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

Boston, Massachusetts

For the Period January 1, 2007 through December 31, 2007

NAIC COMPANY CODE: 65099

EMPLOYERS ID NUMBER: 04-1414660

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NONNIE S. BURNES
COMMISSIONER OF INSURANCE

July 17, 2009

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

Dear Commissioner Burnes:

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

JOHN HANCOCK LIFE INSURANCE COMPANY

at its home office located at:

John Hancock Place
Boston, MA 02117

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

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

The Company currently sells individual and group long-term care and fixed annuity products in Massachusetts. Prior to the examination period, the Company also sold individual life products and variable annuity products, and as a result, has a substantial number of Massachusetts policies and contracts in-force. The Company sells its products through general agencies, John Hancock Financial Network ("JHFN") and through unaffiliated agents that work for independent financial institutions such as banks or unaffiliated broker-dealers.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2007 NAIC Market Regulation Handbook,* ("the Handbook") the market conduct examination standards of the Division, the Commonwealth of Massachusetts insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

The controls assessment process is comprised of three significant steps: (a) identifying controls; (b) determining if the control has been reasonably designed to accomplish its intended purpose in mitigating risk (i.e., a qualitative assessment of the controls); and (c) verifying that the control is functioning as intended (i.e., the actual testing of the controls). For areas in which controls reliance was established, sample sizes for transaction testing were accordingly adjusted. The form of this report is "Report by Test," as described in Chapter 15, Section A of the Handbook.

EXECUTIVE SUMMARY

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

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

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

The comprehensive market conduct examination resulted in no recommendations with regard to policyholder service. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in this section. Further, the tested Company practices appear to meet industry best practices in this area.

SECTION I -COMPANY OPERATIONS/MANAGEMENT

STANDARD I-6

Findings: None.

Observations: Based upon testing, it appears that ManuLife, JHFN and the Company monitor the performance of third parties, including general agencies and unaffiliated agencies, for compliance with contractual requirements. The Company timely reviews each long-term care on-site claim assessment for compliance with policies and procedures. The annual on-site audit reports conducted by JHFN on ManuLife's four Massachusetts general agencies appeared to clearly report the procedures performed and conclusions reached during the on-site audits.

Recommendations: ManuLife and the Company should amend the unaffiliated agent contract to expressly require that E&O coverage be secured and maintained, and consider setting a minimum E&O coverage amount. Further, ManuLife and the Company should conduct criminal and financial background checks prior to appointing independent producers as managing general agents and general agents.

SECTION II-COMPLAINT HANDLING

STANDARD II-1

Findings: None.

Observations: RNA noted that the Company's format for recording complaints included all necessary information, and that complaint handling activity reports monitor use of the proper complaint format. RNA further noted that ManuLife is developing complaint metrics for independent agents similar to those in place for producers at its general agencies. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: RNA recommends ManuLife to develop and implement complaint metrics for use in monitoring its independent agents.

SECTION III-MARKETING AND SALES

STANDARD III-2

Findings: None.

Observations: The Company's producer training materials appear appropriate, and testing results indicate that its process for approving training materials prior to use is functioning in accordance with policies and procedures. The Company provided evidence of the completion of long-term care producer training for 57 of the 70 individual long-term care sales tested. While management believes that training was provided to the agents producing the remaining 13 sales, it is unclear whether such training occurred.

Recommendations: The Company should adopt new procedures to ensure that long-term care training is provided to all agents that are authorized to sell individual long-term care policies, and that documentation supporting such training is maintained. Further, the Company should independently monitor the effectiveness of these new procedures shortly after their implementation, to ensure that such documentation is maintained.

Subsequent Actions: As a result of RNA's testing, the Company has adopted new procedures to ensure that long-term care training is provided to all agents that are authorized to sell individual long-term care policies. In addition, the Company states it plans to conduct semi-annual independent audits to ensure that documentation supporting such training is maintained.

STANDARD III-4

Findings: The file for one fixed annuity sale contained no evidence that the applicant signed the Massachusetts replacement disclosure form on the application date, in violation of 211 CMR 34.04.

Observations: Except as noted above, the testing of the agents' files related to the fixed annuity and long-term care replacement sales appear to show that such sales meet the applicants' needs and comply with Company's replacement procedures. Further the tested life and annuity replacement sales of the Company's affiliates' products, which were produced by the four Massachusetts JHFN general agencies, appeared suitable for the applicants. Finally, the Company and JHFN appear to monitor agents for the volume and nature of their replacement sales, and take action as considered necessary.

Required Actions: The Company shall enhance the home office review procedure for agents' submitted applications, to ensure that applicants always sign required replacement disclosures at the application date, in compliance with 211 CMR 34.04.

STANDARD III-5

Findings: The Company did not send the notice to the replaced carrier for one fixed annuity sale within seven business days, in violation of 211 CMR 34.06.

Observations: Two replacement sales were improperly excluded from the Company's replacement register due to various system limitations, in violation of Company policy. The Company states that the systems limitations have been corrected to ensure that all replacement sales are now properly reported on the replacement register. Additionally, the Company did not reduce the commission on one internal replacement, in violation of Company policy. The Company subsequently reduced the commission on the internal replacement, and has automated the procedure. Testing of fixed annuity and long-term care replacement sales otherwise showed that the Company's replacement procedures pertaining to Company requirements appear to be functioning in accordance with its policies and procedures.

Required Actions: The Company shall enhance the home office review procedure for submitted applications to ensure that it always sends the required notice to replaced carriers within seven business days, in compliance with 211 CMR 34.06. Further, the Company shall independently monitor replacement sales to ensure that all are properly included on the replacement register, and that commissions are properly reduced on internal replacement sales, in accordance with Company policy.

STANDARD III-6

Findings: The Company accepted 10 long-term care applications, which did not acknowledge delivery of the Massachusetts Long-Term Care Financing Guide, in violation of 211 CMR 65.09.

Observations: One fixed annuity application did not include the Company-required interest rate disclosure form. RNA otherwise noted from testing that all Company-required fixed annuity disclosures were timely provided to the applicants.

Recommendations: The Company should establish new home office review procedures to ensure that all required disclosure forms are submitted with the applications. Further,

the Company should independently monitor such new procedures to ensure they are effectively implemented.

STANDARD III-7

Findings: None.

Observations: The Long-Term Care Suitability Personal Worksheet was completed, or required suitability disclosures were made, for each sale tested. Each of the five files reviewed appeared to show that agents made appropriate needs assessments.

Recommendations: The Company should monitor its general agencies' long-term care sales, and consider including a review of such sales when the annual on-site compliance visit to the general agency is conducted or through an independent annual review process.

STANDARD III-9

Findings: The Company accepted seven fixed annuity applications of 83 such applications tested where Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures were not signed by the applicants at the application dates, in violation of 211 CMR 55.06. RNA otherwise noted that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures were timely provided to the applicants.

Observations: None.

Recommendations: The Company should establish new procedures to ensure that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures are signed by the applicants at the application dates, and submitted with the applications to the home office. Further, the Company should independently monitor these new procedures to ensure that they have been effectively implemented.

STANDARD III-12

Findings: None.

Observations: All but one of 83 fixed annuity applications tested appeared complete, and were issued consistent with the applications. In one case, inconsistent information on the application regarding the contract period was not identified, challenged and resolved at the time the application was submitted. As a result of RNA's testing, the Company has contacted the customer to confirm the intent of the contract. Each of the 20 agents' files reviewed showed that the agents obtained the applicant's required financial information and investment objectives, and made appropriate needs assessments.

Recommendations: RNA has the following recommendations:

- The Company should establish new home office procedures to ensure that all fixed annuity applications are reviewed for inconsistent information prior to approval. The

Company should independently monitor the new control procedure to ensure it has been effectively implemented.

- The Company should enhance its relatively new process for monitoring its unaffiliated agencies' production of fixed annuities by using a more rigorous risk assessment, which selects agents by type of sale, focusing on senior sales, replacements and other agents with high numbers or percentages of senior sales or replacements. The documentation of this process should be enhanced using standard audit programs or procedures checklists.
- The Company should monitor its general agencies' fixed annuity sales, particularly senior sales and replacements. The monitoring could include a review of such sales during the annual on-site compliance visit to the general agency, or through an independent annual review process.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: None.

Observations: RNA's testing of 83 fixed annuity sales and 70 individual long-term care sales during the examination period, for those agents appointed in 2007, showed appointment dates on the Division's and the Company's databases that matched within a few days. Further, all the agents who sold policies during the examination period were properly licensed, and all but four were included on the Division's database of the Company's appointed agents at the time the policies were issued. Four agents were not included on the Division's database of the Company's appointed agents due to computer systems issues. The Company states that several of these systems issues have been addressed. In some cases, reconciliations of the Company's and Division's agent databases did not fully identify all differences.

Recommendations: The Company should review its appointment transmission procedures to ensure that all transmissions are successfully made. Further, the Company should revise its reconciliation process to ensure that all identified exceptions are timely addressed. Finally, the Company should independently monitor the appointment transmission and revised reconciliation processes to ensure that they are functioning properly.

STANDARD IV-3

Findings: RNA noted that 11 of 15 agent terminations tested were not timely reported to the Division. In addition, eight agents were not properly notified of their terminations in violation of M.G.L. c. 175, § 162T. In some cases, reconciliation of the Company's and Division's producer databases did not fully identify agent termination differences.

Observations: None.

Recommendations: The Company should implement new procedures to ensure that it gives timely notice of terminations to agents and the Division in accordance with

statutory requirements. The Company should complete its review of the reconciliation process and make necessary changes, to ensure that the reconciliation process identifies all differences between the Company's and the Division's databases. Finally, the Company should independently monitor these processes to ensure that they are functioning properly.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-6

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders, contract holders and beneficiaries, and appears to make reasonable efforts to locate such individuals in most instances. The Company appears to report unclaimed items and escheat them as required by statute, when the Company is made aware of such escheatable items.

Beginning in 2008, the Company completed a four-year look back to identify any owners who may have changed their addresses but have not informed the Company. The Company's databases were compared to the United State Post Office's National Change of Address Database. Although the procedure was not being performed during the examination period, the Company notes that they are now performing this procedure. Additionally, beginning in 2009, the Company initiated a pilot project to locate deceased policyholders by checking its in-force databases monthly against the Social Security Death Index. The Company indicates that they will fully implement the pilot project procedures in the third quarter of 2009. This pilot project will check policies that are pending lapse against the Social Security Death Index and will complete the check after notice of the pending lapse has been given to the policyholder. This check will include in-force policies prior to maturity. Finally, the Company has not developed specific escheatment procedures for matured annuity contracts when the owners cannot be located.

Recommendations:

First, the Company should ensure that it continues to compare the Company's in-force databases against the United State Post Office's National Change of Address Database. Second, the Company should permanently implement the pilot project procedures to check its in-force databases monthly against the Social Security Death Index. Further, the new pilot project procedure should include checking all contracts that are pending lapse and those just prior to maturity against the Social Security Death Index. Finally, the Company should develop and implement specific procedures for the treatment of matured annuity contracts when the owners cannot be located. These procedures should be reviewed and approved by the Company's compliance committee and legal department. The Company should independently monitor each of these new procedures to ensure that they are timely performed and effectively implemented.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-6

Findings: None.

