handbook”), the market conduct examination standards of the Division, and the Commonwealth of Massachusetts Insurance Laws, Regulations, and Bulletins. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division.

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

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

functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted.

The form of this report is “Report by Test”, as described in Chapter VI A. of the Handbook. Please note that the “*Transaction Testing Results*” section of the write-up of each Standard will contain one of the following:

None – No deficiencies noted for the sample tested.

Not Applicable – Testing was not conducted.

Description of finding – One or more deficiencies noted for the sample tested.

EXECUTIVE SUMMARY

The following is a summary of all findings and/or recommendations, as applicable, made as part of the comprehensive market conduct examination of the Company.

I. COMPANY OPERATIONS/MANAGEMENT

STANDARD I-6

Recommendation:

- The Company should evaluate and enhance its record retention policies to ensure that all client files are being appropriately scanned and maintained in the Customer Service Workbench system.

II. COMPLAINT HANDLING

No Findings and/or Recommendations made in this Section.

III. MARKETING AND SALES

STANDARD III-1

Finding:

- PwC noted one advertising piece submitted from the field that contained an unapproved DBA.

Recommendations:

- The Company should revise the Insurance and Securities Market Conduct Manual to include a statement that requires the agent to disclose that commissions are received on all LTC sales. The Company should further consider including an acknowledgement statement in the application that said disclosure was made to the applicant.
- The Company should base the approval number for field-submitted advertising based on the date of approval, rather than on the submission date, because this approval number is used to determine the advertising piece’s three-year expiration date.
- The Sales Material Advertising Review Unit (“SMAR”) should maintain better documentation of (1) the secondary review of submitted advertising materials by outside departments (e.g., Legal), and (2) receipt of the final copy and verification of incorporation of changes required as a result of the initial review.

- SMAR should enhance the current review process of advertising pieces developed by third party vendors by performing a verification of all statistical data included in such advertising material.

STANDARD III-2

Finding:

- See Finding for Standard III-1.

Recommendations:

- See Recommendations for Standard III-1.

STANDARD III-4 AND III-5

Findings:

- The replacement form did not appear to be in three Life files, three Annuity files and four LTC files
- The replacement form appeared to have been signed after the application date for five Life files.
- A written communication was sent to the existing carrier but did not appear to be sent within the seven working day requirement for six Life files and two Annuity files.
- Additionally, it was noted during the controls evaluation process that Company conservation procedures do not appear to address the following requirements: (1) to furnish the policy owner with a policy summary for the existing insurance within 20 days of receipt of a replacement notification from an external carrier; and (2) to furnish the replacing insurer with a copy of the policy summary within five working days of receipt of request for such summary by the replacing insurer.

Recommendations:

- The Company should enhance its replacement handling procedures to reasonably assure:
 - Replacement forms are signed at or before the time of application.
 - Replacement forms are appropriately maintained in the related client file.
 - Notification to the existing carrier is completed within the statutory seven day requirement.
- The Company should consider implementing periodic audits of replacement files to monitor compliance with file documentation requirements.
- The Company should revise its conservation procedures to provide policy summaries to the appropriate parties in a timely manner.

STANDARD III-6

Recommendation:

- It is recommended that the Company maintain a copy of the illustration provided to LTC applicants as part of the policy file.

IV. PRODUCER LICENSING

No Findings and/or Recommendations made in this Section.

V. POLICYHOLDER SERVICE

STANDARD V-2

Findings:

Issuance - Life

- PwC noted one file for which the application in the file was not signed by the applicant.

Cancellations: LTC - Lapses

- In the review of LTC lapse warning notifications, it was noted that Company procedure is to mail such lapse notifications to the policyholder and his/her designee, where applicable, 24 days prior to the lapse date. Under this procedure, notice is not deemed to have been given to the policyholder until 14 days before the lapse date, as 211 CMR 65.10(2) deems receipt by policyholder 10 days after the date of mailing.

Recommendation:

Issuance – Life

- It is recommended that the Company ensure that all applications are signed by the applicant in accordance with statutory requirements.

Cancellations: LTC - Lapses

- It is recommended that the Company revise its lapse warning notification procedures to mail the notifications to the policyholder at least 40 days in advance of the lapse date. This will ensure that notice is given at least 30 days prior to the lapse date.

STANDARD V-4

Recommendation:

- It is recommended that the Company revise the language in the Life and LTC reinstatement applications to elicit information on the applicant's overall health, rather than eliciting information on changes to the applicant's health only since the date of the lapse. This will ensure that the reinstatement application language is aligned with the Company's actual reinstatement underwriting practices.

STANDARD V-5

Finding:

Loan Requests

- In the review of the initial loan interest rate notification to loan recipients, PwC noted that for loans issued on Universal Life ("UL") policies administered on the Policylink system, no such notification is made. However, the Company represented that there were no loans issued on UL policies during 2002. The Company further indicated that the initial loan interest notification is a planned enhancement for the Policylink system for 2004.

Recommendation:

Loan Requests

- It is recommended that the Company implement the Policylink enhancement to include an initial loan interest rate notification on UL policies as soon as possible.

STANDARD V-8

Finding:

- The annual reports sent out on the Medallion Variable Life products did not appear to contain:
 - A disclosure that the cash values and the variable death benefit may increase or decrease based on the investment experience of the separate account.
 - A projection of the cash value and cash surrender value as of one year from the end of the period covered by the report. Such requirement is applicable only to Medallion Variable Life, as this is represented to be the only flexible premium variable product in the Company's product portfolio. It was represented that the Company had not been aware of the Massachusetts regulatory requirement, and appears to have been out of compliance since the first Medallion product was released in March 2001. However, it is noted that in March 2003, in an effort to meet similar California and New York requirements, the Company implemented these projections for all Medallion annual reports, including those sent to Massachusetts policyholders.

Recommendation:

- The Company should modify the annual reports for Medallion Variable Life policies to include the required disclosure that the cash values and the variable death benefit may increase or decrease based on the investment experience of the separate account, as soon as possible.
- It is recommended that the disclosure on the annual reports for Variable Estate Protection products, which currently reads "Your actual payment history and variations in fund performance will affect your policy's benefits....," be modified to conform more closely with the language of 211 CMR 95.13, which specifically addresses the disclosure of the possible increase or decrease of the cash value and variable death benefit of the policy.

VI. UNDERWRITING AND RATING

STANDARD VI-1

Recommendation:

- It is recommended that the Company finalize the development and implementation of a formal Life underwriting audit process as soon as possible. It is further recommended that this process ensure the maintenance of adequate documentation of Life underwriting audits.

STANDARD VI-9

Finding:

Issuance - Life

- PwC noted one file for which the application in the file was not signed by the applicant.

Recommendation:

Issuance - Life

- It is recommended that the Company ensure that all applications are signed by the applicant in accordance with statutory requirements.

STANDARD VI-14

Finding:

- In our review of the 25 Life new business files, PwC noted one file in which an AIDS-related test consent form did not appear to be included in the file.

Recommendation:

- It is recommended that the Company ensure that copies of AIDS-related testing consent forms are maintained in policy files to demonstrate compliance with the requirements set forth in 211 CMR 36.00.

VII. CLAIMS

No Findings and/or Recommendations made in this Section.

COMPANY BACKGROUND

John Hancock Life Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on April 21, 1862 and commenced doing business on December 27, 1862. The Company is authorized to write all classifications of life, including variable life, variable annuities, and accident and health insurance.

John Hancock Variable Life Insurance Company was incorporated under the laws of the Commonwealth of Massachusetts on February 22, 1979 and commenced doing business on February 12, 1980. The Company is authorized to write all classifications of life, including variable life, variable annuities and health insurance.

* * * * *

The following sections of the report detail, for each business area covered by the Handbook, the Standards tested, and examination findings / recommendations (if applicable).

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, and (b) the Company's response to various information requests (IR items).

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

Objective: This Standard is concerned with whether there is an audit program function that provides meaningful information to management.

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

INTERNAL AUDITS

- The Company has a well-established Corporate Audit department that has performed reviews of a variety of operational functions, including:
 - o LTC Claims Processing
 - o E-Business/Direct sales
 - o LTC Underwriting
 - o Policy Loans
 - o Customer Relations
 - o Licensing
- Audit reports are distributed to all relevant operational and management personnel. The reports contain a summary of control enhancements which management has implemented or agreed to implement as a result of the audit.

BRANCH OFFICE AUDITS

- Annual audits are performed by the Office of Business Conduct ("OBC") – Market Conduct Examination Unit on each of the Signator Massachusetts branch offices. Signator is the Company's career agent force. Audit topics cover many of the Handbook areas including:
 - o Complaint handling and recordkeeping
 - o Use of approved sales materials
 - o Communication of mandated disclosures
 - o New business procedures
 - o Suitability
 - o Compliance with state replacement guidelines
 - o Licensing requirements
 - o Handling of free-look requests
 - o Sales illustration requirements
 - o General supervision over all of the above

- A formal report is issued at the end of each branch office audit. The Agency Head must sign the report acknowledging that he/she agrees that immediate corrective action will be taken on issues identified in the report. Such findings would be considered in planning for the next audit of that operational area.

SURVEILLANCE

- OBC has a Surveillance unit dedicated to the monitoring of agent activities.
- OBC-Surveillance has monthly meetings with representatives from OBC, Signator, Customer Relations, Underwriting, Claims, Department of Special Activities, Ethics Review Board, Compliance Review Group and Internal Audit. A formal reporting package is reviewed at each meeting, which addresses topics including:
 - Agents currently being monitored by Surveillance
 - Agents on Special Supervision
 - Ex-agents being monitored for potential sales issues (e.g., large-scale replacements of John Hancock products)
 - Agents associated with “red-flag” LIMRA Customer Assurance Program responses
 - Summary by agency of viaticated policies
 - Open and recently closed cases before the Ethics Review Board (responsible for oversight of insurance sales practice issues)
 - Cases handled by the Compliance Review Group during the year (responsible for oversight of securities sales practice issues)
 - Rolling quarterly analysis of all agents with a replacement ratio greater than 25%
 - Listing of all NASD sanctions against Company producers (1998 to the present)

REPORTING TO THE BOARD

- Annually, the Senior VP and Chief Compliance Officer presents an OBC update to the Board of Director’s Committee on Ethics and Business Practices. Topics have included:
 - Overview of key OBC functions
 - Branch office examinations status
 - Market conduct/regulatory examinations
 - Recent industry regulatory actions
 - Anti-money laundering update
 - Overview of appointments by channel
 - Areas of recent increased compliance efforts
 - Viaticals

IMSA

- The Company has been an Insurance Marketplace Standard Association (“IMSA”) member since IMSA’s inception in 1998.
- To maintain its status as an IMSA member, the Company is required to undergo a rigorous self-assessment process every three years. This renewal process also includes an assessment by an independent examiner to determine that the Company has met IMSA’s standards.

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 detailed testing of attributes.

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

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

* * * * *

Standard I-3. The company has an antifraud plan in place.