Observations: The Company issued one individual long-term care policy whose application contained an unanswered underwriting question, and issued another individual long-term care policy whose application was not completely signed by the applicant. It otherwise appears from RNA's testing that the Company issues individual and group long-term care policies and fixed annuity contracts timely, accurately and completely in accordance with Company policies, procedures and statutory requirements.

Recommendation: The Company should ensure that individual long-term care applications are properly reviewed when received in the home office. The Company should periodically and independently confirm the existence and effectiveness of the review procedures.

STANDARD VI-7

Findings: None.

Observations: The applicant for one long-term care policy tested requested preferred rates, but a standard rate class was quoted and illustrated. An adverse underwriting notice was not required, since the applicant received rates no worse than standard rates. For the remaining applications tested, the Company otherwise provided the Adverse Underwriting Notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing Adverse Underwriting Notices appear to be functioning in accordance with its policies, procedures and statutory requirements.

Recommendation: The Company should ensure that it provides notice to individual long-term care applicants when the requested rate class differs from the class at which the policy is issued.

SECTION VII-CLAIMS

STANDARD VII-2

Findings: None.

Observations: Based upon the results of testing, it appears that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements in most instances. In June 2008, the Company discovered that claims personnel were not performing follow up procedures related to certain small dollar amount life insurance death claims that were initially reported, but not deemed in good order. In these cases, the beneficiaries provided insufficient information/documentation to pay the claims. Although the Company requested additional information or

documentation from the beneficiaries, the claims remained in a pending status without ongoing and proper follow-up. During 2008, an internal investigation identified the root cause of the problem, and the Company implemented corrective actions to their claims processes. As of May 2009, the Company has reviewed and taken action on all of these claims.

The annuity claims department compares the Company's annuity in-force listing against the social security death index on a monthly basis, to search for unreported annuity owner deaths. The annuity claims department, however, did not communicate annuity owner deaths found in the social security death index to the life claims department during the examination period to allow them to check whether those individuals had life policies with the Company. Communication regarding customers' deaths between those who process life and annuity claims regarding reported deaths began in January 2009 using the "Bridger" application system.

When processing life and annuity death claims, the Company does not consistently document its performance of multi-policy searches that are required by Division Bulletin 2001-07. Finally, the Company's annuity system does not interface with the life systems, such that an annuity owner's reported death must be manually communicated to those who process life claim transactions.

Recommendations: The Company should implement and independently monitor new life insurance death claim procedures to ensure they are properly and timely implemented. The Company should keep the Division timely apprised on the status of the unpaid death claims and its continuing efforts to address any remaining pending claims. Finally, the Company should proactively communicate with other state insurance regulators regarding the Company's remediation efforts to address this pending claim issue for those policies issued in the regulators' jurisdictions.

The annuity claims department should timely communicate annuity owner deaths to the life claims department, to allow them to check whether those individuals also had life policies with the Company. The Company should ensure that the "Bridger" system has been effectively implemented and periodically monitor its use for effectiveness.

The Company should independently monitor its multi-policy search procedures to ensure that it performs and documents multi-policy searches on all life and annuity death claims.

STANDARD VII-3

Findings: Due to an administrative error, the Company did not timely pay one long-term care claim after it received and timely approved an invoice for provider services. When the claim was paid, interest was inadvertently omitted in violation of M.G.L. c. 175, § 108. The Company subsequently paid interest on the late payment.

Observations: Except as noted above, testing results appear to show that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: The Company should ensure that all long-term care claims are timely settled in accordance with Company policies and procedures, and statutory requirements.

STANDARD VII-6

Findings: One long-term care claim tested was improperly adjudicated due to a manual error calculating an inflation benefit rider. This error resulted in the underpayment of the claim over a period of three years. The Company subsequently paid all benefits, plus interest, back to the claim inception date. The Company also completed a review of other claims where similar facts and circumstances occurred and found two additional claims with similar errors. The Company paid all benefits, plus interest, back to the claim inception dates. The Company states that they have hired a new long-term care claims analyst during the past year to address such coverage and plan code issues, and have implemented changes in the claims handling process to ensure that similar errors are prevented.

Observations: RNA noted that all but one of the long-term care claims tested was adjudicated according to the Company's policies and procedures, and that the claim files were generally handled in accordance with policy provisions. A plan code for one long-term care claim was incorrectly entered when the claim was presented, which resulted in the claimant being paid a slightly higher daily reimbursement rate than that due under the policy. The policyholder had already reached the policy benefit limits when the error was discovered, so this error resulted in the policyholder receiving payments earlier than due under the policy.

The Company has policies and procedures for life insurance death claims requiring claims examiners to verify that claim beneficiaries are not subject to the intercept requirements in M.G.L. c. 175, §§ 24D and 24F prior to making the claim payment. When processing life death claims, however, the Company does not consistently document its performance of its intercept procedures. The Company believes that such intercept procedures were completed for all life insurance death claims tested.

Recommendations: The Company should begin independently monitoring its claim intercept procedures, to ensure such procedures are being performed and documented as required by statute.

COMPANY BACKGROUND

The Company's predecessor, John Hancock Mutual Life Insurance Company ("JHMLICO"), was founded in 1862. On February 12, 1980, John Hancock Variable Life Insurance Company ("JHVLICO") was established as a wholly-owned subsidiary of JHMLICO. Effective February 1, 2000, JHMLICO adopted a Plan of Reorganization to convert JHMLICO from a mutual life insurance company to a stock life insurance company, and changed its name to JHLICO. At the same time JHLICO became a wholly-owned subsidiary of John Hancock Financial Services, Inc. ("JHFS"), a publicly held holding company formed in an initial public offering. Effective April 28, 2004, Canada-based Manulife Financial Corporation ("Manulife") acquired all of the outstanding common shares of JHFS that were not already beneficially owned by Manulife, and JHFS became a wholly-owned subsidiary of Manulife. Accordingly, Manulife is now the indirect, ultimate parent of JHLICO.

JHLICO is headquartered in Boston and domiciled in Massachusetts. JHLICO is licensed in all states and the District of Columbia, Puerto Rico, Guam, Northern Mariana Islands and the Virgin Islands. JHLICO is also licensed in Canada in the provinces of Alberta, Manitoba, Ontario, Quebec and Saskatchewan.

JHLICO currently sells individual and group long-term care and fixed annuity products in Massachusetts. JHLICO's primary fixed annuity investment product is GPA Plus, a deferred annuity. Prior to the examination period, JHLICO also sold individual life products and variable annuity products, and as a result, has a substantial number of Massachusetts policies and contracts in-force. JHLICO sells its products through general agencies which are part of its broker-dealer network, JHFN, and through unaffiliated agents that work for independent financial institutions such as banks or unaffiliated broker-dealers. Four of the JHFN agencies are based in Massachusetts.

As of March 2009, JHLICO is rated A++ (Superior) by A.M. Best Company, AA (Very Strong) by Fitch Ratings, Aa3 (Excellent) by Moody's Investor Service, Inc., and AA+ (Very Strong) by Standard & Poor's Corp. JHLICO had $69.8 billion in admitted assets and $4.1 billion in surplus as of December 31, 2007. For 2007, premiums and annuity considerations were $4.4 billion and net income was $1.1 billion.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's ultimate controlling entity is Canadian-domiciled ManuLife. Manulife's internal audit department is an independent function that performs audits of the Company's operational functions.
- ManuLife's Board of Directors Audit and Risk Management Committee ("ARM Committee") annually approves the internal audit plan, and monitors audit plan progress and results throughout the year.
- The internal audit plan is prepared using a risk evaluation process with input from Company management, the ARM Committee and the independent auditor.
- The internal audit department issues written reports for each audit performed. The reports discuss the procedures performed, findings, actions taken and recommendations. All significant audit report findings are reviewed and approved by the ARM Committee.
- ManuLife and the Company have delegated responsibility for core compliance to each of its U.S. business units. The Boston-based U.S. Compliance Department monitors and reports on compliance activities to Manulife's Global Compliance Office semi-annually through its Compliance Management Program ("CMP"). In the U.S., Manulife has 46 Business Unit Compliance Officers ("BUCO's") who are responsible for identifying key requirements, and for ensuring ongoing compliance as required by the CMP. The U.S. Compliance Department has an oversight role and works with the BUCO's to implement compliance controls and procedures, evaluate the effectiveness of compliance within the business units, and coordinate compliance activities across business units to achieve greater efficiencies and, where appropriate, consistency of approach.
- The Company is an Insurance Marketplace Standard Association ("IMSA") member and is required to undergo an independent assessment for compliance with IMSA standards every three years.

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

Transaction Testing Procedure: RNA reviewed selected internal audit reports related to fixed product operations, variable annuity operations, the U.S. Compliance Department, life policy administration, life new business and underwriting, life licensing and commissions, anti-money laundering, JHFN producer management, long-term care new business and underwriting, and compliance and risk management issued during the examination period. The internal audit

reports and any follow up procedures were discussed with management. Finally, RNA reviewed internal audit plans and internal audit reports to the ARM Committee.

Transaction Testing Results:

Findings: None.

Observations: The internal audit reports reviewed by RNA provided detailed information on the procedures performed, findings, actions taken and recommendations. The internal audit plans and internal audit reports to the ARM Committee adequately documented the ARM Committee's role in guiding and monitoring the internal audit function.

Recommendations: None.

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

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

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

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

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

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

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

- The Company has adopted written anti-fraud procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The Company's procedures require employees to report suspected fraud to their supervisors, BUCO's and the Massachusetts Insurance Fraud Bureau.
- ManuLife requires the Board of Directors, all employees and management, including those performing duties for the Company, to annually certify compliance with

ManuLife's Code of Business Conduct and Ethics, and to annually complete Conflict of Interest Disclosure Statements. Additionally, annual training must also be completed by each person.

- The Company is no longer hiring new employees. The Company stated that if it were to hire any "prohibited person," it would seek the Division's approval regarding such a hiring.
- The Company began to conduct criminal background checks in 1993 for all prospective employees prior to hiring them.

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

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for addressing fraud. In addition, RNA reviewed the Code of Business Conduct and Ethics, annual certification statements and the annual training materials.

Transaction Testing Results:

Findings: None.

Observations: The Company's policies and procedures for addressing fraud, the Code of Business Conduct and Ethics, annual certification statements and the annual training materials appeared adequate and reasonable.

Recommendations: None.

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

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

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

Objective: This Standard addresses the Company's contracts with entities assuming a business function and compliance with licensing and regulatory requirements.

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

- The Company has certain arrangements where third parties perform a business function on behalf of the Company. The Company uses third parties to perform long-term care on-site assessments when an initial claim is filed, and to appoint certain producers as agents. The contracts with these entities describe the duties of the parties, restrictions and limitations, general confidentiality requirements, and privacy maintenance requirements.

- The Company sells its products through a distribution network of general agencies and unaffiliated agents that work for independent financial institutions such as banks or broker-dealers. The contracts with these entities generally describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, general contract provisions, terminations and reappointments, and compliance with the Company's principles of ethical market conduct.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions. Further, RNA reviewed documentation supporting the duties performed by these third parties related to long-term care claims on-site assessment and to appointment of producers as agents. Finally, RNA reviewed standard contracts with general agencies and unaffiliated agents who sell the Company's products for compliance with statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's testing, it appears that the Company's contracts with entities assuming a business function on their behalf comply with statutory and regulatory requirements.

Recommendations: None.

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

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

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

- The Company uses third parties to perform long-term care on-site assessments when an initial claim is filed, to appoint producers as agents and to monitor compliance with contractual terms and conditions.
- The Company sells its products through its general agencies and unaffiliated agents. The contracts with these entities generally describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, general contract provisions, terminations and reappointments, and compliance with the Company's principles of ethical market conduct. Some agency contracts require explicit maintenance of errors and omissions ("E&O") coverage, while other agency contracts require agencies to hold JHFN harmless from an agent's negligent acts.
- ManuLife and the Company conduct due diligence procedures of licensed independent producers prior to appointing them as agents, but do not currently conduct criminal or

financial background checks on independent producers who apply for appointment as managing general agents and general agents.

- ManuLife and JHFN, its affiliated broker-dealer, monitor its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with requirements including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for variable life insurance and annuity sales.
- ManuLife and JHFN monitor its general agencies for compliance with policies and procedures through contemporaneous monitoring of all variable sales produced by the general agencies.
- ManuLife, the Company and JHFN monitor its unaffiliated agencies for compliance with policies and procedures through annual inquiries of selected agencies' supervisory and compliance procedures as noted in the agency contracts. During these annual reviews, the agency is evaluated for compliance with requirements including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for life and annuity sales.

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

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. Further, RNA reviewed documentation supporting the monitoring of the duties performed by these third parties related to long-term care claims on-site assessment. RNA reviewed monitoring procedures over general agencies and unaffiliated agencies conducted by ManuLife, JHFN and the Company for contractual requirements including compliance with needs assessment and suitability procedures. Finally, RNA reviewed the most recent annual on-site audit reports conducted by JHFN for ManuLife's four Massachusetts general agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that ManuLife, JHFN and the Company monitor the performance of third parties, including general agencies and unaffiliated agencies, for compliance with contractual requirements. The Company timely reviews each long-term care on-site claim assessment for compliance with policies and procedures. The annual on-site audit reports conducted by JHFN on ManuLife's four Massachusetts general agencies appeared to clearly report the procedures performed and conclusions reached during the on-site audits.

Recommendations: ManuLife and the Company should amend the unaffiliated agent contract to expressly require that E&O coverage be secured and maintained, and consider setting a minimum E&O coverage amount. Further, ManuLife and the Company should conduct criminal and financial background checks prior to appointing independent producers as managing general agents and general agents.

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

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

Controls Assessment: The Company has generally adopted written procedures regarding record retention requirements, including the length of time specific documents must be retained.

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

Transaction Testing Procedure: RNA inquired about the Company's record retention policies and evaluated them for reasonableness.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 32 and 47.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

- The Company is generally not issuing new life policies. For life insurance, the Company's definitions of Adverse Underwriting Decision, Personal Information and Pretext Interview appear to comply with Massachusetts law. Company policy prohibits pretext interviews except as allowed by law.
- The Company's practice is to provide the Notice of Protected Health Information Privacy Practices for long-term care sales at the policy application date. The Company's practice is to provide the Notice of Information Privacy Practices ("Privacy Notice") for long-term care sales and fixed annuity sales when the contracts are delivered. The Company does not ask specific questions on its application designed to obtain information for marketing or research purposes.
- The Privacy Notice is annually provided to customers by the Company's business units. The Company's U.S. Compliance Department monitors the issuance of the annual Privacy Notices.
- The Privacy Notice states that certain types of personal information including financial and health information is collected from third parties, and gives examples of such third parties and such types of information. Further, the Privacy Notice indicates that information may be disclosed in some cases, and that a right of access and correction exists.
- The Company requires that disclosure authorization in compliance with Health Insurance Portability and Accountability Act of 1996 ("HIPAA") be signed by the applicant at time of application for a long-term care policy, and when a long-term care claim is filed.
- The Company does not share personal information with other financial service providers and non-financial companies for marketing purposes. Thus, the Company is not required to offer an opt-out for such information sharing.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies. Such information is provided to third parties who assist the Company in processing customer business transactions only if expressly authorized by the applicant.
- The Company provides its privacy policies on the Company's website.
- The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information, and communicates these practices to employees and producers in training programs, compliance presentations and various memoranda. All employees and agents have taken privacy training as required by Company policy.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal financial and health information is located. Access is frequently and strictly monitored.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of long-term care underwriting, life claims and long-term care claims testing, RNA

sought any evidence that the Company improperly provided personal information to parties other than the applicant.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for providing the Notice of Protected Health Information Privacy Practices for long-term care applicants and the Privacy Notice to all applicants, and annually thereafter to policyholders. Further, RNA evaluated compliance with these privacy disclosure requirements in conjunction with testing of 108 individual and group long-term care applications, and 83 fixed annuity applications filed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Notice of Protected Health Information Privacy Practices for long-term care applicants was provided with each of the applications. The Privacy Notice to long-term care and fixed annuity applicants was provided with the

contracts. RNA also noted that the Company has procedures for annually providing the Privacy Notice to policyholders, and that monitoring the issuance of these notices is completed by the U.S. Compliance Department.

Recommendations: None.

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175I, §§ 1-22; Health Insurance Portability & Accountability Act of 1996 ("HIPAA") Public Law 104-191; 45 CFR Parts 160 and 164.

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information as required by M.G.L. c. 175I, §§ 1-22. The HIPAA Public Law §§ 104-191 and 45

CFR Parts 160 and 164 set forth proper procedures for inquiry, release, disclosure and maintenance of non-public personal health information.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing long-term care applications and underwriting declinations, long-term care claims and life claims processing. Finally, RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 108 individual and group long-term care applications filed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based on testing and review, RNA noted that the HIPAA authorization disclosure was signed by each applicant for all individual and group long-term care applications. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing long-term care applications and underwriting declinations, long-term care claims and life claims.

Recommendations: None.

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 28.11.

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

211 CMR 28.11 requires that the illustration actuary annually file certifications with the Division for life products requiring an illustration.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed that the illustration actuary filed certifications with the Division in 2007 for life products requiring an illustration.

Transaction Testing Results:

Findings: None.

Observations: The Company has filed actuarial certifications with the Division related to life illustrations in use in 2007.

Recommendations: None.

II. COMPLAINT HANDLING

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

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

M.G.L. c. 176D, § 3(10).

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

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

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

- Written Company policies and procedures govern the complaint handling process.
- The Company logs all written complaints, and insurance department complaints that meet the Company's complaint definition, in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company provides a telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company monitors complaint handling activity through monthly management reporting of business units' complaint activity and trends.
- The Company's affiliated broker-dealer performs annual compliance reviews of the Company's general agencies, which covers complaint handling procedures at the agency. In addition, the Company monitors complaint activity of certain producers using complaint metrics developed for the general agency distribution channel.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 10 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the

adequacy of documentation supporting the resolution of each complaint. RNA also compared the Company's complaint register to the Division's complaint records, to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's format for recording complaints included all necessary information, and that complaint handling activity reports monitor use of the proper complaint format. RNA further noted that ManuLife is developing complaint metrics for independent agents similar to those in place for producers at its general agencies. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: RNA recommends ManuLife to develop and implement complaint metrics for use in monitoring its independent agents.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 10 Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the adequacy of documentation supporting the resolution of each complaint. RNA also reviewed complaint trend reports prepared by management during the examination period, noting that activity is summarized and analyzed to identify root causes of complaints. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures in place to address complaints, adequately communicates such procedures to policyholders and monitors compliance with complaint handling procedures.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 10 Massachusetts complaint files from the examination period, to evaluate the Company's actions related to complaint disposition.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Massachusetts does not have a specific complaint processing time standard in statute or regulation. The Division has established a practice of requiring that insurers respond to

complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed 10 Massachusetts complaint files from the examination period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed each of the complaints tested within 14 days. It appears that the Company's processes for responding to complaints in a timely manner are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

M.G.L. c. 176D, § 3; M.G.L. c. 175, §§ 18, 121 and 181; 211 CMR 42.09 and 65.08; Division Bulletin 2001-02.

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

Pursuant to M.G.L. c. 176D, § 3 and M.G.L. c. 175, § 181, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies or annuity contracts, or the benefits, terms, conditions and advantages of such policies and contracts. M.G.L. c. 175, § 18 requires companies to conduct their business using their corporate name on policies and contracts. M.G.L. c. 175, § 121 prohibits a life company and producers from making any contract other than as plainly expressed in policies or contracts issued. 211 CMR 42.09 requires that advertising and marketing for individual disability income and long-term care products not be misleading. 211 CMR 65.08 specifies various requirements for marketing of long-term care insurance, including identifying group vs. individual products and that agents should disclose the name of the carrier that they represent. Pursuant to Division Bulletin 2001-02, an insurer who maintains an Internet website must disclose on the website the name of the company as it appears on the certificate of authority, and the address of its principal office.

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

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including a provision in producer contracts requiring producers' adherence to such procedures.
- The Company maintains a written Advertising Compliance Guide for Long-Term Care Insurance ("Advertising Guide") that is distributed to all agents, and is also available electronically on the Company's secure web portal. The Advertising Guide defines an advertisement, and describes the Company's policies and procedures for an agent's use of advertising materials.
- The Company has created a Long-Term Care Marketing Tool Kit for agents, which describes the Company's long-term care products, includes consumer brochures and discusses recommended sales practices.
- Company and producer-developed advertising and sales materials are reviewed and approved by Company management prior to use.
- The Company maintains a listing of approved advertising and sales materials that are available for use by producers. Approved pieces are dated and expire after three years.
- The Company discloses its name and address on its website.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for review, approval and maintenance of sales and advertising materials, and obtained supporting documentation. RNA obtained a list of Company-prepared long-term care advertising and sales materials utilized during the examination period, and selected 10 pieces for evidence of approval prior to use. RNA also obtained a list of JHFN-submitted advertising and sales materials utilized during the examination period, and selected 20 pieces for evidence of approval prior to use. RNA also reviewed the Company's fixed annuity marketing materials for reasonableness, and the Company's website for disclosure of its name and address. Finally, RNA sought evidence of the use of unapproved sales and marketing materials as part of new business testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 65.08.

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

211 CMR 65.08 requires the Company to provide training to all agents selling individual long-term care coverage and to maintain evidence of their completion of such training.

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

- The Company has developed extensive producer training and education programs which are tailored to the agents' experience and needs.
- All producer training materials are approved by Company management prior to use.
- The Company states that it requires Massachusetts agents who sell long-term care policies to complete training on the Company's long-term care products, and that a list of such agents is timely submitted to the Division.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer training materials through the Company's training and orientation programs. Further, RNA evaluated compliance with long-term care training requirements in conjunction with testing of 70 individual long-term care applications.

Transaction Testing Results:

Findings: None.