Objective: This Standard is concerned with whether the Company has an antifraud plan in place that is adequate, up-to-date, in compliance with applicable statutes and is implemented appropriately.

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

- The Company has a written antifraud plan. The plan outlines the antifraud responsibilities of 13 areas within the Company.
- OBC has a Special Investigative Unit (“SIU”) dedicated to the prevention and handling of fraudulent activities.
- The SIU holds quarterly meetings with representatives from around the Company, including:
 - o OBC
 - o Claims
 - o Audit
 - o Department of Special Activities (“DSA”)
 - o Telesales
 - o Customer Relations
 - o John Hancock Signature Services Compliance
 - o Signator
 - o Underwriting
- The meetings are intended to provide updates and reinforcement of fraud prevention topics. Past topics have included:

- o Importance of SIU
- o Examples of life claims fraud cases
- o Contestable death claim investigations
- o Changes to the Company fraud plan
- o Anti-money laundering red flags
- The SIU publishes a monthly newsletter “SIU Looking Glass,” which addresses a variety of antifraud topics.
- All referrals of potential fraud activity are tracked by the SIU, investigated with the assistance of other departments (e.g., DSA), and reported to the Massachusetts Insurance Fraud Bureau, as necessary.

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

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

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

* * * * *

Standard I-5. The company is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the company.

Objective: This Standard is concerned with (a) whether entity contracts are in compliance with applicable rules and regulations, specifying the responsibilities of all entities as relate to record keeping, as well as responsibilities of the Company as relate to conducting audits; and (b) whether the Company is adequately monitoring the activities of the contracted entity.

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

- Refer to Standard I-1.
- The Company does not have any arrangements where third parties, other than producers, are assuming a business function or acting on behalf of the Company, which would impact the evaluation of market conduct activities.
- It is noted that the Company only has the obligation and right to supervise the producers in the Signator sales channel. However, the Company does perform limited monitoring of the sales activities of producers outside the Signator sales channel.

- The selling agreements between the Company and career and independent producers outline responsibilities in areas including:
 - Licensing
 - Compliance with laws and regulations
 - Training and supervision
 - Use of approved advertising materials
- The Company has a detailed Insurance and Securities Market Conduct Manual for Signator producers and agency management. The manual outlines Company policies in areas including:
 - IMSA Principles and Code
 - Compliance with laws and regulations
 - Licensing and appointment requirements
 - Training and continuing education
 - Use of fact-finders and suitability
 - Mandatory disclosures
 - Client files
 - Use of approved marketing materials
 - Replacement guidelines
 - Complaint handling procedures
 - DBAs
 - Sales practice issues (e.g., rebating, misrepresentation)
 - Anti-trust and trade regulation
 - OBC examinations
 - Sanctions
 - Supervisory structure/supervision
 - Recordkeeping

An acknowledgement form is included at the front of each manual, which must be signed and submitted to the Agency Head within two weeks of receipt of the manual. The acknowledgement forms are maintained in the agency records and are subject to review by OBC as a part of the annual branch office audit process.

- Detailed market conduct manuals also have been distributed to certain key independent distribution channels in connection with the selling agreements. Recognizing the contractual independence of these distributors, these manuals are a pared down version of the Signator Market Conduct Manual, which outline the independent distributors' obligations in the above-mentioned areas.
- A Broker's Market Conduct Booklet is sent to the remaining independent producers in connection with the selling agreements. The Booklet highlights the Company's commitment to the IMSA Principles and Code of Ethical Market Conduct, covering topics such as:
 - Suitability/fact-finding
 - Compliance with laws and regulations
 - Qualifications and licensing

- o Training
- o Replacements
- o Advertising and Sales Materials
- o Complaint Handling
- o Supervision and Monitoring

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 detailed testing of attributes.

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard I-6. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as determining if the Company is in compliance with state record retention requirements. Various record retention requirements are outlined at the individual standard level in the Handbook Sections II-VII.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In connection with the review of various types of company files in Sections II through VII, PwC assessed whether such files are appropriately maintained, as required by statute or regulation.

Transaction Testing Results: In the transaction testing performed in Standard VI-14, PwC noted one client file where the AIDS-related testing consent form was not included as required by 211 CMR 36.00.

It was noted that there were 20 policies for which the Company could not produce a client file upon request by PwC. However, the Company was able to produce partial documentation for 6 of the 20 files. No finding was issued in this area, as there is no statutory requirement to maintain comprehensive client files.

Recommendations: The Company should evaluate and enhance its record retention policies to ensure that all client files are being appropriately scanned and maintained in the Customer Service Workbench system.

* * * * *

Standard I-7. The company is licensed for the lines of business that are being written. M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the lines being written by a Company are in accordance with the authorized lines of business. Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. Additionally, M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: PwC reviewed the Certificates of Authority for John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company and compared them to the lines of business which the Companies write in the Commonwealth.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard I-8. The company files all certifications with the Department of Insurance as required by statutes, rules, and regulations. M.G.L. c. 175, § 25.

Objective: This Standard is concerned with whether the Company files certifications with the Division, as required. M.G.L. c. 175, § 25 sets forth the form and content requirements for annual statements filed with the Division by insurers.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: PwC confirmed with the Division that certifications are reviewed by the Division in connection with the annual financial reporting process. No further testing deemed necessary by the Division.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard I-9. 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.

No work performed. Privacy not covered in scope of examination.

* * * * *

Standard I-10. The company cooperates on a timely basis with examiners performing the examinations. M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the company's cooperation during the course of the exam.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

No work performed. Privacy not covered in scope of examination.

* * * * *

Standard I-12. The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

No work performed. Privacy not covered in scope of examination.

* * * * *

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 (IR items), and (c) a review of complaint files at the Company.

Standard II-1. All complaints or grievances are recorded in the required format on the company complaint register. M.G.L. c. 176D, § 3(10).

Objective: This Standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. Pursuant to M.G.L. c. 176D, §3(10), an insurer is required to maintain a complete record of all the complaints received. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

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

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the Register of Complaints (the "Register") that addresses the requirements of the statute.
- An automated tracking database is used to record and maintain complaint information.
- The Company's definition of complaint parallels the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- The Director of Customer Relations regularly reviews the Register to ensure that the register complies with procedures for entering and maintaining complaint data.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC obtained the Company's 2002 Register and a listing of the Division complaint records for 2002. A sample of 25 complaints from the Division records was selected to compare to complaint information in the Register.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders. M.G.L. c. 176D, § 3(10).

Objective: This Standard is concerned with whether (a) the Company has documented procedures for complaint handling as required by M.G.L. c. 176D, § 3(10), (b) the procedures in place are sufficient to require satisfactory handling of complaints received as well as conducting root cause analyses in areas developing complaints, (c) there is a method for distribution of and

obtaining and recording response to complaints that is sufficient to allow response within the time frame required by state law, and (d) the Company provides a telephone number and address for consumer inquiries.

Controls Assessment: Refer to Standard II-1. Also refer to Standard I-1 for evaluation of root cause analyses.

Controls Reliance: Refer to Standard II-1.

Transaction Testing Procedure: PwC tested items (a) through (c) in conjunction with testing in Standard II-1. With respect to determining whether or not the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders were reviewed for compliance.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

Objective: This Standard is concerned with whether the Company response to the complaint fully addresses the issues raised.

Controls Assessment: The following key observation was noted in conjunction with the review of this Standard:

- The Director of Customer Relations uses the following to monitor complaint activity:
 - The Register.
 - A weekly report that tracks complaints as they near the “response required” date.
 - A report of outstanding complaints sorted by customer relations consultants.
 - Ad Hoc complaint reports (e.g., by agency, by product). These reports are intended to pick up trends / patterns in complaints.

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

Transaction Testing Procedure: PwC selected a sample of 25 complaints from the Company complaint log and obtained the related complaint file. Each file was reviewed to assess whether the complaint appeared to have been handled in a reasonable manner. PwC also reconciled the information in the file to the information on the complaint log including open date, close date, complainant name, policy number, reason, resolution, agent name, agent number.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of allowing 14 days from the date that the notice of complaint is sent to the insurer by the Division for the insurer to respond to the Division. For complaints received by the Company directly, the Company standards are to establish contact with the complainant within 48 hours and to resolve the issue within 30 days.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to Standards II-1 and II-3.

Transaction Testing Procedure: For the complaints selected for testing under Standard II-3, reviewed the complaint documentation to assess whether it was closed within the time frames specified indicated in the Objective above.

Transaction Testing Results: No exceptions noted.

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 (IR items), (c) a review of training and advertising and sales materials, and (d) examination of new business files maintained within the Company.

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations. M.G.L. c. 176D, § 3, Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. Pursuant to M.G.L. c. 176D, §3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that site, the name of the company appearing on the certificate of authority and the address of its principal office.

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

- Written policies and procedures govern the advertising and sales material process.
- All advertising and sales materials are submitted and reviewed electronically in a consistent format through an online submission and tracking process.
- The Market Conduct manuals, other communications distributed to producers and the Sales Material Advertising Review Unit ("SMAR") manual parallel the statutory and/or regulatory requirements for advertising and sales material.
- Complex submissions are subject to a secondary review by a specialist (e.g., Legal).
- Prior to final approval, all pieces are reviewed to ensure that any necessary changes identified during the initial review were made.
- Approved submissions are approved for use for a three year period, which is incorporated into the approval number on the piece.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC obtained a listing of all advertising materials approved for use in Massachusetts during 2002. A sample of 25 advertising and producer training (refer to Standard III-2) files was selected for review to verify the piece's compliance with the content and disclosure standards of applicable statutes and regulations. PwC also reviewed the Company's website for appropriate disclosure of its name and address.

Transaction Testing Results: PwC noted one advertising piece submitted from the field that contained an unapproved DBA. No exceptions noted related to the Company's website.

Recommendations: The following recommendations are noted based upon the review of advertising and sales materials:

- The Company should revise the Insurance and Securities Market Conduct Manual to include a statement that requires the agent to disclose that commissions are received on all LTC sales. The Company should further consider including an acknowledgement statement in the application that said disclosure was made to the applicant.
- The Company should base the approval number for field-submitted advertising based on the date of approval, rather than on the submission date, because this approval number is used to determine the advertising piece's three year expiration date.
- SMAR should maintain better documentation of (1) the secondary review of submitted advertising materials by outside departments (e.g., Legal), and (2) receipt of the final copy and verification of incorporation of changes required as a result of the initial review.
- SMAR should enhance the current review process of advertising pieces developed by third party vendors by performing a verification of all statistical data included in such advertising material.

* * * * *

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

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

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

- Refer to Standard III-1. All producer training materials are submitted through the same review process as advertising and sales materials.

Controls Reliance: Refer to Standard III-1.

Transaction Testing Procedure: Refer to Standard III-1.

Transaction Testing Results: Refer to Standard III-1.

Recommendations: Refer to Standard III-1.

* * * * *

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

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

- The Company has one main method of communicating with producers, Signator Financial Network ("SFN") On-Line.
- All career producers have access to SFN On-Line.