Observations: The Company's producer training materials appear appropriate, and testing results indicate that its process for approving training materials prior to use is functioning in accordance with policies and procedures. The Company provided evidence of the completion of long-term care producer training for 57 of the 70 individual long-term care sales tested. While management believes that training was provided to the agents producing the remaining 13 sales, it is unclear whether such training occurred.

Recommendations: The Company should adopt new procedures to ensure that long-term care training is provided to all agents that are authorized to sell individual long-term care policies, and that documentation supporting such training is maintained. Further, the Company should independently monitor the effectiveness of these new procedures shortly after their implementation, to ensure that such documentation is maintained.

Subsequent Actions: As a result of RNA's testing, the Company has adopted new procedures to ensure that long-term care training is provided to all agents that are authorized to sell individual long-term care policies. In addition, the Company states it plans to conduct semi-annual independent audits to ensure that documentation supporting such training is maintained.

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

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

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

- Producer communications including electronic mail and bulletins are approved by Company personnel prior to distribution, and are also available electronically on the Company's secure web portal.
- The Company updates producers on product and compliance matters by circulating a bi-monthly newsletter, *Newslink* via the Company's secure web portal.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for developing and distributing producer communications. RNA reviewed the Company's secure web portal and reviewed selected *Newslink* publications for appropriateness.

Transaction Testing Results:

Findings: None.

Observations: Based on our review, communications to producers appear appropriate and reasonable.

Recommendations: None.

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

211 CMR 34.04; 211 CMR 42.08 and 42.11.

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

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

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

- Written policies and procedures govern replacement handling.
- The Company's applications require a response from the applicant and producer as to whether or not the long-term care policy or fixed annuity contract applied for will replace another policy or contract.
- Producers are required to submit applications to the Company that include copies of the Massachusetts replacement disclosure form provided to, and signed by, the applicant on the application date.
- Company policy requires that producers conclude that all replacement sales are in the applicants' best interests.
- Reduced commissions are paid on certain internal replacements to discourage such replacements.
- JHFN monitors its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with replacement requirements for variable life insurance and annuity products.
- JHFN monitors its general agencies for compliance with policies and procedures through contemporaneous monitoring of all variable life and annuity replacement sales.
- The Company and JHFN state that they monitor agents for the volume and nature of their replacement sales, and take action when considered necessary.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of 52 fixed annuity replacement sales from the examination period for testing, including 34 internal and 18 external replacements. RNA also selected a sample of 15 individual long-term care replacement sales from the examination period for testing, including 10 internal and five external replacements. Finally, RNA selected a sample of 12 life and 12 annuity replacement sales of the Company's affiliates' products, which were produced by the four Massachusetts JHFN general agencies.

RNA reviewed the applications for the Company's fixed annuity and long-term care replacement sales to ensure that the replacement questions on the applications were properly answered, reviewed evidence that the replacement disclosure forms were properly signed by the applicants at the application dates, and evaluated whether the replacement sales appeared to be suitable for the applicants. Further, RNA reviewed the agents' files for 10 of the fixed annuity replacement sales and two of the long-term care replacement sales, for appropriate replacement needs assessment. RNA evaluated the suitability of the life and annuity replacement sales of the Company's affiliates' products produced by the four Massachusetts JHFN general agencies. Finally, RNA inquired whether the Company and JHFN monitor agents for the volume and nature of their replacement sales, and the extent and nature of actions taken when necessary.

Transaction Testing Results:

> *Findings:* The file for one fixed annuity sale contained no evidence that the applicant signed the Massachusetts replacement disclosure form on the application date, in violation of 211 CMR 34.04.
>
> *Observations:* Except as noted above, the testing of the agents' files related to the fixed annuity and long-term care replacement sales appear to show that such sales meet the applicants' needs and comply with Company's replacement procedures. Further the tested life and annuity replacement sales of the Company's affiliates' products, which were produced by the four Massachusetts JHFN general agencies, appeared suitable for the applicants. Finally, the Company and JHFN appear to monitor agents for the volume and nature of their replacement sales and take action as considered necessary.

Required Actions: The Company shall enhance the home office review procedure for agents' submitted applications, to ensure that applicants always sign required replacement disclosures at the application date, in compliance with 211 CMR 34.04.

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

211 CMR 34.05 - 34.07; 211 CMR 42.08 and 42.11.

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

Pursuant to 211 CMR 34.05-34.06, insurers must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life and annuity applications include a signed form acknowledging replacement. 211 CMR 34.07 requires insurers who solicit direct response sales to obtain a signed form acknowledging replacement. 211 CMR 42.08 and 42.11 require that applications for accident and sickness insurance, including long-term care insurance, ask whether the sale involves a replacement, and require the replacing insurer or producer to furnish a proper replacement notice to the applicant.

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

- Written policies and procedures govern replacement handling.
- Company policy requires that all replacements be consistently recorded in the Company's replacement register.
- The Company and JHFN review submitted applications, which require a signed response from the applicant and producer as to whether or not the policy or contract applied for will replace another policy or contract.
- The Company and JHFN review submitted applications for evidence of signed replacement disclosure forms from the applicants.
- The long-term care new business processing function includes a quality assurance review, during which a portion of submitted business is checked in the home office to evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The fixed annuity new business processing function includes a quality assurance review, during which all submitted business is checked in the home office to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- Reduced commissions are paid on certain internal replacements to discourage such replacements.
- When a long-term care or fixed annuity sale involves a replacement of another carrier's contract, the Company sends notice to the replaced carrier within seven business days after receipt of the application in the home office.
- When a long-term care application is received, the Company performs a search for undisclosed replacements through a search of long-term care policies currently in-force.
- The Company provides a 20 day free look on all replacement sales.
- JHFN monitors its general agencies for compliance with Company policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with replacement requirements for variable life insurance and annuity products.

- JHFN monitors its general agencies for compliance with Company policies and procedures through contemporaneous monitoring of all variable life and annuity replacement sales.
- The Company and JHFN state that they monitor agents for the volume and nature of their replacement sales, and take action when considered necessary.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of 52 fixed annuity replacement sales from the examination period for testing, including 34 internal and 18 external replacements. RNA also selected a sample of 15 individual long-term care replacement sales from the examination period for testing, including 10 internal and five external replacements. RNA reviewed the Company's fixed annuity and long-term care replacement sales to ensure that they were properly included on the Company's replacement register, reviewed the notice to the replaced carrier for timeliness and evaluated the commissions paid on internal replacements to ensure that they were reduced in accordance with Company policy.

Transaction Testing Results:

Findings: The Company did not send the notice to the replaced carrier for one fixed annuity sale within seven business days, in violation of 211 CMR 34.06.

Observations: Two replacement sales were improperly excluded from the Company's replacement register due to various system limitations, in violation of Company policy. The Company states that the systems limitations have been corrected to ensure that all replacement sales are now properly reported on the replacement register. Additionally, the Company did not reduce the commission on one internal replacement, in violation of Company policy. The Company subsequently reduced the commission on the internal replacement, and has automated the procedure. Testing of fixed annuity and long-term care replacement sales otherwise showed that the Company's replacement procedures pertaining to Company requirements appear to be functioning in accordance with its policies and procedures.

Required Actions: The Company shall enhance the home office review procedure for submitted applications to ensure that it always sends the required notice to replaced carriers within seven business days, in compliance with 211 CMR 34.06. Further, the Company shall independently monitor replacement sales to ensure that all are properly included on the replacement register, and that commissions are properly reduced on internal replacement sales, in accordance with Company policy.

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 42.09 and 211 CMR 65.09.

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

211 CMR 42.09 requires that accident and sickness insurance, including individual long-term care insurance applicants, receive disclosure forms at policy delivery or when the application is made. Such forms require disclosure of information regarding certain policy benefits, terms, premiums, exclusions and limitations. Also, written disclosure must be made to the applicant if a policy is issued other than as applied for. The regulation also sets forth disclosure requirements for Medicare-eligible applicants. 211 CMR 65.09 requires that individual and group long-term care policies adequately disclose all policy provisions, and that applicants must receive disclosure forms relating to financing, suitability, Medicare and Medicaid eligibility, a policy illustration and an outline of coverage.

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

- The Company has written policies and procedures addressing the use and distribution of long-term care policy illustrations, required disclosure forms and other mandatory disclosures at the application date.
- The Company has written policies and procedures addressing the distribution of Company-required fixed annuity disclosure forms, including 1035 exchange forms and other transfer forms, at the application date.
- The Company reviews all submitted long-term care applications to ensure that required forms and disclosures are provided to the applicants.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants.
- The long-term care new business processing function includes a quality assurance review, during which a portion of submitted business is checked in the home office to evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The fixed annuity new business processing function includes a quality assurance review, during which all submitted business is checked in the home office to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for long-term care new business processing and underwriting, and fixed annuity new business processing, and obtained supporting documentation. RNA selected 108 individual and group long-term care applications, and 83 fixed annuity applications from the examination period, for testing. RNA reviewed long-term care illustrations and other required disclosures, and verified

that they were timely provided to the applicants. RNA reviewed the fixed annuity disclosures, and verified that they were timely provided to the applicants.

Transaction Testing Results:

Findings: The Company accepted 10 long-term care applications, which did not acknowledge delivery of the Massachusetts Long-Term Care Financing Guide, in violation of 211 CMR 65.09.

Observations: One fixed annuity application did not include the Company-required interest rate disclosure form. RNA otherwise noted from testing that all Company-required fixed annuity disclosures were timely provided to the applicants.

Recommendations: The Company should establish new home office review procedures to ensure that all required disclosure forms are submitted with the applications. Further, the Company should independently monitor such new procedures to ensure they are effectively implemented.

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

211 CMR 96.06.

Objective: This Standard is concerned with whether the Company maintains suitability or needs assessment standards for its products. See Standards III-11 and III-12 for testing of fixed annuity suitability procedures.

211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place to prevent and detect violations of these requirements.

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

- Company policy requires that producers conclude that all sales are suitable and meet the applicants' needs.
- The Company adheres to the NAIC-adopted long-term care suitability guidelines when marketing its individual long-term care products. The NAIC guidelines are generally based on applicants' assets and income, which are used to determine if long-term care products are affordable and suitable for the applicants.
- The Company has developed a Long-Term Care Suitability Personal Worksheet that is required as part of the individual long-term care policy application. Applicants must check a box to indicate they do not wish to disclose their financial information, and agents are required to sign statements indicating that they explained the importance of such information to the applicants.
- The Long-Term Care Suitability Personal Worksheet is reviewed for completeness in the home office as part of the review of the policy application.
- The long-term care new business processing function includes a quality assurance review, during which the home office rechecks a sample of submitted business to evaluate the

accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for long-term care new business processing and underwriting, and obtained supporting documentation. RNA selected 70 individual long-term care applications from the examination period to test for evidence that the Long-Term Care Suitability Personal Worksheet was completed or requested with appropriate disclosures, and that the product appeared to meet the applicants' needs. Further, RNA requested the agents' files for five long-term care applications, to ensure that the agents made appropriate needs assessments.

Transaction Testing Results:

Findings: None.

Observations: The Long-Term Care Suitability Personal Worksheet was completed, or required suitability disclosures were made, for each sale tested. Each of the five files reviewed appeared to show that agents made appropriate needs assessments.