- Written policies and procedures govern that all communications to career and independent producers are submitted and approved through the SMAR unit.

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 detailed testing of attributes.

Transaction Testing Procedure: Due to the broad nature of the population of producer communications, the reliance on the controls surrounding such communications and the lack of exceptions in testing of advertising and training materials (which undergo the same review process), no transaction testing was performed for this Standard.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard III-4 and Standard III-5. (4) Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations. (5) Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations. M.G.L. c. 175, § 204, 211 CMR 34.04-34.07, 211 CMR 42.08 and 42.11

Objective: These Standards are concerned with appropriate replacement handling by the agent and the Company, including identification of replacement transactions on applications, use of appropriate replacement related forms, and timely notice to existing insurers of the replacement. M.G.L. c. 175, §204 addresses the promulgation of regulations governing the replacement of life insurance and annuities based upon the model regulation developed by the National Association of Insurance Commissioners ("NAIC"). It requires that the regulation include the delivery of a notice stating the replacement of a life insurance policy or annuity contract.

For Life insurance and Annuities, pursuant to 211 CMR 34.04-34.07, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant as to whether replacement of existing life insurance or annuity is involved in the transaction; and (b) a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction. Furthermore, where a replacement is involved, a copy of the replacement notice is required to be provided to the applicant at a time not later than the time of taking the application, and the agent or broker shall submit a copy of the replacement notice to the replacing insurer within seven (7) working days of the date of the application. The insurer also is required to send the existing insurer a written communication advising of the replacement or proposed replacement and a policy summary. In the event of direct response sales, 211 CMR 34.07 governs the handling of the replacement notice and handling of such notice depends on whether or not the insurer solicited the sale.

For individual accident and sickness insurance, in the event of a replacement, 211 CMR 42.08 requires the agent, broker or insurer soliciting the sale to furnish a replacement notice to the applicant, at the time of application or before the policy is issued.

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

- Written policies and procedures govern the replacement handling process.
- All Life and Annuity replacements are recorded in a consistent format in the Company's Replacement Register.
- The Company's definition of replacements parallels the statutory and regulatory requirements.
- Life, Annuity and Long Term Care New Business personnel review applications for completeness of replacement information and forms.
- A separate Business Quality Review unit performs a suitability review of all Signator and Marketplace Life replacements using established "Red Flag" guidelines.
- Quarterly reports of reported and unreported replacement activity are reviewed by a Replacement Review Committee and Office of Business Conduct - Surveillance. Corrective action is taken when agents exceed established replacement thresholds.
- Severe cases of excessive replacement activity by an agent(cy) are referred to the Ethics Review Board for handling.
- Notification from external carriers about policies being replaced is summarized daily. For each notification, an electronic message is sent to the agent(cy) notifying them of a possible replacement.
- It was noted during the controls evaluation process that Company conservation procedures do not appear to address the following requirements: (1) to furnish the policy owner with a policy summary for the existing insurance within 20 days of receipt of a replacement notification from an external carrier; and (2) to furnish the replacing insurer with a copy of the policy summary within five working days of receipt of request for such summary by the replacing insurer.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC obtained the Company's 2002 Massachusetts replacement logs for Life, Annuities and LTC, and selected a sample of 25 Life, 25 Annuity and 37 LTC replacements. Replacement files were reviewed to determine evidence of (a) an applicant statement identifying if sale is a replacement, (b) a signed agent statement, (c) a signed replacement notice, and (d) evidence of notice to the existing insurer.

Transaction Testing Results:

- The replacement form did not appear to be in three Life files, three Annuity files and four LTC files.
- The replacement form appeared to have been signed after the application date for five Life files.
- A written communication was sent to the existing carrier but did not appear to be sent within the seven working day requirement for six Life files and two Annuity files.
- Additionally, it was noted during the controls evaluation process that Company conservation procedures do not appear to address the following requirements: (1) to furnish the policy owner with a policy summary for the existing insurance within 20 days of receipt of a replacement notification from an external carrier; and (2) to furnish the replacing insurer with a copy of the policy summary within five working days of receipt of request for such summary by the replacing insurer.

Recommendations: The following recommendations are noted based upon the review of replacement files:

- The Company should enhance its replacement handling procedures to reasonably assure:
 - Replacement forms are signed at or before the time of application.
 - Replacement forms are appropriately maintained in the related client file.
 - Notification to the existing carrier is completed within the statutory seven day requirement.
- The Company should consider implementing periodic audits of replacement files to monitor compliance with file documentation requirements.
- The Company should revise its conservation procedures to provide policy summaries to the appropriate parties in a timely manner.

* * * * *

Standard III-6. An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations. 211 CMR 65.09, 211 CMR 95.11

Objective: This Standard is concerned with ensuring that illustrations contain all required information, are provided to policyholders, and maintained in Company records. Pursuant to 211 CMR 95.11, the applicant must be provided with an illustration of benefits payable under a Variable Life insurance product at or before the time an application is executed. 211 CMR 65.09 requires that an applicant for LTC insurance receive a policy illustration form prior to or at the time of policy delivery.

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

- Written policies and procedures govern the illustration handling process.
- Illustration software is deployed to the field after a significant in-house review and testing process.
- Commissions are charged back if Acknowledgement of Policy and Illustration, signed by the policyholder, is not returned to the Company within 60 days.

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 detailed testing of attributes.

Transaction Testing Procedure: In connection with the file testing performed in the Underwriting section, PwC reviewed 25 Life, 25 Annuity and 25 LTC files for evidence of sales illustrations.

Transaction Testing Results: No exceptions noted.

Recommendations: It is recommended that the Company maintain a copy of the illustration provided to LTC applicants as part of the policy file.

* * * * *

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

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

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

- The written policies and procedures in the Insurance and Securities Market Conduct Manual and Broker's Booklet are designed to reasonably assure that product sales are suitable.
- Responsibility for suitability review and supervision lies at the field level. Producer contracts outline this responsibility.
- Field office inspections are used to monitor this process.

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 detailed testing of attributes.

Transaction Testing Procedure: Due to the absence of statutory guidance in the area of suitability, no transaction testing performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard III-8. The company's policy forms provide required disclosure material regarding accelerated benefit provisions. 211 CMR 55.00.

Objective: This Standard is concerned with the required disclosure material, related to accelerated benefit provisions, provided within the Company's policy forms.

Controls Assessment: Refer to Standard VI-6 for evaluation of controls over all forms content and filing.

Controls Reliance: Refer to Standard VI-6 for evaluation of controls over all forms content and filing.

Transaction Testing Procedure: Refer to Standard VI-6 testing of forms filing.

Transaction Testing Results: Refer to Standard VI-6 testing of forms filing. No exceptions noted.

Recommendations: None.

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IV. PRODUCER LICENSING

Evaluation of the Standards in this business area is based on (a) the Company's response to various information requests (IR items), and (b) a review of various types of producer files at the Company.

Important Note: Effective January 1, 2003, the Commonwealth of Massachusetts enacted a variety of new producer licensing laws. Please note that the statutes referenced in the Standards below are those statutes in effect during the examination period, namely January 1, 2002 to December 31, 2002, and may not reflect the statutory language and/or requirements that exist for these Standards at the current time.

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

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In connection with the new business and underwriting file reviews, PwC inspected a sample of 100 producers associated with 2002 sales to determine whether the producer related to the sale was (a) licensed and (b) appointed with the Company, where applicable.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken. M.G.L. c. 175, §§ 162, 163, 166, 174, 177.

Objective: The Standard is concerned whether the producer is licensed by the Division and that the Company has appointed the producer as its representative, if applicable. Pursuant to M.G.L. c. 175, § 162, if an individual is engaged in the business of insurance and not licensed as an agent, they are considered to be a broker. If an individual is not licensed as a broker, then they would be considered to be an agent. Pursuant to M.G.L. c. 175, § 163, any individual engaging in the business of insurance as an agent without actually being licensed as such, is subject to penalty. Pursuant to M.G.L. c. 175, § 166, any individual engaging in the business of insurance as a broker without actually being licensed as such, is subject to penalty. Pursuant to M.G.L. c. 175, § 174, a corporation may be granted an agent or broker license to engage in the business of insurance. Pursuant to M.G.L. c. 175, § 177, a Company is prohibited from paying compensation to a producer who is not licensed as a broker or an appointed agent with the Company.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: Refer to Standard IV-1.

Transaction Testing Results: No exceptions noted.

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. M.G.L. c. 175 § 163.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer. Pursuant to M.G.L. c. 175 § 163, if the Company does not notify the Division upon termination of a producer, the agent license would still be in effect and the Company would be bound by the agent's actions.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: PwC selected a sample of 50 producers terminated by the Company during 2002 and compared the sample to the Division's termination records, noting any instance where a termination was not reported to Division. An additional sample of 50 producers was selected from the Division's 2002 termination records and compared to the Company's licensing records, noting any instance where a producer is still active in the Company's system.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

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

Objective: The Standard is concerned that the Company has a policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In connection with the new business and underwriting file reviews, PwC inspected a sample of 100 producers associated with 2002 sales. PwC also selected

a sample of 50 producers terminated by the Company during 2002. Throughout the process of file reviews, no evidence of unfair discrimination was noted.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In the review of producer terminations in Standard IV-3, no instances of lack of documentation were noted.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

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

Objective: The Standard is concerned with whether the Company's contract with the producer limits debit balances (i.e., constructive loans to producers).

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company represented that the compensation process does not allow for and/or result in debit account balances.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

V. POLICYHOLDER SERVICE

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

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

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice for premium and billing notices.

Controls Assessment: The following key observation was noted in conjunction with the review of this Standard:

- Billing notices are generated automatically through the policy administration systems, based on contract anniversary dates and payment cycles.

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 detailed testing of attributes.

Transaction Testing Procedure: No transaction testing was performed because there are no statutory or contractual obligations to send premium notices, other than for lapses. Refer to transaction testing procedure results for lapses under Standard V-3.

Transaction Testing Results: Not applicable.

Recommendations: None.

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Standard V-2. Policy issuance and insured requested cancellations are timely. M.G.L. c. 175, §§ 110B, 123, 130, 131, 144, 144A, 145, 187H; 211 CMR 31.04 and 31.05, 211 CMR 34.06, 211 CMR 65.10(2).

Because this Standard includes a number of separate processes (issuance, cancellations – free looks, cancellations – cash surrenders, and cancellations - lapses) and product lines (life, annuities and LTC), the controls assessment, controls reliance, transaction testing procedures and transaction testing results will be reported separately. File types included:

- Issuance: Life, Annuity, LTC
- Cancellations – Free Looks: Life, Annuity, LTC
- Cancellations – Surrenders: Life, Annuity
- Cancellations – Lapses: Life, LTC

ISSUANCE – LIFE

Objective: This Standard is concerned with whether the Company issues Life policies on a timely basis. Pursuant to M.G.L. c. 175, § 123, a written application is required for issuance of Life policies. M.G.L. c. 175, § 130 provides that no Life policy issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his

age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the Life policy. 211 CMR 31.05 requires that the Company shall provide a Buyer's Guide and a Preliminary Policy Summary for Life policies before the application is signed, and a Policy Summary prior to accepting the applicant's initial premium. If the policy contains an unconditional refund provision of at least ten days, or if the Policy Summary contains such an unconditional refund offer, the Policy Summary must be delivered with the policy or prior to delivery of the policy.

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

- New Business Quality Control personnel review policy packets to verify that the policy mailing is being sent to the correct policyholder, and that required information is contained in the mailings.
- The Quality Control group reviews system output to ensure that the information contained within the system batches is consistent with the initial policy application.
- Once reviewed by the Quality Control group, the system output is loaded into a sorting machine that reads bar codes on the output to sort the system output into the proper packets for mailing.
- A final check is made to verify that the name and policy information of each applicant's packet ties to the Company's policy record and application.

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

Transaction Testing Procedure: PwC selected a sample of 25 Life policy issuances to determine whether (a) the effective date was more than six months prior to application date resulting in rating differences due to an age change, (b) the application was attached to policy, (c) the application was signed by the person to be insured, (d) if the insured was under age 15, the application was signed by a parent, guardian or legal custodian, and (e) if the policy is a joint policy, was it signed by either a parent, step-parent or by a husband or wife.

Transaction Testing Results: PwC noted one file for which the application in the file was not signed by the applicant.

Recommendations: It is recommended that the Company ensure that all applications are signed by the applicant in accordance with statutory requirements.

ISSUANCE – ANNUITIES

Objective: This Standard is concerned with whether the Company issues Annuity contracts on a timely basis. Pursuant to M.G.L. c. 175, § 130, no Annuity contract issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the Annuity contract.

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

- Documented policies and procedures are in place governing the issuance of Annuity contracts.
- Annuity New Business managers and team leaders monitor the levels of outstanding applications regularly. Additionally, weekly and monthly reports are generated to monitor the number of applications outstanding for two and five days.
- An issuance checklist is used to ensure appropriate capture of annuitant information.
- Monthly quality control testing is performed for Annuity New Issue contract processing.
 - o Sample issues processed during each week are selected and reviewed for completeness and accuracy; results are captured within the monthly Annuity New Business Operational Effectiveness Indices.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 25 Annuity contracts to determine whether (a) the applicant was older at issue date than at application date and (b) the application was signed by both agent/broker and proposed owner.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

ISSUANCE – LTC

Objective: This Standard is concerned with whether the Company issues LTC policies on a timely basis.

Controls Assessment: The following key observation was noted in conjunction with the review of the issuance of LTC policies under this Standard:

- Management has established a checklist by which LTC New Business processors ensure that all required documents are included in application and policy issuance packets.

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 detailed testing of attributes.

Transaction Testing Procedure: Not applicable since there are no LTC issuance standards. Testing for LTC disclosures is found in Section III – Marketing and Sales.

Transaction Testing Results: Not applicable.

Recommendations: None.

CANCELLATIONS: FREE-LOOKS – LIFE, ANNUITIES AND LTC

Objective: This Standard is concerned with whether the Company processes policyholder requested cancellations with Free-Looks on a timely basis. Pursuant to M.G.L. c. 175, § 187H, no individual Life policy with a face amount of less than twenty-five thousand dollars shall be issued unless it provides a notice stating that the owner is permitted to cancel within ten days if the owner is not satisfied with it for any reason. If the owner surrenders the policy, any premium paid shall be refunded and the policy shall upon such delivery be deemed void from the beginning. In addition to the requirements of Section 187H, the DOI requires all insurance policies and annuities, whether fixed or variable, and regardless of face amount, to contain a ten day Free-Look period. Pursuant to 211 CMR 34.06, the Company must provide all replacement applicants with a written notice of the right to an unconditional refund of premiums paid, which may be exercised within 20 days of policy delivery.

Controls Assessment: The following key observations were noted in conjunction with the review of the policyholder cancellations with Free-Looks for Life, Annuities and LTC policies under this Standard:

- Documented guidelines are in place for Life and LTC Free-Look processing.
 - The Free-Look option is communicated to the policyholder within the Issuance packet.
 - When policyholders decide to cancel the policy on or near 10 days (for Life) or 30 days (LTC and External Life Replacements) after the date of their signature on the policy, the Free-Look will be honored. The premium amount is reversed through a transaction on the administration system. Checks are systematically generated for the policyholder.
- Documented procedures are in place governing Annuity Free-Look processing.
 - The Free-Look option is communicated to the contract holder within the issuance packet.
 - Free-Looks are honored for requests received up to 30 days following contract issuance.
 - Free-Look requests received within a reasonable time frame beyond 30 days are reviewed by team leaders or Annuity Operations managers for approval.
 - Once a Free-Look is processed, any premium paid must be returned to the contract holder within 10 days.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 10 Life, 5 Annuity, and 10 LTC Free-Look cancellations to determine whether they contain objective evidence of (a) the policyholder's request for cancellation, and (b) the Company's refund of the initial premium payment.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

CANCELLATIONS: CASH SURRENDERS – LIFE

Objective: This Standard is concerned with whether the Company processes Life policyholder requested cancellations with cash surrenders on a timely basis. Pursuant to M.G.L. c. 175, § 144, policyholders may surrender the policy and receive its value in cash. Pursuant to M.G.L. c. 175, § 145, the surrender value of certain industrial life insurance policies must be paid in cash within 60 days of the demand therefore.

Controls Assessment: The following key observations were noted in conjunction with the review of policyholder cancellations resulting in cash surrenders for Life products under this Standard:

- Documented policies and procedures are in place for cash-surrender processing.
 - Call Center representatives must verify the identity of the requestor.
 - Written requests are reviewed to determine the identity of the requestor. A surrender form is sent to the policyholder.
 - The policyholder must return the surrender form and include a copy of the policy (or an explanation of why the policy has not been included). Surrenders are processed as of the date stamp on the policy.
 - Surrender processors reconcile the form to the mainframe policy record.
 - Surrenders equal to or in excess of \$500,000 must be manually processed; all others are processed through the normal mainframe batch process.
- Management performs a monthly Quality Control review of cash-surrender processing.
 - Surrender transactions from random days are selected and reviewed to determine whether processing was accurately performed.
 - The results of the review are gathered into a monthly Operational Effectiveness Measures report (OEM), which is distributed to the Director of Customer Relations and to John Hancock Signature Services (JHSS) corporate management for review.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 10 partial and/or full cash surrenders of Life policies to examine evidence of (a) the surrender request from the policyholder, (b) calculation of the appropriate cash surrender value on the surrender date, and (c) payment to the policyholder of appropriate surrender value.

It is noted that no transaction testing was performed of surrender of industrial life policies. Due to the immaterial number of such policies, they were not included in the scope of the examination.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

CANCELLATIONS: CASH SURRENDERS – ANNUITIES

Objective: This Standard is concerned with whether the Company processes Annuity policyholder requested cancellations with cash surrenders on a timely basis. Pursuant to M.G.L. c. 175, § 144A, if a contract holder surrenders an annuity contract, which provides for a lump

sum settlement at maturity, or at any other time, the Company must pay a cash surrender benefit in lieu of a paid-up annuity benefit.

Controls Assessment: The following key observations were noted in conjunction with the review of policyholder cancellations resulting in cash surrenders for Annuity products under this Standard:

- Documented policies and procedures are in place for cash-surrender processing.
 - Call Center representatives must verify the identity of the requestor.
 - Written requests are reviewed to determine the identity of the requestor. A surrender form is sent to the policyholder.
 - The policyholder must return the surrender form and include a copy of the policy (or an explanation of why the policy has not been included). Surrenders are processed as of the date stamp on the policy.
 - Surrender processors reconcile the form to the mainframe policy record.
 - Surrenders equal to or in excess of \$500,000 must be manually processed; all others are processed through the normal mainframe batch process.
- Management performs a monthly Quality Control review of cash-surrender processing.
 - Surrender transactions from random days are selected and reviewed to determine whether processing was accurately performed.
 - The results of the review are gathered into a monthly Operational Effectiveness Measures report (OEM), which is distributed to the Director of Customer Relations and to JHSS corporate management for review.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of Annuity surrenders to examine evidence of: (a) the surrender request from the policyholder, (b) calculation of the appropriate cash surrender value on the surrender date, and (c) payment to the policyholder of appropriate surrender value.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

CANCELLATIONS: LAPSES – LIFE AND LTC.

Objective: This Standard is concerned with whether the Company processes lapses of Life and LTC policies on a timely basis. Pursuant to M.G.L. c. 175, §§ 110B, no Life or LTC policy shall lapse for nonpayment of premium until three months after the due date of the premium, unless the Company mailed a notice showing the amount and due date of the premium not less than ten nor more than 45 days prior to the due date. It further requires that the notice contain a statement as to the lapse of the policy if no payment is made as provided in the policy. Pursuant to 211 CMR 65.10(2), no LTC policy may lapse for nonpayment of premium unless the Company has provided notice to the insured or his/her designated representative. Such notice must be given at any time between 30 days after the premium due date and 30 days prior to the effective date of the lapse.

Controls Assessment: The following key observations were noted in conjunction with the review of cancellations due to lapses under this Standard:

- Life and LTC policies automatically lapse after 69 days from premium due date without payment.
 - The process for automatic lapsing is systematic based upon policy anniversary date and contractual payment cycles.
- Management is monitoring the levels of outstanding lapse activity.
 - On a monthly basis, a report is generated listing the number of lapses that were completed beyond seven days.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC inspected 10 lapsed Life and 10 lapsed LTC policies to determine whether (a) the policy was not lapsed earlier than three months after the premium due date, (b) if the policy lapsed before the premium due date, then the Company mailed the policyholder a billing notice 10 to 45 days before the premium due date, which notified the policyholder that the policy would lapse if the premium was not paid, and (c) that notification of the lapse was sent to the policyholder.

PwC additionally inspected the 10 lapsed LTC policies to determine if notice was given to the insured, or his or her designated representative, between 30 days after the premium due date and 30 days prior to the effective date of the lapse.

Transaction Testing Results: In the review of LTC lapse warning notifications, it was noted that the Company procedure is to mail such lapse notifications to the policyholder and his/her designee, where applicable, 24 days prior to the lapse date. Under this procedure, notice is not deemed to have been given to the policyholder until 14 days before the lapse date because 211 CMR 65.10(2) deems receipt by policyholder 10 days after the date of mailing.

Recommendation: It is recommended that the Company revise its lapse warning notification procedures to mail the notifications to the policyholder at least 40 days in advance of the lapse date. This will ensure that notice is given at least 30 days prior to the lapse date.

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<u>Standard V-3.</u> All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.

Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and / or claimants from the proper business unit.

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

- Written requests or inquiries received by the Information Controls Center mail room where they were stamped with the date and time of receipt, then routed to the Line of Business areas the following business day.

- Line of Business units perform monthly Quality Control reviews of transactions to ensure timely processing.

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 detailed testing of attributes.