Recommendations: The Company should monitor its general agencies' long-term care sales, and consider including a review of such sales during the annual on-site compliance visit to the general agency, or through an independent annual review process.

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

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

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

211 CMR 55.06.

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

211 CMR 55.06 requires that a disclosure statement concerning waiver of surrender charges for early withdrawals of annuity contracts be provided to the applicant at the time of application.

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

- The Company has written policies and procedures addressing the use and distribution of the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosure at the application date.
- The Company reviews all submitted fixed annuity applications to ensure that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosure was signed by the applicant at the application date.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for disclosing required accelerated benefits disclosures for fixed annuity sales. RNA selected 83 fixed annuity applications from the examination period to ensure that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures were signed by the applicants at the application dates.

Transaction Testing Results:

Findings: The Company accepted seven fixed annuity applications of 83 such applications tested where Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures were not signed by the applicants at the application dates in violation of 211 CMR 55.06. RNA otherwise noted that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures were timely provided to the applicants.

Observations: None.

Recommendations: The Company should establish new procedures to ensure that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosures are signed by the applicants at the application dates, and submitted with the applications to the home office. Further, the Company should independently monitor these new procedures to ensure that they have been effectively implemented.

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

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

Objective: This Standard is concerned with ensuring that policy application forms used by depository institutions provide required disclosures.

The Gramm-Leach-Bliley Act and Rule 12 CFR Parts 14, 208, 343 and 536 require written disclosures to consumers. Notices unrelated to an extension of credit must inform the consumer that insurance and annuities are not deposits, other obligations of, or guaranteed by the bank or its affiliates; that insurance and annuities are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any agency of the United States, the bank, or its affiliates; and that there may be potential for investment risk, including the possible loss of value in certain cases.

Notices related to an extension of credit, must inform the consumer that the bank cannot condition the extension of credit upon the consumer also purchasing an insurance policy or annuity from the bank or its affiliate. In addition, the disclosure notice must inform the consumer that insurance and annuities are not deposits, other obligations of, or guaranteed by the bank or its affiliates; that insurance and annuities are not insured by the FDIC or any agency of the United States, the bank, or its affiliates; and that there may be potential for investment risk, including the possible loss of value in certain cases.

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

- The Company has written policies and procedures for sales of Company fixed annuities by depository institutions, and the Company reviews new business submissions from depository institutions for completeness and use of required Company forms.
- Company policy requires that depository institutions disclose that the fixed annuity is not a deposit or other obligation of, or guaranteed by, the depository institution, the FDIC, or any other agency of the United States.
- Company policy requires that depository institutions disclose risks including the possible loss of value for products involving investment risk. The Company has prepared product information for consumers, which includes all required disclosures. The Company prohibits depository institutions from tying fixed annuity sales to extensions of credit when selling Company products.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing. Since the procedures for sales generated by producers at depository institutions are the same as those for all producers, no unique testing of business generated from the depository institutions was performed.

Transaction Testing Results:

Findings: None.

Observations: Based on review, it appears that the Company has adopted procedures to ensure that depository institutions make required sales disclosures.

Recommendations: None.

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

211 CMR 96.06.

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

211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements.

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

- Company policy requires that producers conclude that all fixed annuity sales are suitable and meet the applicants' needs.
- The Company requires that producers obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for fixed annuity new business processing and obtained supporting documentation. RNA requested 20 fixed annuity applications from JHFN agents' files, to ensure that the agents obtained the required financial information and investment objectives and made appropriate needs assessments.

Transaction Testing Results:

Findings: None.

Observations: Each of the 20 agents' files tested showed that agents obtained the required financial information and investment objectives, and made appropriate needs assessments.

Recommendations: None.

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

211 CMR 96.06.

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

211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place to prevent and detect violations of these requirements.

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

- Company policy requires that producers conclude that all fixed annuity sales are suitable and meet the applicants' needs.
- The Company requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The Company and JHFN monitor its unaffiliated agencies for compliance with policies and procedures through annual inquiries of selected agencies' supervisory and compliance procedures as noted in the agency contracts. During these annual reviews, the agency is evaluated for compliance with requirements including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for fixed annuity sales.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for fixed annuity new business processing and obtained supporting documentation. RNA selected 83 fixed annuity applications from the examination period to review for completeness and consistency. Further, RNA requested 20 fixed annuity applications from JHFN agents' files to ensure that the agents obtained the required financial information and investment objectives, and made appropriate needs assessments.

Transaction Testing Results:

Findings: None.

Observations: All but one of 83 fixed annuity applications tested appeared complete, and were issued consistent with the applications. In one case, inconsistent information on the application regarding the contract period was not identified, challenged and resolved at the time the application was submitted. As a result of RNA's testing, the Company has contacted the customer to confirm the intent of the contract. Each of the 20 agents' files reviewed showed that the agents obtained the applicant's required financial information and investment objectives, and made appropriate needs assessments.

Recommendations: RNA has the following recommendations:

- The Company should establish new home office procedures to ensure that all fixed annuity applications are reviewed for inconsistent information prior to approval. The Company should independently monitor the new control procedure to ensure it has been effectively implemented.
- The Company should enhance its relatively new process for monitoring its unaffiliated agencies' production of fixed annuities by using a more rigorous risk assessment, which selects agents by type of sale, focusing on senior sales, replacements and other agents with high numbers or percentages of senior sales or replacements. The documentation of this process should be enhanced using standard audit programs or procedures checklists.
- The Company should monitor its general agencies' fixed annuity sales, particularly senior sales and replacements. The monitoring could include a review of such sales during the annual on-site compliance visit to the general agency or through an independent annual review process.

Standard III-13. The regulated entity has procedures in place to educate and monitor insurance producers and to provide full disclosure to consumers regarding all sales of products involving fixed-index annuity products, and all sales are in compliance with applicable statutes, rules and regulations.

211 CMR 96.06

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

211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place to prevent and detect violations of these requirements.

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

- Company policy requires that producers conclude that all fixed annuity sales are suitable and meet the applicants' needs.

- The Company has developed producer training and education programs for its fixed annuity products, which are tailored to the agents' experience and needs.
- All producer training materials are approved by Company management prior to use.
- The Company requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The Company and JHFN monitor its unaffiliated agencies for compliance with policies and procedures through annual inquiries of selected agencies' supervisory and compliance procedures as noted in the agency contracts. During these annual reviews, the agency is evaluated for compliance with requirements including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for fixed annuity sales.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for fixed annuity new business processing and producer training, and obtained supporting documentation. RNA requested the agents' files for 20 fixed annuity applications, to ensure that the agents obtained the required financial information and investment objectives, and made appropriate needs assessments.

Transaction Testing Results:

Findings: None.

Observations: Each of the 20 agents' files tested showed that the agents obtained the required financial information and investment objectives, and made appropriate needs assessments.

Recommendations: None.

Standard III-14. The regulated entity has procedures in place to educate and monitor insurance producers and to provide full disclosure to consumers regarding all sales of products involving index life, and all sales are in compliance with applicable statutes, rules and regulations.

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

IV. PRODUCER LICENSING

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

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

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

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

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

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

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

- The Company sells its products through its general agencies and unaffiliated agents. The Company's general agents and unaffiliated agencies recommend producers licensed in Massachusetts for appointment as agent. Such producers submit an appointment data sheet to the Company, along with evidence of the producer's Massachusetts license. ManuLife and the Company conduct due diligence procedures of such producers prior to appointing them as agents.
- The applying producer is appointed as agent when the first application for insurance is submitted. At the same time, the standard agent contract is signed by both parties, and the appointment is entered into the NAIC Producer Database, which communicates the appointment to the Division's OPRA system.
- The contracts with general agencies and unaffiliated agents generally describe the duties of the parties including licensing and appointment requirements, limitations of authority, compensation, general contract provisions, terminations and reappointments, and compliance with the Company's principles of ethical market conduct. Some agency contracts require explicit maintenance of errors and omissions ("E&O") coverage, while other agency contracts require agencies to hold JHFN harmless from an agent's negligent acts.

- The Company maintains an automated producer database to track all appointments, terminations and other licensing changes related to its agency force.
- The Company completes a periodic reconciliation of its agent appointment records with those of the Division.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent appointments and reconciliation of agent records. RNA tested agent appointment procedures in conjunction with testing of 83 fixed annuity sales and 70 individual long-term care sales during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale. Additionally, for the agent appointments processed in 2007, RNA verified that the appointment dates on the Division's and the Company's databases matched within reason.

Transaction Testing Results:

Findings: None.

Observations: RNA's testing of 83 fixed annuity sales and 70 individual long-term care sales during the examination period, for those agents appointed in 2007, showed appointment dates on the Division's and the Company's databases that matched within a few days. Further, all the agents who sold policies during the examination period were properly licensed, and all but four were included on the Division's database of the Company's appointed agents at the time the policies were issued. Four agents were not included on the Division's database of the Company's appointed agents due to computer systems issues. The Company states that several of these systems issues have been addressed. In some cases, reconciliations of the Company's and Division's agent databases did not fully identify all differences.

Recommendations: The Company should review its appointment transmission procedures to ensure that all transmissions are successfully made. Further, the Company should revise its reconciliation process to ensure that all identified exceptions are timely addressed. Finally, the Company should independently monitor the appointment transmission and revised reconciliation processes to ensure that they are functioning properly.

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

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

See Standard IV-1 for testing.

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

M.G.L. c. 175, §§ 162R and 162T.

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

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

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

- The Company maintains an automated producer database to track all appointments, terminations and other licensing changes related to its agency force.
- The Company's policy is to notify the Division of agent terminations as required by statute.
- The Company's policy is to notify the Division of the reason for agent terminations when the terminations are "for cause."
- The Company has a process for notifying agents that their appointments have been terminated, in compliance with statutory and contractual requirements.
- The Company completes a periodic reconciliation of its agent termination records with those of the Division.

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

Transaction Testing Procedure: RNA interviewed company employees with responsibility for processing agent terminations. RNA selected 15 terminations from the examination period, to determine whether the Company gave timely notice of the terminations to the Division and the producers.

Transaction Testing Results:

Findings: RNA noted that 11 of 15 agent terminations tested were not timely reported to the Division. In addition, eight agents were not properly notified of their terminations, in violation of M.G.L. c. 175, § 162T. In some cases, reconciliation of the Company's and Division's producer databases did not fully identify agent termination differences.

Observations: None.

Recommendations: The Company should implement new procedures to ensure that it gives timely notice of terminations to agents and the Division in accordance with statutory requirements. The Company should complete its review of the reconciliation process and make

necessary changes, to ensure that the reconciliation process identifies all differences between the Company's and the Division's databases. Finally, the Company should independently monitor these processes to ensure that they are functioning properly.