Transaction Testing Procedure: None. It was determined that controls testing adequately addressed the requirements of this Standard.

Transaction Testing Results: Not applicable.

Recommendations: None.

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Standard V-4. Reinstatement is applied consistently and in accordance with policy provisions. M.G.L. c. 175, § 132(11); 211 CMR 65.10(3).

Objective: This Standard is concerned with whether the Company consistently processes reinstatements and that reinstatements comply with policy provisions. Pursuant to M.G.L. c. 175, § 132(11), Life policies must include a provision that the policyholder is entitled to have the policy reinstated, with certain limitations. Pursuant to 211 CMR 65.10(3), all individual or group LTC insurance policies shall include a provision for reinstatement of coverage, in the event of lapse, if the Company is provided proof that the policyholder was cognitively impaired or had a loss of functional capacity before expiration of the policy's grace period. Reinstatement is available to the insured if requested within five months after termination.

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

- Documented policies and procedures are in place for reinstatement processing.
- Management is performing Quality Control reviews for reinstatement processing.
 - On a monthly basis, reinstatement transactions from randomly chosen days are selected and reviewed to determine whether processing was accurately performed.
 - The results of the review are gathered into a monthly OEM report which is distributed to the Director of Customer Relations and to JHSS corporate management for review.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC inspected a sample of 25 Life and LTC policy reinstatements to determine whether there was adequate documentation related to reinstatement including (a) a copy of the Reinstatement Application, (b) evidence of underwriting activity, if applicable, and (c) confirmation of the reinstatement. Where the policy was re-underwritten at the time of reinstatement, the testing reviewed whether the underwriting appeared to have been handled in a non-discriminatory manner.

Transaction Testing Results: No exceptions noted.

Recommendations: It is recommended that the Company revise the language in the Life and LTC reinstatement applications to elicit information on the applicant's overall health, rather than eliciting information on changes to the applicant's health only since the date of the lapse. This will ensure that the reinstatement application language is aligned with the Company's actual reinstatement underwriting practices.

* * * * *

Standard V-5. Policy transactions are processed accurately and completely. M.G.L. c. 175, §§ 123, 139, 142; 211 CMR 95.08 (12).

Policy transactions include issuance, cancellations regarding Free-Looks, cancellations regarding cash surrenders, lapses, conversions, loans, and beneficiary changes. The first four policy transactions were included under Standard V-2. The following sections of this standard cover conversions, loans and beneficiary changes.

In addition to the controls assessments in the following sections, the Call Center (which handles a variety of customer-requested transactions) has its own set of controls for the processes for which it is responsible. The following key observations were noted in conjunction with the review of Call Center operations:

- A document list of transactions with the ability to be processed by Customer Access clerks, broken down by product type, is maintained.
- Formal policies and procedures have been created for processing Life and Annuity transactions, including state regulatory requirements, where applicable.
 - The procedures detail information to be obtained for each customer request, escalation procedures for complex requests, and information regarding how the transactions are to be entered into the Customer Service Work Bench (CSWB).
 - Customer Access employees must positively identify the caller as the policy owner before processing a request.
- A Call Center Quality Control (QC) team has been established to review Call Center accuracy, quality, and to provide training.
- Monthly QC reviews are performed to verify that Customer Access clerks completely and accurately respond to customer calls.
 - All customer calls are recorded. On a monthly basis, the QC team reviews policyholder calls and the associated CSWB record of the call to ensure that the call was handled appropriately and processed accurately.
- Real-time reports are available through the Customer Access Workbench application detailing the levels of outstanding work by age. The manager of Customer Access monitors these levels on a regular basis.

CONVERSIONS

Objective: This Standard is concerned with whether the Company processes conversions accurately and completely. Pursuant to M.G.L. c. 175, § 139, the Company is allowed, at the request of policyholder, to convert an original Life or endowment policy or Annuity contract into any policy of Life or Endowment insurance with one condition. That condition requires the amount of insurance under the converted policy not to exceed the greater of (a) the amount of

insurance under the original policy, or (b) the amount of insurance which the original premium would have purchased if the rewritten policy had been issued as of the date it bears.

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

- Documented policies and procedures are in place for reviewing conversion processing.
 - Policyholders must consult with a Company representative to walk through the conversion process.
 - When the right to convert is unclear, the conversion forms are reviewed by the Life New Business manager and/or team leader.
- Conversion request forms are reviewed against a standardized checklist to ensure that all requisite information has been received.
- During 2002, management was reviewing and reporting errors encountered during conversion processing.
 - Six conversion applications were selected per week to ensure that the conversion was processed accurately (i.e., all required information received and that the right to convert existed).
 - Results were reported in aggregate to the manager of Life New Business.
 - A 0% error rate was noted during such reviews.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC inspected 4 policies that were converted during the examination period to determine whether the amount of insurance on the new policy did not exceed the greater of (a) the amount of insurance on the original policy or policies, or (b) the amount of insurance the premium paid for the original policy would have purchased if the rewritten policy had been issued as of the date it bears.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

LOAN REQUESTS

Objective: This Standard is concerned with whether the Company processes loan requests accurately and completely. M.G.L. c. 175, §142 provides (a) a policyholder may request a loan against a policy (to the extent that at least three full years' premiums were paid), (b) certain limitations on interest rates the Company may charge, and (c) certain requirements for the Company to effect changes in loan interest rates. 211 CMR 95.08(12) requires that Variable Life policies contain a provision for policy loans after the policy has been in force for three years which is not less favorable to the policyholder in certain areas (e.g., the loan is at least equal to 75% of cash surrender value, the interest rate be established by the terms of the policy, etc.).

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

- Documented policies and procedures are in place for processing loan requests.

- Requests for loans are received by either a phone call to Customer Access, by letter, or by submission of a loan request form.
- Management verifies the requestor's identity before processing the request.
- Management ensures that the policy is paid to date.
- Management reviews the address on the policy administration system to verify that the most current address is on file. Requests cannot be processed where an address change occurred within 30 days prior to the loan request.
- Checks are processed through the Home Office Treasury department.
- Management performs monthly Quality Control reviews of loan request processing.
 - All transactions processed on a single day are selected to ensure that the loan requests are appropriately and accurately processed.
 - Results are aggregated within a monthly report, which is distributed to the Director of Customer Relations; Team Leaders of the Loans / Disbursements / Surrenders Unit; and to JHSS corporate 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 detailed testing of attributes.

Transaction Testing Procedure: PwC tested a sample of 20 loans on Life policies to determine compliance with M.G.L. c. 175, §142, specifically whether: (a) an application was made for the loan of less than the loan value on the sole security of the policy, (b) an interest rate of 8% or less per year was applied or an appropriate adjustable maximum interest rate was applied, (c) the interest rate on the loan was determined in accordance with policy provisions, (d) for variable interest rate loans, the maximum rate for each policy was determined at regular intervals at least once every 12 months, but not more than once in a 3 month period, (e) notification was sent to the policyholder at the time of initiation of loan regarding the initial interest rate, (f) notification was sent to the policyholder regarding any increase in the rate, and (g) the Company maintained coverage during entire policy year

For the three Variable Life policies included in the above sample, PwC further assessed compliance with 211 CMR 95.08(12), specifically, whether: (a) the available loan value was at least equal to the 75% of the cash surrender value of the policy, and (b) the interest rate charged on the loan was within the rate allowed by state statute, as outlined above. It was noted in the review of annual policy statements in Standard V-8, that policy loans were deducted from the policy death benefit and cash surrender value calculations. No instances of the indebtedness exceeding the cash surrender value of the policy were noted.

Transaction Testing Results: In the review of the initial loan interest rate notification to loan recipients, PwC noted that for loans issued on Universal Life ("UL") policies administered on the Policylink system, no such notification is made. However, the Company represented that there were no loans issued on UL policies during 2002. The Company further indicated that the initial loan interest notification is a planned enhancement for the Policylink system for 2004.

Recommendations: It is recommended that the Company implement the Policylink enhancement to include an initial loan interest rate notification on UL policies as soon as possible.

BENEFICIARY CHANGES

Objective: This Standard is concerned with whether the Company processes beneficiary change requests accurately and completely. Pursuant to M.G.L. c.175 § 123, a beneficiary designation may not be changed without written application to the Company that is witnessed by a disinterested person. The Company must provide written confirmation of the change to the insured.

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

- Documented policies and procedures are in place for processing beneficiary change requests.
 - Requests for beneficiary changes are received by either a phone call to Customer Access, by letter, or by submission of a beneficiary change request form.
 - Beneficiary change requests will not be processed without proper documentation.
 - The requestor must be positively identified as the policy owner prior to processing the request.
 - A listing of acceptable beneficiaries is maintained for consideration in change request processing.
- An Outstanding Work by Age report is generated and reviewed by the Contract Services unit on a weekly basis to monitor the levels of outstanding beneficiary change requests.
- Each month, management reviews all beneficiary change transactions processed on a single day to determine if the changes were processed appropriately and accurately. The QC results are aggregated and communicated to the Director of Customer Relations and to JHSS corporate 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 detailed testing of attributes.

Transaction Testing Procedure: None. It was determined that controls testing adequately addressed the requirements of this Standard.

Transaction Testing Results: Not applicable.

Recommendations: Not applicable.

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Standard V-6. Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract. M.G.L. c. 175, §§ 144 and 144A.

Objective: This Standard is concerned with the Company's notification to Life policyholders and Annuity contract holders regarding non-forfeiture options and that non-forfeiture options are applied in accordance with the policy contract. Pursuant to M.G.L. c. 175, § 144, Life policyholders may, in the event of a default, elect to (a) surrender the policy and receive its value in cash, or (b) take a specified paid-up non-forfeiture benefit effective from the due date of the premium in default. In lieu of such specified paid-up non-forfeiture benefit, the Company may substitute an actuarially equivalent alternative paid-up benefit which provides a greater amount or

longer period of death benefits. M.G.L. c. 175, § 144A provides similar options for Annuity contracts.

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

- Upon policy lapse 69 days after the premium due date, non-forfeiture options are automatically calculated by the system and the system populates the lapse notice sent to the policyholder.
- The lapse notice presents all non-forfeiture benefits applicable to the policy, with a default to the paid-up benefit, if no other non-forfeiture benefit is selected by the policyholder.

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 detailed testing of attributes.

Transaction Testing Procedure: For the policies examined in Standard V-2 Lapses, PwC examined whether the notification of lapse communicated the appropriate non-forfeiture benefits to the policyholder, where applicable.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard V-7. Reasonable attempts to locate missing policyholders or beneficiaries are made.

Objective: This Standard is concerned with the adequacy of the Company's processes to locate missing policyholders and beneficiaries.

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

- Management has procedures to locate missing policyholders and beneficiaries.
 - Policyholders are categorized as missing when correspondence is sent and returned to the Company.
 - Typically social security numbers are used to identify policyholders.
 - A link on the Company's website has been created for policyholders to search for their policy online.
 - Upon determination that a policyholder or beneficiary due funds from the Company is missing, the funds are transferred to an abandoned property account pending escheatment.

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 detailed testing of attributes.