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA tested agent appointments in conjunction with testing of 83 fixed annuity sales and 70 individual long-term care sales, and 15 terminations from the Company's records during the examination period, for any evidence of unfair discrimination against policyholders during performance of these tests.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected 15 terminations from the examination period to test for adequate documentation of termination reasons. Further, RNA reviewed the terminations to note whether any were "for cause," and whether any such terminations and the related reasons were communicated to the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's policies are direct billed, mitigating the possibility for excessive balances owed by producers.
- The Company pays producers' commissions in accordance with written producer contracts. Commissions are generally paid as earned, and producers are not entitled to commissions on lapsed policies.
- Advance commissions are paid to financial institution producers, but the Company does not provide general advances to agents.
- The Company provides producers with a monthly statement of new and renewal premium commissions and adjustments.
- The Company actively monitors producers' account balances to ensure that outstanding amounts are within limits it deems reasonable.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 108, 110B, 187C and 187D; 211 CMR 65.10.

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

M.G.L. c. 175, § 108 requires that accident and sickness policies, including long-term care policies, provide a 10 day grace period on premium payments for monthly premium policies, and a 31 day grace period for quarterly or annual premium policies after the due date before lapse can occur. Pursuant to M.G.L. c. 175, § 110B, no accident and sickness policies, including long-term care policies and life insurance policies, may lapse for nonpayment of premium until after three months from the premium due date, unless, within 10 days prior to the due date, the Company has mailed a notice to the policyholder showing the premium due and the due date, with notice that the policy will lapse if no payment is made on or before the due date. M.G.L. c. 175, §§ 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium. 211 CMR 65.10 requires that long-term care policies provide notice of premium due at least 30 days prior to the due date, and allows policyholders to designate one additional person to receive lapse or termination notices.

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

- Individual life and long-term care policyholders may elect to pay premiums either quarterly, semi-annually or annually, by either electronic funds transfer or by check. Some group policyholders are list billed for policies held by their employees.
- The Company generates and mails billing notices for individual life and long-term care policies 21-30 days prior to the installment due date. The notices also state that the policies will lapse unless payments are made.
- If life insurance premiums are not received by the due date, an overdue premium notice is mailed after 45 days stating that if payment of the overdue premium is not made, the policy will lapse for non-payment approximately 70 days after the original due date. If payment is received within 10 days of lapse, reinstatement is automatic. After 10 days, a reinstatement application is required.
- If long-term care premiums are not received by the due date, reminder notices are sent when the installments are 30 and 45 days past due, noting that non-payment will result in a lapsed policy approximately 60 days after the installment due date. If payment is still not made and the policy lapses, a final notice of lapse and a reinstatement application are sent to the policyholder.
- Long-term care policies are placed on waiver of premium status only after written instructions are received from the claims department.
- The Company has written service standards to ensure the timely processing of premium billing, reminder and lapse notices.

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

Transaction Testing Procedure: RNA discussed billing procedures with Company personnel, and obtained supporting documentation. RNA selected five individual life policies and three individual long-term care policies which lapsed for non-payment during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 187C; 211 CMR 42.05.

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

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

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

- Upon request to cancel a life insurance policy, long-term care insurance policy or annuity, the Company sends the owner a required form, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium and surrender value is sent to the policyholder within seven days for variable life products, and within 10 days for non-variable life and long-term care products. Annuity surrender requests are processed within one day for variable annuities and within three days for fixed annuities.
- All owners have the right to return ("free look") newly purchased contracts within the time period stated in the contracts. Premium refunds are to be promptly returned to the owners.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested transactions.

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

Transaction Testing Procedure: RNA discussed free look and insured-requested cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected two individual long-term care free looks, two annuity free looks, five individual life insured-requested cancellations, three individual long-term care insured-requested cancellations, five partial annuity surrenders and five full annuity surrenders from the examination period, to ensure that requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's long-term care and life insurance policyholder service function includes post-issue call centers to answer questions from customers and agents. In addition, the Company has individuals located in Boston, Milwaukee, Toronto and the Philippines who respond to written correspondence and process post-issue transactions.
- The Company's annuity contract holder service function includes a post-issue call center to answer questions from customers and agents. In addition, the Company has individuals located in Boston who answer written correspondence and process post-issue annuity transactions.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder correspondence.

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

Transaction Testing Procedure: RNA discussed correspondence procedures with Company personnel, and obtained supporting documentation. RNA also evaluated the Company's efforts to correspond with policyholders and contract holders in various complaint handling, policyholder service, underwriting and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to timely correspond with policyholders and contract holders.

Recommendations: None.

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

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

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

M.G.L. c. 175, §§ 123, 126, 139, 142 and 187B; 211 CMR 95.08.

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

M.G.L. c. 175, § 123 requires a disinterested witness for life insurance beneficiary changes. M.G.L. c. 175, § 126 limits life insurance beneficiary changes once a married woman is named as beneficiary. M.G.L. c. 175, § 139 limits face amounts of conversions for rewritten life insurance policies or annuity contracts with an effective date prior to the exchange application date. M.G.L. c. 175, § 142 addresses loan interest rates for non-variable whole life policies. M.G.L. c. 175, § 187B requires insurers to return premium after they cancel any insurance policy. 211 CMR 95.08 governs policy loans on variable life policies including transactions after the initial sale.

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

- Company policy provides for beneficiary and ownership change requests to be effective upon the signing and mailing of a properly completed form. Company policy requires a witness signature to process life beneficiary changes.
- Company policy requires a signed written request to process life insurance policy loans. Other life insurance policy changes may be made in writing or by phone. The call center staff regularly process name and address changes, dividend payments, certain policy coverage changes and policy rider changes.
- The annuity call center staff regularly process name and address changes and variable annuity sub-account changes.
- The Company gives written notice to life insurance policyholders and annuity contract holders prior to policy maturity, and advises them of various settlement and reinvestment options.

- The Company's long-term care policyholder service function requires a written request to processes all long-term care contract changes, including inflation rider requests and third party notification requests.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder service transactions.

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

Transaction Testing Procedure: RNA discussed policy change procedures with Company personnel, and obtained supporting documentation. RNA selected nine beneficiary change requests (seven life and two annuity), eight ownership change requests (six life and two annuity), seven life policy loan requests, five long-term care contract change requests, five long-term care third party notification requests and three variable annuity sub-account change requests from the examination period, to ensure that the Company processed transactions accurately, timely and in accordance with statutory requirements and policy provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 200A, §§ 5A, 5B, 6D, 7-7B, 8A and 9.

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

M.G.L. c. 200A, §§ 5A, 5B, 6D, 7-7B, 8A and 9 state that a matured life policy, annuity contract and unclaimed dividends are presumed abandoned if unclaimed for more than three years after the funds become payable. Annual reporting to the State Treasurer's Office regarding efforts to locate owners is required, and the statutes require payments to the State Treasurer's Office for escheated property.

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

- Company policy requires that unclaimed maturities, unclaimed premium refunds, uncashed checks for life insurance and annuity death claims, and uncashed checks for long-term care claims be reported and escheated when the owner cannot be found.
- The Company has implemented procedures for locating lost owners through searches of Company records and public databases. Once unclaimed checks have been outstanding

for more than four months, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner. When a check is returned, a check stop payment is issued, and notice to the owner is given that the check payment was returned and/or not cashed, and subsequently voided. A new check is sent once a better address is located. If a new address is not found after six months, the amounts are reported and escheated according to Massachusetts statutory requirements.

- The Company annually reports escheatable funds to the State Treasurer on May 1st as required by statute. Prior to escheatment of funds, a final attempt is made to locate the owner.

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

Transaction Testing Procedure: RNA discussed with Company personnel procedures for locating missing policyholders, contract holders and beneficiaries, and procedures for escheatment of funds, and reviewed supporting documentation. RNA reviewed the escheatment filing made to the State Treasurer for 2007.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders, contract holders and beneficiaries, and appears to make reasonable efforts to locate such individuals in most instances. The Company appears to report unclaimed items and escheat them as required by statute, when the Company is made aware of such escheatable items.

Beginning in 2008, the Company completed a four-year look back to identify any owners who may have changed their addresses but have not informed the Company. The Company's databases were compared to the United State Post Office's National Change of Address Database. Although the procedure was not being performed during the examination period, the Company notes that they are now performing this procedure. Additionally, beginning in 2009, the Company initiated a pilot project to locate deceased policyholders by checking its in-force databases monthly against the Social Security Death Index. The Company indicates that they will fully implement the pilot project procedures in the third quarter of 2009. This pilot project will check policies that are pending lapse against the Social Security Death Index and will complete the check after notice of the pending lapse has been given to the policyholder. This check will include in-force policies prior to maturity. Finally, the Company has not developed specific escheatment procedures for matured annuity contracts when the owners cannot be located.

Recommendations:

First, the Company should ensure that it continues to compare the Company's in-force databases against the United State Post Office's National Change of Address Database. Second, the Company should permanently implement the pilot project procedures to check its in-force databases monthly against the Social Security Death Index. Further, the new pilot project procedure should include checking all contracts that are pending lapse and those just prior to

maturity against the Social Security Death Index. Finally, the Company should develop and implement specific procedures for the treatment of matured annuity contracts when the owners cannot be located. These procedures should be reviewed and approved by the Company's compliance committee and legal department. The Company should independently monitor each of these new procedures to ensure that they are timely performed and effectively implemented.

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

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

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

M.G.L. c. 175, § 119B requires that proceeds payable under life insurance policies include reimbursement for unearned premiums paid. M.G.L. c. 175, § 119C requires interest to be paid on life insurance proceeds left on deposit beginning 30 days after death. M.G.L. c. 175, §§ 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium.

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

- The Company's contract administration systems automatically calculate the unearned premium on cancelled policies and unearned premium after an insured's death. Such amounts are returned to owners or beneficiaries.
- Upon request to cancel a life insurance policy, long-term care insurance policy or annuity, the Company sends the owner a required form, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium and surrender value is sent to the policyholder within seven days for variable life products, and within 10 days for non-variable life and long-term care products. Annuity surrender requests are processed within one day for variable annuities and within three days for fixed annuities.
- All owners have the right to a free look for newly purchased contracts within the time period stated in the contracts. Premium refunds are to be promptly returned to the owners.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested transactions.

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

Transaction Testing Procedure: RNA discussed return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected two individual long-term care free looks, two annuity free looks, five individual life insured-requested cancellations, three individual long-term care insured-requested cancellations, five partial annuity surrenders and five full annuity surrenders from the examination period, to ensure that unearned premiums were properly calculated and timely returned. Further, during life insurance claim testing, RNA

tested claims where unearned premium was due to the beneficiary, to ensure that unearned premium was timely paid.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, unearned premium appeared to be properly calculated and timely returned to the policyholder. Unearned premium was timely paid on life insurance claims where such premium was due to the beneficiary..

Recommendations: None.

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

M.G.L. c. 175, § 108, 132(11) and 187G; 211 CMR 65.10.

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

M.G.L. c. 175, §§ 108 (long-term care policies) and 132(11) (life insurance policies) state that policies must allow for reinstatement. M.G.L. c. 175, § 187G states that for life policies which lapse during a strike by producers, in the case where the premiums are collected by the producers, the insured is entitled to reinstatement without evidence of insurability within thirty-one days of the authorized termination of the strike. 211 CMR 65.10 requires that long-term care policies allow for reinstatement for five months after policy termination if the policyholder was cognitively impaired or functionally incapacitated before the grace period expired.