Transaction Testing Procedure: To the extent that a missing policyholder/beneficiary was identified during any transaction testing by PwC, note whether the Company's handling of the missing policyholder/beneficiary appeared to be appropriate.

Transaction Testing Results: During the course of transaction testing, one missing policyholder noted. No exceptions noted.

Recommendations: None.

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Standard V-8. The company provides each policy owner with an annual report of policy values in accordance with statute, rules and regulations and, upon request, an in-force illustration or contract policy summary. 211 CMR 95.13.

Objective: This Standard is concerned with the sufficiency of disclosure to the policyholder of certain required information. 211 CMR 95.13 requires that certain reports, with certain disclosures contained therein, be provided to Variable Life policyholders including (a) an annual report (including cash surrender value, cash value, death benefit, any partial withdrawal, partial surrender or policy loan, any interest charge, and any optional payments allowed), and (b) a summary financial statement of each separate account (including net investment return information, a listing of investments held, expenses charged to the account, and any change in investment objectives). The regulation further requires that the Company maintain specimen copies of reports distributed to policyholders.

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

- Annual statements are automatically generated by the Life Administration systems.
- On a daily basis, Product Specialists review error reports to identify and investigate annual statements that were not produced. The errors are researched and re-run during a subsequent batch process.
- An Outstanding Work by Age report is generated and reviewed by the Contract Services unit on a weekly basis to monitor the levels of outstanding requests for annual statements.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC inspected a sample of 23 in-force Variable Life policies subject to annual reporting to determine whether (a) the annual report was produced (b) the report was sent within 60 days of the policy anniversary, (c) the report stated that the cash value and variable death benefit could change, (d) the report contained a reconciliation of cash value and death benefit, and (e) the report showed the projected cash value, and projected surrender amount as of one year from the report (for flexible premium policies only). In addition, the testing verified that a summary financial statement was mailed to variable product policyholders and that the statement contained (a) net investment information, (b) a comparison of the investment rate for the current year with equivalent investment rate for prior years, (c) a list of investments held, (d) all annual charges levied, and (e) a statement of any charge, since the last report, in the investment objectives.

Transaction Testing Results: The review of 23 in-force Variable Life policies subject to annual reporting disclosed the following exceptions:

- The annual reports sent out on the Medallion Variable Life products did not appear to contain:
 - A disclosure that the cash values and the variable death benefit may increase or decrease based on the investment experience of the separate account.
 - A projection of the cash value and cash surrender value as of one year from the end of the period covered by the report. Such requirement is applicable only to Medallion Variable Life, as this is represented to be the only flexible premium variable product in the Company's product portfolio. It was represented that the Company had not been aware of the Massachusetts regulatory requirement, and appears to have been out of compliance since the first Medallion product was released in March 2001. However, it is noted that in March 2003, in an effort to meet similar California and New York requirements, the Company implemented these projections for all Medallion annual reports, including those sent to Massachusetts policyholders.

Recommendation:

- The Company should modify the annual reports for Medallion Variable Life policies to include the required disclosure that the cash values and the variable death benefit may increase or decrease based on the investment experience of the separate account, as soon as possible.
- It is recommended that the disclosure on the annual reports for Variable Estate Protection products, which currently reads "Your actual payment history and variations in fund performance will affect your policy's benefits....," be modified to conform more closely with the language of 211 CMR 95.13, which specifically addresses the disclosure of the possible increase or decrease of the cash value and variable death benefit of the policy.

* * * * *

Standard V-9. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. M.G.L. c. 175, §§ 119B, 119C, 187C and 187D.

Objective: This Standard is concerned with the accuracy of calculated unearned premiums and the timeliness of their return to the policyholder. Pursuant to M.G.L. c. 175, § 119B, the proceeds payable under any Life policy (except single-premium policies) shall include premiums paid for any period beyond the end of the policy month in which death occurred. M.G.L. c. 175, § 119C requires that interest be paid on all proceeds (including excess premiums paid, as noted in the previous sentence) beginning 30 days after the death of the insured. M.G.L. c. 175, § 187C provides that the full return premium payable on a policy, upon its cancellation, be tendered in accordance with its terms without any deductions. M.G.L. c. 175, § 187D precludes payment of unearned premiums if the insured has not actually paid the premium.

Controls Assessment: The following key observation was noted in conjunction with the review of this Standard:

- The Life and LTC administration systems automatically calculate the amount of unearned premium remaining on a cancelled policy and processes payment to the policyholder.

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 detailed testing of attributes.

Transaction Testing Procedure: In connection with testing performed on cancellations for Free-Looks and cash surrenders (refer to Standard V-2) determine whether prepaid premium was appropriately refunded to the client.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard V-10. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to its affected policyholders.

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

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Standard V-11. Upon receipt of a request from policyholder for accelerated benefit payment, the company must disclose to policyholder the effect of the request on the policy's cash value, accumulation account, death benefit, premium, policy loans and liens. The company must also advise that the request may adversely affect recipient's eligibility for Medicaid or other government benefits or entitlements. 211 CMR 55.100.

Objective: This Standard is concerned with the proper disclosure of the impacts on the policy of an accelerated benefit payment (i.e., cash value, accumulation amount death benefit, premium, policy loans and liens), as well as its impact on eligibility for government benefits / entitlements. 211 CMR 55.100 provides the form of the required disclosures.

Controls Assessment: The Company's Line of Business and IT personnel advised that there were no accelerated benefit claims opened on Individual Life policies during 2002 for Massachusetts residents or for policies issued within the Commonwealth. Accordingly, no controls assessment was performed.

Controls Reliance: Not applicable.

Transaction Testing Procedure: Not applicable.

Transaction Testing Results: Not applicable.

Recommendations: None.

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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, and (b) the Company's response to various information requests (IR items).

Standard VI-1. All rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan. M.G.L. c. 175, § 108, M.G.L. c. 176D, § 3(7), 211 CMR 65.07.

Objective: This Standard is concerned with the accuracy of the Company's policy premiums, i.e., whether proper premiums are being charged and proper rates being used. Pursuant to M.G.L. c. 176D, §3(7), it is deemed an unfair method of competition to unfairly discriminate between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance, or of life annuity, or to unfairly discriminate between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance.

As to LTC policies, M.G.L. c. 175, § 108 prohibits the issuance or delivery of any accident and sickness policy until a table of rates or manual of risks has been on file with the Commissioner for 30 days, or until the Commissioner has approved the policy within that 30 day period. Additionally, in accordance with 211 CMR 65.07, the Company must file rates for individual LTC policies with the Division.

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

- Rates are automatically computed based on applicant information and rating classifications assigned by the underwriter.
- Written underwriting guidelines are designed to reasonably assure consistency in classification and rating.
- During the examination period, Life underwriting supervisors conducted periodic reviews of underwriters' work. However, the process was not uniform, and the results were not documented. During 2003, the Company initiated the development of a more formal audit process with uniform standards for Life underwriting.
- A formal LTC underwriting audit process exists in which five-percent of each underwriter's cases are reviewed each week. However, during the examination period, no documentation of such process was maintained. During 2003, the Company began to maintain documentation of LTC underwriting audits.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 8 Life policies to determine if an actuarial memorandum had been appropriately filed with the Division for the related product. PwC selected a sample of 3 individual LTC policies to determine that the rate charged on the policy was in accordance with rates filed with the Division.

Transaction Testing Results: No exceptions noted.

Recommendations: It is recommended that the Company finalize the development and implementation of a formal Life underwriting audit process as soon as possible. It is further recommended that this process ensure the maintenance of adequate documentation of Life underwriting audits.

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Standard VI-2. All mandated disclosures for individual insurance are documented and in accordance with applicable statutes, rules and regulations, and in compliance with company policy. 211 CMR 31.05, 211 CMR 55.06, 211 CMR 65.09, CMR 95.11 and 211 CMR 143.01-143.03.

Objective: This Standard is concerned with whether all mandated disclosures for individual insurance policies are documented and in accordance with statutes, regulations and Company policy. Pursuant to 211 CMR 31.05, life insurance that is marketed through an insurance agent requires that the insurer provide the applicant with a Buyer's Guide and Preliminary Policy Summary before the application is signed. 211 CMR 55.06 requires that the applicant be provided with a disclosure statement concerning accelerated benefit provisions on life insurance and waiver of surrender charges for early withdrawals of annuity contracts.

211 CMR 65.09 requires that the applicant be provided with a LTC financing options guide, an outline of coverage and, in certain instances, disclosure of suitability standards used by the insurer. In addition, if a policy is issued other than applied for, disclosure of such fact must be made to the applicant. The regulation also sets forth disclosure requirements for Medicare-eligible applicants.

Pursuant to 211 CMR 95.11, at the execution of or before the execution of any Variable Life insurance policy application, the insurer shall provide to the applicant the following information: (a) a summary explanation of the main features of the policy, (b) a statement of the investment policy of the separate account, (c) a statement of the net investment return of the separate account for each of the last ten years, (d) a statement of annual charges, (e) a statement of all front-end and back-end loads, surrender charges and additional charges which may be levied against the account in the upcoming year, (f) a summary of the methods being used to value assets of the separate account, (g) a summary of the federal income tax aspects of the policy applicable to the insured, the policy owner and the beneficiary, (h) a statement explaining how the actuarially determined costs of insurance are charged, (i) illustrations for the benefits that are payable under the contract, and (j) any statement that a policy will be paid up or that it will require no outlay of cash after a determined time period is required to be in writing, and must clearly specify all assumptions on which the statement is based.

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

- Documented policies and procedures exist regarding New Business processing.
- New Business personnel review applications to determine that all applicable questions are answered.
- Underwriting verifies that all state required forms have been included with the application.
- If information or forms are missing, requirements are updated and a letter is sent to the producer regarding those forms and requirements that are missing.

- Outstanding information or forms requirements are tracked on the related administrative system. A policy will not be issued with all outstanding information and form requirements being met.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC reviewed 25 Life policy sales in order to assess whether mandated disclosures are included in the file and, when required, signed forms are present, including: (a) a Buyer's Guide, (b) a Preliminary Policy Summary (if sold through an agent), (c) a Policy Summary, (d) an Accelerated Benefits Disclosure Statement, and (e) a Prospectus (Variable Life only).

PwC reviewed 25 Annuity contract sales in order to assess whether mandated disclosures are included in the file and, when required, signed forms are present, including the Waiver of Premium for Early Withdrawals Disclosure Statement.

PwC reviewed 25 LTC policy sales in order to assess whether mandated disclosures were included in the file and, when required, signed forms are present, including: (a) an Outline of Coverage, (b) a Disclosure Regarding Suitability Standards, (c) a Disclosure statement if issued other than applied for, (d) the Your Options For Financing Long Term Care: A Massachusetts Guide, and (e) the Guide to Health Insurance for People with Medicare.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VI-3. All mandated disclosures for group insurance are documented and in accordance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with group life insurance and whether employees have been informed of their group coverage eligibility. Group issuance must be documented appropriately and follow all relevant statutes.

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

- Documented policies and procedures exist regarding New Business processing.
- New Business personnel review applications to determine that all applicable questions are answered.
- Underwriting verifies that all state required forms have been included with the application.
- If information or forms are missing, requirements are updated and a letter is sent to the producer regarding those forms and requirements that are missing.
- Outstanding requirements are tracked on the related administrative system. A policy will not be issued with outstanding requirements being met.

Note that a controls assessment of Life policies and Annuities was not completed as Group Life was not covered in the scope of the examination and as no Group Annuities were sold by the Company 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 detailed testing of attributes.

Transaction Testing Procedure: PwC reviewed 25 LTC policy sales in order to assess whether mandated disclosures were included in the file and, when required, signed forms are present, including: (a) an Outline of Coverage, (b) Disclosure Regarding Suitability Standards, (c) Disclosure statement if issued other than applied for, (d) the Your Options For Financing Long Term Care: A Massachusetts Guide brochure, and (e) a Guide to Health Insurance for People with Medicare.

Note that transaction testing of Life policies and Annuities was not completed as Group Life was not covered in the scope of the examination and as no Group Annuities were sold by the Company during the examination period.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VI-4. All mandated disclosures for credit insurance are documented and in accordance with applicable statutes, rules and regulations.

No work performed. Credit insurance was not covered in scope of examination.

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Standard VI-5. The company does not permit illegal rebating, commission cutting or inducements. M.G.L. c. 175, §§ 182-184, M.G.L. c. 176D, § 3(8).

Objective: This Standard is concerned with whether (a) Company correspondence to producers and advertising / marketing materials have no indication of illegal rebating, commission cutting or inducements; (b) producer commissions adhere to the commission schedule; and (c) the Company makes required filings. Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract, or any special favor or advantage in the dividends or other benefits to accrue thereon. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to make or offer to make an insurance contract for life insurance, life annuity or accident and health insurance other than as expressed in the insurance contract, or to pay, allow or give as inducement to such insurance or annuity any rebate or premiums or any special favor or advantage in the dividends or other benefits or any valuable consideration or inducement whatever not specified in the contract.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In connection with the review of all new business materials, advertising materials, producer training materials and manuals, PwC inspected such materials for indications of rebating, commission cutting or inducements.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VI-6. All forms including contracts, riders, endorsement forms and certificates are filed with the Department of Insurance, if applicable. M.G.L. c. 175, §§ 2B, 22, 108, 132, 211 CMR 95.07, 95.12, 211 CMR 65.00, Division of Insurance Bulletin 2001-07.

Objective: This Standard is concerned with the appropriate filing of all forms and endorsements. Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance shall be delivered or issued for delivery to more than fifty policyholders in the Commonwealth until a copy of the policy form has been on file with the Commissioner for 30 days, or the Commissioner approves the form within the 30 day time frame. Additionally, no Life, Endowment or Annuity policy form may be delivered unless it complies with a variety of readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions. M.G.L. c. 175, § 132 sets forth a 30 day filing requirement and identifies certain mandated provisions that must be contained within Life, Endowment and Annuity policy forms before they are delivered. 211 CMR 95.08 sets forth the policy form requirements for Variable Life products and 211 CMR 95.12 outlines the items that should be contained within an application for a Variable Life insurance policy. M.G.L. c. 175, § 108 also sets forth a 30 day filing requirement and identifies mandated provisions for Accident and Sickness policies. Additionally, 211 CMR 65.00 sets forth many requirements for LTC policies, including the proper form and content of such policies. Finally, pursuant to Division of Insurance Bulletin 2001-07, all policy form filings for Life, Annuities and LTC must be accompanied by a fully-completed form filing checklist.

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

- Written policies and procedures govern the form filing process.
- An automated tracking database is used to record and maintain form filings, both approved and not approved.
- The division heads responsible for form filing for Life, Annuity and LTC products keep informed about new and updated filing requirements through (1) Oden, a legal electronic push service, and (2) involvement on a number of different industry trade association task forces charged with analyzing and keeping apprised of updated, proposed and implemented statutes and regulations.
- All policy forms and accompanying riders, endorsement forms, and certificates are filed and approved by the Division prior to issue.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 25 Life and Annuity forms (combined), and 5 LTC forms available for use during the exam period, and obtained evidence of approval by the Division for those forms.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VI-7. The company underwriting practices are not to be unfairly discriminatory. The company adheres to applicable statutes, rules and regulations, and company guidelines in selection of risks. M.G.L. c. 175, §§ 120, 120A-120E, M.G.L. c. 176D, § 3(7).

Objective: This Standard is concerned with whether (a) the file documentation adequately supports decisions made; (b) the Company is following underwriting guidelines that both conform to state laws and have been filed where applicable; and (c) that no unfair discrimination is occurring according to the state's definition of unfair discrimination. Pursuant to M.G.L. c. 175, §120, no Company may discriminate in favor of individuals between insureds of the same class and equal expectation of life with regard to premiums or rates charged for Life or Endowment insurance, or Annuities, or on the dividends or other benefits payable thereon. Additionally, the Commonwealth specifically prohibits discrimination in the issuance of policies to mentally retarded persons (M.G.L. c. 175, § 120A), blind persons (M.G.L. c. 175, § 120B), individuals with DES exposure (M.G.L. c. 175, § 120C), abuse victims (M.G.L. c. 175, § 120D), as well as on the basis of genetic tests (M.G.L. c. 175, § 120E).

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to engage in unfair discrimination, which is defined as: "(a) making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract; or (b) making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever."

Controls Assessment: Refer to Standard VI-1.

Controls Reliance: Refer to Standard VI-1.

Transaction Testing Procedure: Reviewed a sample of 40 Life policies and 25 LTC policies to determine if the underwriting decisions made were consistent with the company's policies and underwriting guidelines.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VI-8. Producers are properly licensed and appointed (if required) for the jurisdiction where the application was taken. M.G.L. c. 175, §§ 162, 163, 166, 174, 177.

Objective: This Standard is concerned with the appointment of producers and ensuring that appointment forms are appropriately completed by the Company. Pursuant to M.G.L. c. 175, § 162, if an individual is engaged in the business of insurance and not licensed as an agent, they are considered to be a broker. If an individual is not licensed as a broker, then they would be considered to be an agent. Pursuant to M.G.L. c. 175, § 163, any individual engaging in the business of insurance as an agent without actually being licensed as such, is subject to penalty. Pursuant to M.G.L. c. 175, § 166, any individual engaging in the business of insurance as a broker without actually being licensed as such, is subject to penalty. Pursuant to M.G.L. c. 175, § 174, a corporation may be granted an agent or broker license to engage in the business of insurance. Pursuant to M.G.L. c. 175, § 177, a Company is prohibited from paying compensation to a producer who is not licensed as a broker or an appointed agent with the Company.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: In connection with the new business and underwriting file reviews, PwC inspected a sample of 100 producers associated with 2002 sales to determine whether the producer related to the sale was: (a) licensed, and (b) appointed with the Company, where applicable.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VI-9. Policies and riders are issued or renewed accurately, timely and completely. M.G.L. c. 175, §§ 123, 130, 131; 211 CMR 31.05.

ISSUANCE - LIFE

Objective: This Standard is concerned with whether the Company issues Life policies timely and accurately. Pursuant to M.G.L. c. 175, § 123, a written application is required for issuance of Life policies. M.G.L. c. 175, § 130 provides that no Life policy issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the Life policy. 211 CMR 31.05 requires that the Company shall provide a Buyer's Guide and a Preliminary Policy Summary for Life policies before the application is signed, and a Policy Summary prior to accepting the applicant's initial premium. If the policy contains an unconditional refund provision of at least ten days, or if the Policy Summary contains such an unconditional refund offer, the Policy Summary must be delivered with the policy or prior to delivery of the policy.

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

- New Business Quality Control personnel review policy packets to verify that the policy mailing is being sent to the correct policyholder, and that required information is contained in the mailings.
- The Quality Control group reviews system output to ensure that the information contained within the system batches ties to the initial policy application.
- Once reviewed by the Quality Control group, the system output is loaded into a sorting machine that reads bar codes on the output to sort the system output into the proper packets for mailing.
- A final check is made to verify that the name and policy information of each applicant's packet ties to the Company's policy record and application.

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

Transaction Testing Procedure: PwC selected a sample of 25 Life policy issuances to determine whether (a) the effective date was more than six months prior to application date resulting in rating differences due to an age change, (b) the application was attached to policy, (c) the application was signed by the person to be insured, (d) if the insured was under age 15, the application was signed by a parent, guardian or legal custodian, and (e) if the policy is a joint policy, was it signed by either a parent, step-parent or by a husband or wife.

Transaction Testing Results: PwC noted one file for which the application in the file was not signed by the applicant.

Recommendations: It is recommended that the Company ensure that all applications are signed by the applicant in accordance with statutory requirements.

ISSUANCE – ANNUITIES

Objective: This Standard is concerned with whether the Company issues Annuity contracts timely and accurately. Pursuant to M.G.L. c. 175, § 130, no Annuity contract issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the Annuity contract.

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

- Documented policies and procedures are in place governing the issuance of Annuity contracts.
- Annuity New Business managers and team leaders monitor the levels of outstanding applications regularly. Additionally, weekly and monthly reports are generated to monitor the number of applications outstanding for two and five days.
- An issuance checklist is used to ensure appropriate capture of annuitant information.
- Monthly quality control testing is performed for Annuity New Issue contract processing.
 - o Sample issues processed during each week are selected and reviewed for completeness and accuracy; results are captured within the monthly Annuity New Business Operational Effectiveness Indices.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC selected a sample of 25 Annuity contracts to determine whether (a) the applicant was older at issue date than at application date, and (b) the application was signed by both agent/broker and proposed owner.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

ISSUANCE – LTC

Objective: This Standard is concerned with whether the Company issues LTC policies timely and accurately.

Controls Assessment: The following key observation was noted in conjunction with the review of the issuance of LTC policies under this Standard:

- Management has established a checklist by which LTC New Business processors ensure that all required documents are included in application and policy issuance packets.

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 detailed testing of attributes.

Transaction Testing Procedure: Not applicable since there are no LTC issuance standards. Testing for LTC disclosures is found in Section III – Marketing and Sales.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard VI-10. Rejections and declinations are not unfairly discriminatory. M.G.L. c. 175I, § 12.

Objective: This Standard is concerned with the fairness of application rejection/declination as relates to the reasoning and communication of such to the policyholder where required. Pursuant to M.G.L. c. 175I, § 12, an adverse underwriting decision may not be based, in whole or in part: (1) on a previous adverse underwriting decision, (2) on personal information received from certain insurance-support organizations; or (3) based on sexual orientation.

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

- Written underwriting guidelines are designed to reasonably assure consistency in classification and rating.