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

- If life insurance premiums are received within 10 days of lapse, reinstatement is automatic. After 10 days, a reinstatement application is required. The underwriting department makes a decision whether or not to reinstate the policy. Policies can be reinstated within one to five years, depending on the type of life insurance policy.
- If long-term care premium payments are not timely made and the policy lapses, a final notice of lapse and a reinstatement application are sent to the policyholder. When reinstatement requests are received, they are reviewed by the underwriting department. Requests to reinstate may be accepted within five months of the lapse date. Unpaid premiums must be paid to reinstate the policy.
- The Company has written service standards to ensure the timely processing of reinstatement requests.

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

Transaction Testing Procedure: RNA discussed reinstatement procedures with Company personnel and obtained supporting documentation. RNA selected five life insurance and two

long-term care reinstatements from the examination period, to ensure that reinstatements were handled consistently, timely and in accordance with policy provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 134A, 143, 144, 144A ½, 146 and 146A; Division Bulletin 2000-02.

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

M.G.L. c. 175, § 134A states that an individual certificate holder under a group life insurance policy who is entitled under the terms of the policy to convert to another policy type within a specified time after occurrence of an event, shall be notified of such privilege and its duration within 15 days after the occurrence. M.G.L. c. 175, § 143 states that life policies and deferred annuity contracts are subject to laws limiting forfeiture applicable on the date of issue.

M.G.L. c. 175, § 144 allows life insurance policyholders to elect to receive cash value upon policy surrender, to take a specified paid-up non-forfeiture benefit or to receive an actuarially equivalent benefit in the event of default. Also, deferred annuities, other than single premium contracts, shall provide that, in the event of nonpayment of premium after three years' premiums have been paid, the annuity shall be converted into a paid-up annuity for such proportion of the original annuity as the number of years' premiums paid bears to the premiums required under the contract. M.G.L. c. 175, § 144A ½ defines required provisions in annuity contracts. M.G.L. c. 175, § 146 applies the provisions of M.G.L. c. 175, § 144 to industrial life insurers, with the provisions related to cash surrender values applicable after premiums have been paid for five years. Under M.G.L. c. 175, § 146A, a lapse for nonpayment after three years of an insured making premium payments requires that the insurer send a notice within six months of lapse, setting forth any non-forfeiture benefit other than one elected by the insured. Division Bulletin 2000-02 addresses universal life and variable life no-lapse guarantees, advertising requirements and disclosure requirements.

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

- The Company has used policy forms designed to meet statutory and regulatory requirements, and has filed these with the Division for approval prior to use.

- The Company has provided applicants for life policies with several dividend or non-forfeiture options, which were listed on the applications. Upon lapse, the selected non-forfeiture is applied to any cash value remaining in the policy.

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

Transaction Testing Procedure: RNA discussed non-forfeiture procedures with Company personnel, and reviewed supporting documentation. The Company is no longer issuing life insurance policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of policies and procedures, the Company appears to communicate non-forfeiture options to policyholders.

Recommendations: None.

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

211 CMR 28.10 and 211 CMR 95.13.

Objective: This Standard addresses periodic disclosure to the policyholder of contract information. Long-term care policy illustration requirements are tested in Standard III-6.

211 CMR 28.10 requires that the company provide an annual report of policy values for non-variable life policies. 211 CMR 95.13 requires that certain disclosures be provided to variable life policyholders including an annual report with cash surrender value, face value, death benefit, partial surrenders, policy loans, interest charges, and any optional payments allowed. A summary of the performance of each separate account (including investment returns, investments held, expenses charged, and any change in investment objectives) is required.

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

- The Company mails annual or quarterly reports to most whole, term, flexible premium and universal life policyholders on the policy anniversary date, disclosing policy cash value, policy insured value, benefits cost, mortality cost, loan amounts, accrued interest, dividends and projected values for the next year. In addition, for a small number of non-premium paying policies, such as those with reduced paid up status, policyholders do not get annual statements but receive an annual dividend notice. Finally, a few policies on extended term do not get annual statements.
- The Company mails annual or quarterly reports to most annuity contract holders, disclosing current contract current value and the projected value for the next year.

- The Company has written service standards to ensure the timely processing of annual and quarterly reports to policyholders and contract holders.

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

Transaction Testing Procedure: RNA discussed annual and quarterly report disclosure procedures with Company personnel, and selected five life insurance annual and quarterly reports, and ten annuity annual and quarterly reports sent to owners during the examination period, for testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses disclosure to the policyholder requesting an accelerated benefit payment. This Standard is the same as Standard VII-12 and is reviewed therein.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 175, § 108; M.G.L. c. 176D, § 3(7); 211 CMR 42.06 and 65.07.

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

Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. M.G.L. c. 175, § 108 prohibits the issuance or delivery of any individual long-term care policy until rates have been on file with the Division for 30 days, or until the Division has approved the policy within that period. Finally, 211 CMR 42.06 and 65.07 require that individual accident and health insurance, including individual long-term care insurance rates, be filed with the Division.

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

- The Company has written underwriting and rating policies and guidelines, which are designed to assure reasonable consistency in classification and rating of new long-term care business.
- The Company determines the premium rates for individual long-term care policies based on the applicant's age and health condition.
- All long-term care policy rates are filed with the Division for approval prior to use.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 12 individual long-term care applications processed during the examination period, and re-rated the premium charged for each application.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses mandated underwriting disclosures for insurance policies which are required in accordance with statutes, regulations and Company policy. Requirements to provide illustrations and other long-term care disclosures are included in Standard III-6. Long-term care replacement disclosures are included in Standards III-4 and III-5, and adverse underwriting notices are included in Standard VI-7.

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

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

Objective: This Standard prohibits illegal rebating, commission cutting or inducements in Company correspondence to producers, and in advertising/marketing materials. Reduced commissions paid on internal replacements are tested in Standard III-5.

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

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

- The Company has procedures for paying producers' commissions in accordance with written producer contracts.
- Company policies, procedures and producer contracts prohibit special inducements and rebates.
- Reduced commissions are paid on certain internal replacements to discourage such replacements.

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

Transaction Testing Procedure: RNA interviewed company personnel with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, improper commission cutting or inducements. During testing of 108 individual and group long-term care applications, and 83 fixed annuity sales from the examination period, RNA looked for indications of rebating, improper commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120, 122 and 193T; M.G.L. c. 176D, § 3(7)

Objective: This Standard addresses unfair discrimination in underwriting.

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, and 193T prohibit discrimination in the issuance of individual long-term care insurance based on gender and against those with physical impairment. In addition, discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between insureds of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, § 122 prohibits a life insurer from discriminating between white persons and persons of color as to premiums or rates charged. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and classification of risks. RNA selected 108 individual and group long-term care applications, and 83 fixed annuity sales from the examination period, to verify that the applications were approved by underwriting without discriminatory contract provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 22, 108, 132, 139, 144A ½, 192A, 193F, 193G and 193H; 211 CMR 42.06 and 65.07; Division Bulletin 2001-05.

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

Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance may be delivered to more than 50 policyholders until it has been on file with the Division for 30 days, or the Division approves the form during that time. Further, no life, endowment or annuity form may be delivered unless it complies with readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions, and M.G.L. c. 175, § 108 sets forth a 30 day filing requirement, and identifies mandated provisions for individual long-term care insurance. M.G.L. c. 175, § 132 similarly sets forth a 30 day filing requirement, and identifies mandated provisions for life, endowment and annuity forms. M.G.L. c. 175, § 139 permits the exchange or conversion of life or endowment insurance, or an annuity contract, at the policy owner's request. M.G.L. c. 175, § 144A ½ defines required provisions in annuity contracts. M.G.L. c. 175, § 192A allows policies in loose leaf form. M.G.L. c. 175, §§ 193F, 193G and 193H permit the 30 day filing requirements to be extended, describe resubmission procedures for disapproved forms, and provide for an appeal procedure in the event that the company wishes to contest the Division's decisions. 211 CMR 42.06 and 65.07 include policy form requirements for individual long-term care insurance, including the proper form and content of such policies. Division Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist.

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

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

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

Transaction Testing Procedure: RNA selected 108 individual and group long-term care applications, and 83 fixed annuity sales from the examination period, for testing. RNA selected

the most commonly used policy forms and endorsements to ensure that these were approved by the Division prior to use.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses whether the Company issues fixed annuity contracts and long-term care policies timely and accurately. See Standard V-8 for testing of reinstatements.

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

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

- The Company has written long-term care underwriting guidelines and procedures that require compliance with statutory requirements.
- Company underwriters review all long-term care applications and supporting forms to ensure that they are complete and internally consistent, and obtain any additional information needed to make underwriting decisions.
- The Company's practice is to issue long-term care policies, riders and fixed annuity contracts in a timely and complete manner.
- The long-term care new business processing function includes a quality assurance review, during which the home office checks a portion of submitted business to evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The fixed annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent 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 transaction testing procedures.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance. RNA selected 108 individual and group long-term care applications, and 83 fixed annuity sales from the examination period, to determine whether policies were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: The Company issued one individual long-term care policy whose application contained an unanswered underwriting question, and issued another individual long-term care policy whose application was not completely signed by the applicant. It otherwise appears from RNA's testing that the Company issues individual and group long-term care policies and fixed annuity contracts timely, accurately and completely in accordance with Company policies, procedures and statutory requirements.

Recommendation: The Company should ensure that individual long-term care applications are properly reviewed when received in the home office. The Company should periodically and independently confirm the existence and effectiveness of the review procedures.

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

M.G.L. c. 175, §§ 108A, 108C, 108G, 108H, 120 and 193T; M.G.L. c. 175I, § 12; M.G.L. c. 176D, § 3(7).

Objective: This Standard addresses whether application denials are fair.

M.G.L. c. 175, §§ 108A, 108C, 108G, 108H, and 193T prohibit discrimination in the issuance of individual long-term care insurance based on gender and against those with physical impairment. In addition, discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between applicants of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. Pursuant to M.G.L. c. 175I, § 12 insures may not base an adverse underwriting decision on factors including the existence of a previous underwriting decision, or on sexual orientation. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

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

- The Company has written long-term care underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- The Company's long-term care Adverse Underwriting Notice complies with statutory requirements.

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

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the Adverse Underwriting Notice be provided when the Company declines applications, elects to provide a reduced amount of coverage and when it offers coverage at higher than standard rates. From a list of declined applications, RNA tested 16 individual and five group long-term care underwriting declinations for evidence that the Company provided a timely Adverse Underwriting Notice. Additionally, as part of new business testing, RNA noted 11 individual long-term care applications where the Company offered coverage with exclusions, or at higher than standard rates, and verified that the Company provided a timely Adverse Underwriting Notice to the applicants when necessary.

Transaction Testing Results:

Findings: None.

Observations: The applicant for one long-term care policy tested requested preferred rates, but a standard rate class was quoted and illustrated. An adverse underwriting notice was not required, since the applicant received rates no worse than standard rates. For the remaining applications tested, the Company otherwise provided the Adverse Underwriting Notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing Adverse Underwriting Notices appear to be functioning in accordance with its policies, procedures and statutory requirements.

Recommendation: The Company should ensure that it provides notice to individual long-term care applicants when the requested rate class differs from the class at which the policy is issued.