- During the examination period, Life underwriting supervisors conducted periodic reviews of underwriters' work. However, the process was not uniform, and the results are not documented. During 2003, the Company initiated the development of a more formal audit process with uniform standards.
- A formal LTC underwriting audit process exists in which five-percent of each underwriter's cases are reviewed each week. However, during the examination period, no documentation of such process was maintained. During 2003, the Company began to maintain documentation of LTC underwriting audits.
- All Life declinations are subject to a second review by the Chief Underwriter.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC reviewed a sample of 25 Life and 25 LTC declinations to determine whether the reason for the rejection is in accordance with Company guidelines and in compliance with applicable statutes and regulations regarding unfair discrimination.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VI-11. Cancellation/non-renewal reasons comply with policy provisions and state laws and company guidelines.

Objective: This Standard is concerned with whether (a) the reasons for a cancellation or non-renewal are valid according to policy provisions and state laws; (b) the procedures for cancellation and non-renewal follow appropriate guidelines; and (c) policy procedures do not incorporate any unfairly discriminatory practices.

Controls Assessment: Not applicable. The company does not have a contractual right to cancel.

Controls Reliance: Not applicable.

Transaction Testing Procedure: Not applicable.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard VI -12. Rescissions are not made for non-material misrepresentation.

Objective: This Standard is concerned with whether (a) rescinded policies indicate a trend toward post-claim underwriting practices; (b) decisions to rescind are made in accordance with applicable statutes, rules and regulations; and (c) Company underwriting procedures meet incontestability standards.

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

- Cases to be considered for rescission are reviewed by the head of Life and LTC underwriting areas.
- All decisions to rescind are reviewed by the Legal Department.
- Rescissions are based on material misrepresentations and apply only to policies that have not reached the end of the incontestable 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 detailed testing of attributes.

Transaction Testing Procedure: Not applicable. There were no policies rescinded during 2002.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

Standard VI-13. Pertinent information on applications that forms a part of the policy is complete and accurate.

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

Controls Assessment: Refer to Standard VI-2 and Standard VI-9.

Controls Reliance: Refer to Standard VI-2 and Standard VI-9.

Transaction Testing Procedure: PwC reviewed a sample of 25 Life, 25 Annuity and 25 LTC policies to assess whether pertinent information (signatures, ages, etc.) was completely and accurately recorded on the applications.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VI-14. The company complies with the specific requirements for AIDS-related concerns in accordance with statutes, rules and regulations. 211 CMR 36.04-36.06.

Objective: This Standard is concerned with ensuring that the Company does not use medical records indicating AIDS-related concerns to discriminate against applicants without medical evidence of disease. Additionally, no forms used by the Company should require sexual orientation disclosure. Pursuant to 211 CMR 36.05, an applicant must give prior written

informed consent in order for an insurer to conduct an AIDS-related test. 211 CMR 36.06 specifies that the insurer notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. Additionally, 211 CMR 36.04 sets forth prohibited practices with respect to AIDS-related testing and AIDS-related information.

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

- Positive AIDS-related test results are sent to the Medical Director via Federal Express.
- The Medical Director drafts a notification to the applicant's named physician. If no physician has been named, then the Medical Director requests that the applicant name a physician. If the applicant does not respond, the notification is sent to the applicant directly.
- All related documentation is maintained in a locked file cabinet.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC reviewed 25 Life new business files for inclusion of written consent to perform an AIDS-related test. PwC additionally examined the 25 Life declination files for evidence of appropriate notification of positive AIDS-related test results, where applicable.

Transaction Testing Results: One exception noted. In our review of the 25 Life new business files, there was one file in which an AIDS-related test consent form did not appear to be included in the file. No exceptions noted related to notification of positive AIDS-related test results.

Recommendations: It is recommended that the Company ensure that copies of AIDS-related testing consent forms are maintained in policy files to demonstrate compliance with the requirements set forth in 211 CMR 36.00.

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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 (IR items), and (c) a review of several types of files at the Company.

Standard VII-1. The initial contact by the company with the claimant is within the required time frame. M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard is concerned with the timeliness of the Company's contact with the claimant. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to make initial contact with the claimant within 48 hours of receipt of the notification via telephone or mail.
- All claim notifications are logged in the Customer Service Workbench (CSWB), which is used to record claim activity, including when a claim package was sent to the claimant.
- Claims management can access the CSWB to monitor open claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: PwC tested a sample of 75 claims (25 Life, 25 Annuity and 25 LTC) to verify whether the initial contact with the claimant was within a reasonable time frame.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VII-2. Investigations are conducted in a timely manner. M.G.L. c. 176D, § 3(9)(c), Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. Division of Insurance Bulletin 2001-07 requires that, upon receipt of a single claim and proof of the insured's death, the Company is required to search with due diligence its records, as well as

the records of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

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

- Company policy is to investigate and settle all claims within six business days of receipt of required paperwork/support for the claim.
- Claims forms are reviewed for completeness and appropriate signatures. If incomplete, the form is returned to the claimant requesting completion and/or missing required materials (e.g., claim form, death certificate for Life; request for benefits, provider statement for LTC).
- A follow up letter is sent to the claimant if the requested materials are not received within 30 business days, and each 30 day period thereafter.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected for Standard VII-1 above, PwC reviewed the claim files to determine whether the claim was investigated in a timely manner.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VII-3. Claims are settled in a timely manner. M.G.L. c. 176D, § 3(9)(f).

Objective: The Standard is concerned with the timeliness of the Company's claims settlements. Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear.

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

- Company policy is to investigate and settle all claims within six business days of receipt of required paperwork/support for the claim.
- Company policy is more restrictive than the Securities and Exchange Commission seven-day requirement for settlement of claims on interest sensitive products.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.

- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected for Standard VII-1 above, PwC assessed whether the claims were settled in a timely manner.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

* * * * *

Standard VII-4. The company responds to claim correspondence in a timely manner. M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).

Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

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

- Company policy is to respond to claimant inquiries on LTC claims within one to five business days for those received by telephone, and within 30 business days for those received in writing.
- Company policy is to respond to all claimant inquiries on Life and Annuity claims, whether received via telephone or mail, within two weeks.
- All inquiries and responses are documented either in the claim file on the CSWB.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected for Standard VII-1 above, PwC verified whether any related claim correspondence was responded to in a timely manner.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VII-5. Claim files are adequately documented.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

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

- Claim processing guidelines for Life, Annuity and LTC require that key information be completed, signed, and included in the file, including:
 - Certified copy of the insured's death certificate (Life and Annuity claims)
 - Claimant's statement (LTC claims)
 - Other relevant proof of loss
 - Applicable clinical /other investigative correspondence
 - Other pertinent written communication
 - Documented or recorded telephone communication
 - Proof of payment to claimant or beneficiary
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected for Standard VII-1 above, PwC verified whether the claim file information appears to support the claim activity.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VII-6. Claim files are handled in accordance with policy provisions and state law. M.G.L. c. 175, § 119C, M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount, to the appropriate beneficiary / payee, and with appropriate interest, if

applicable. Pursuant to M.G.L. c. 176D, §§ 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice. M.G.L. c. 175, § 119C requires that if the proof of death has been received, the Company must pay interest on claims beginning 30 days after the death of the insured. Finally, Division of Insurance Bulletin 2001-07 requires that, upon receipt of a single claim and proof of the insured's death, the Company is required to search with due diligence its records, as well as the records of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

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

- Written policies and procedures govern the processing and handling of claim files.
- Written guidelines govern the assessment of eligibility, contestability, investigation, documentation and involvement of specialists.
- Claim file documentation received from the claimant is date stamped.
- Key documents are required to be date stamped upon receipt and claim files are:
 - o Maintained to clearly identify inception, handling and settlement of the appropriate liability amount.
 - o Documentation is clear, concise and details specific events/phases.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected for Standard VII-1 above, PwC verified whether (a) the claim appears to have been paid for the appropriate amount, (b) the claim appears to have been paid to the appropriate beneficiary / payee, and (c) payment includes appropriate interest, if applicable. Files also were reviewed for evidence of (a) failure to pay without conducting an adequate investigation and (b) failure to pay after liability has become reasonably clear. PwC also assessed the Company's procedures to comply with the multi-policy search requirements of Division of Insurance Bulletin 2001-07.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

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

- Unique claim forms have been developed, which are tailored to the type of Life or Annuity claim (e.g., Life, Accelerated Benefit).
- Written policies and procedures require the use of a single multipurpose claim form to request LTC benefits.
- Claims will not be processed without the submission of the appropriate claim form.

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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected in Standard VII-1 above, PwC verified whether the appropriate claim form was used.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

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

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Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law. M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information Pursuant to M.G.L. c. 176D, § 3(9)(h) unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable man would have believed he was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

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

- Company policy requires that denials must include contractual basis for non-payment and inform the claimant of their right to appeal.
- Claims filed within the contestable period of two years are referred for investigation to the Special Investigation Unit (SIU).
- Denied claims are subject to a separate level of review/approval.

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 detailed testing of attributes.

Transaction Testing Procedure: PwC tested a sample of 3 Life/Annuity and 13 LTC claim denials to determine whether the denial appeared to be appropriate and is supported by information in the file.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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

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

* * * * *

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

Objective: The Standard is concerned with whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than what the policy contract provides for. Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable man would have believed he was entitled by reference to written or printed advertising material accompanying or made part of an application.

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

- Claims handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected in Standard VII-1 above, PwC examined the claim files for any evidence of (a) claim handling practices that compelled claimants to institute litigation in cases of clear liability and coverage, and (b) settlement practices that offered amounts substantially less than was due under the policy.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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Standard VII-12. The company provides the required disclosure material to policyholders at the time an accelerated benefit payment is requested. 211 CMR 55.06(1)(b) and 55.110.

Objective: The Standard is concerned with whether the Company provides the policyholder with the required disclosures at the time the accelerated benefit is requested. Pursuant to 211 CMR 55.06(1)(b), carriers offering accelerated benefit products shall issue a disclosure statement to the applicant at the time application is made for accelerated benefits, or by separate communication with receipt or certification of delivery. 211 CMR 55.110 details all required information / disclosures to be contained in the disclosure statement.

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

- A Required Disclosure Statement for Accelerated Benefits form, detailing specific claimant considerations, is sent to the claimant at time of benefit request.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Not applicable because no accelerated benefit payments were made during the examination period.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

Objective: The Standard is concerned with whether the Company's claim handling practices discriminate against (a) insureds with differing qualifying events covered under the policy, or (b) insureds with similar qualifying events covered under the policy.

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

- Claim handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and internal cycle times to monitor claims processing 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 detailed testing of attributes.

Transaction Testing Procedure: Utilizing the sample of Life, Annuity and LTC claims selected in Standard VII-1 above, PwC examined the claim file for any evidence of discrimination (a) among insureds with differing qualifying events covered under the policy, or (b) among insureds with similar qualifying events covered under the policy.

Transaction Testing Results: No exceptions noted.

Recommendations: None.

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ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with PricewaterhouseCoopers LLP, applied certain agreed-upon procedures to the corporate records of John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company in order for the Division of Insurance of the Commonwealth of Massachusetts to conduct a comprehensive market conduct examination of the Companies.

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

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

Matthew C. Regan, III
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