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

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

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

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual long-term care policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years. M.G.L. c. 175, §§ 108A, 108C, 108G and 108H prohibit discrimination in the issuance of individual long-term care insurance based on gender, and against those with physical impairment. In addition, discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service

during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists. M.G.L. c. 175I, § 10 provides guidance on the content and timely issuance of adverse underwriting notices. Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

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

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

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

Transaction Testing Procedure: RNA discussed cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected five individual life policies, and three individual long-term care policies which lapsed for non-payment during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 108 (3)(a)(2) and 132(2).

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

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual long-term care policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's individual and group long-term care applications require submission of information regarding the applicant's type and amount of coverage requested, group eligibility guidelines, age, medical history, and benefit limits.

- The Company's fixed annuity contract applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, and family member information, to assist in determining the applicant's needs.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 108 individual and group long-term care applications and 83 fixed annuity sales from the examination period for testing. RNA verified that each of the applications was signed and completed in accordance with Company policy. RNA further reviewed each application package, and confirmed that the long-term care policy or fixed annuity contract was issued consistent with the application, or that any changes resulted in disclosure to the applicant.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in scope of examination because the Company did not perform AIDS-related testing for products offered during the examination period.

VII. CLAIMS

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

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

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

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- Long-term care claims are reported through an agent, by mail, or to the Company's 800 phone number. The claim is registered, and the claims in-take unit conducts a telephone interview with the claimant within one or two days to obtain basic information regarding the insured's policy, coverage and diagnosis. If the telephone interview indicates a claim is likely, an on-site assessment of the claimant is performed by a contracted care coordinator. The on-site assessment is designed to assess an insured's cognitive impairment and/or ability to perform specific activities of daily living, as defined by HIPAA. The on-site assessment is performed by a licensed medical professional experienced in assessing long-term care claims. A benefit eligibility decision is made by the claims department within 10 days after the on-site assessment report is received from the contracted care coordinator. A written communication approving or denying benefit eligibility is sent to the claimant or claimant's representative. For those that are denied, the specific reasons are noted in the letter.
- After the Company approves a long-term care eligibility claim, the provider unit is responsible for determining the long-term care services provider's eligibility. Skilled nursing facilities and assisted living facilities must be licensed to satisfy provider eligibility requirements. Home health care providers may be licensed or may qualify based on their experience or training.
- Once provider and benefit eligibility is affirmed, requests for claim payment are received and processed by the payment unit. The payment request is evaluated and adjudicated in accordance with written claims guidelines, and a written explanation of benefits is sent to the claimant. All claim payment requests are matched against the Office of Foreign Asset Control list as required by the USA Patriot Act prior to payment.
- Customer service surveys are circulated to long-term care claimants to ask about their experience when filing a claim. The results are analyzed and necessary follow up items are monitored.
- A long-term care technical unit performs a quality assurance review to ensure consistency and monitor compliance with claims policies and procedures. This review procedure is conducted concurrently with the claim processing or after the claim is approved. Claims

reviewed by the technical unit are selected using objective criteria including the claim processors' years of experience and prior review results.

- Life and annuity death claims are reported through an agent, by mail, or through the Company's 800 phone number. The claim is registered in the claim tracking system and acknowledged within one or two days. The insurance contract is researched to determine its status, and to ascertain if other policies or contracts are in-force. The contract is then pended in the applicable policy administration system; a claims examiner is assigned based on a predetermined dollar authority limit, and a claim form is sent to the claimant.
- Once the Company receives a life or annuity death claim form in the home office, a claims examiner investigates the claim to ensure that it includes the death certificate, a signed claim form, and any other information needed. The Company contests few claims, as most are received after the two-year contestable period has passed. When such claims are investigated, a referral to the Special Investigation Unit and/or the legal department is made. The claim settlement amount includes the payment of interest at 4% from the date of death, and may also include return premium amounts, pro-rata dividends, or netting of policy loans amounts as applicable. For life insurance death claims, the Massachusetts Department of Revenue website is checked to ensure compliance with the Intercept Program requirements for unpaid child support and taxes, and receipt of public assistance. Documentation of the claims examiner's review and approval is to be included in the claim file. A supervisory review function ensures that death claims are reviewed according to objective criteria, to ensure compliance with Company policies and procedures.
- The Company has a quality assurance function, during which a supervisor reviews 10% of all closed life insurance death claims each month for each claims processor. .The quality assurance review evaluates the claim for service standards related to accuracy, processing time and claim determinations.
- The payees for all claim disbursements are checked against the Office of Foreign Asset Control list as required by Law.
- Claims management states that it periodically reviews open claims to evaluate pending issues and ensure appropriate reserves have been established.
- Claims management uses exception reports and performance metrics to measure operational effectiveness and claim processing time.
- The Company does not require a signed release when a claim is settled.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims, and 100 life and annuity death claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

M.G.L. c. 176D, § 3(9)(c); Division 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 Bulletin 2001-07 requires that, upon receipt of a claim and proof of death, the Company is required to diligently search its records, and those of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim investigation processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims and 100 life and annuity death claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures, to verify that it conducts timely investigations and, when required, to verify that searches for multiple policies involving the claimant are conducted.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of testing, it appears that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements in most instances. In June 2008, the Company discovered that claims personnel were not performing follow up procedures related to certain small dollar amount life insurance death claims that were initially reported, but not deemed in good order. In these cases, the beneficiaries provided insufficient information/documentation to pay the claims. Although the Company requested additional information or documentation from the beneficiaries, the claims remained in a pending status without ongoing and proper follow-up. During 2008, an internal investigation identified the root cause of the problem, and the Company implemented corrective actions to their claims processes. As of May 2009, the Company has reviewed and taken action on all of these claims.

The annuity claims department compares the Company's annuity in-force listing against the social security death index on a monthly basis, to search for unreported annuity owner deaths. The annuity claims department, however, did not communicate annuity owner deaths found in the social security death index to the life claims department during the examination period to allow them to check whether those individuals had life policies with the Company. Communication regarding customers' deaths between those who process life and annuity claims regarding reported deaths began in January 2009 using the "Bridger" application system.

When processing life and annuity death claims, the Company does not consistently document its performance of multi-policy searches that are required by Division Bulletin 2001-07. Finally, the Company's annuity system does not interface with the life systems, such that an annuity owner's reported death must be manually communicated to those who process life claim transactions.

Recommendations: The Company should implement and independently monitor new life insurance death claim procedures to ensure they are properly and timely implemented. The Company should keep the Division timely apprised on the status of the unpaid death claims and its continuing efforts to address any remaining pending claims. Finally, the Company should proactively communicate with other state insurance regulators regarding the Company's remediation efforts to address this pending claim issue for those policies issued in the regulators' jurisdictions.

The annuity claims department should timely communicate annuity owner deaths to the life claims department, to allow them to check whether those individuals also had life policies with the Company. The Company should ensure that the "Bridger" system has been effectively implemented and periodically monitor its use for effectiveness.

The Company should independently monitor its multi-policy search procedures to ensure that it performs and documents multi-policy searches on all life and annuity death claims.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim settlement practices, and obtained documentation supporting such processes. RNA selected 108

long-term care claims and 100 life and annuity death claims from the examination period, to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: Due to an administrative error, the Company did not timely pay one long-term care claim after it received and timely approved an invoice for provider services. When the claim was paid, interest was inadvertently omitted in violation of M.G.L. c. 175, § 108. The Company subsequently paid interest on the late payment.

Observations: Except as noted above, testing results appear to show that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: The Company should ensure that all long-term care claims are timely settled in accordance with Company policies and procedures, and statutory requirements.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims, and 100 life and annuity death claims from the examination period, to verify that policyholder claim correspondence was answered timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims, and 100 life and annuity death claims from the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 24F, 119B, 119C, 125 and 132C.

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

Pursuant to M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), respectively, unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation, and failure to effectuate prompt, fair and equitable settlement of claims in which liability has become reasonably clear. M.G.L. c. 175, § 22I allows insurers to deduct unpaid premiums from claim settlements. M.G.L. c. 175, § 24D requires interception of non-recurring life insurance payments for past due child support. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes when adjudicating life insurance claims. M.G.L. c. 175, §§ 119B and 119C require that prepaid premium be returned after death of the insured, and that once proof of death is provided, the Company must pay interest on claims beginning 30 days after the insured's death. M.G.L. c. 175, §§ 125 and 132C define situations where beneficiaries' and annuitants' creditors have claims to policy proceeds or prepaid premium.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims, and 100 life and annuity death claims from the examination period, to verify that claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: One long-term care claim tested was improperly adjudicated due to a manual error calculating an inflation benefit rider. This error resulted in the underpayment of the claim over a period of three years. The Company subsequently paid all benefits, plus interest, back to the claim inception date. The Company also completed a review of other claims where similar facts and circumstances occurred and found two additional claims with similar errors. The Company paid all benefits, plus interest, back to the claim inception dates. The Company states that they have hired a new long-term care claims analyst during the past year to address such coverage and plan code issues, and have implemented changes in the claims handling process to ensure that similar errors are prevented.

Observations: RNA noted that all but one of the long-term care claims tested was adjudicated according to the Company's policies and procedures, and that the claim files were generally handled in accordance with policy provisions. A plan code for one long-term care claim was incorrectly entered when the claim was presented, which resulted in the claimant being paid a slightly higher daily reimbursement rate than that due under the policy. The policyholder had already reached the policy benefit limits when the error was discovered, so this error resulted in the policyholder receiving payments earlier than due under the policy.

The Company has policies and procedures for life insurance death claims requiring claims examiners to verify that claim beneficiaries are not subject to the intercept requirements in M.G.L. c. 175, §§ 24D and 24F prior to making the claim payment. When processing life death claims, however, the Company does not consistently document its performance of its intercept procedures. The Company believes that such intercept procedures were completed for all life insurance death claims tested.

Recommendations: The Company should begin independently monitoring its claim intercept procedures, to ensure such procedures are being performed and documented as required by statute.

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims and 100 life and annuity death claims from the examination period, to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims and 100 life and annuity death claims from the examination period, to evaluate claims reserving policies and procedures. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 22 long-term care claims from the examination period that were denied or closed without payment. No denied life or annuity death claims were selected for testing since the Company had no denied life or annuity death claims during the examination period. RNA reviewed the claim correspondence and investigative reports, and noted whether the Company handled the claims timely and properly before closing them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the files for the denied or closed without payment claims tested appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims and 100 life and annuity death claims from the examination period, to review claims handling practices. When applicable, RNA verified the date the claims were reported, reviewed correspondence and investigative reports, and noted the whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the selected claims appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared

reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. No accelerated benefit requests were selected for testing, since the Company received no such requests during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, it appears that the Company has a process for providing the proper disclosures to policyholders when accelerated benefits are requested, and has processes to adjudicate accelerated benefit requests timely and accurately.

Recommendations: None.

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

M.G.L. c. 176D, § 3(7).

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

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

health insurance, or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 long-term care claims and 100 life and annuity death claims from the examination period, to verify that there is no unfair discrimination against claimants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2007 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. RNA has made recommendations to address various concerns in the areas of Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

ACKNOWLEDGEMENT

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

The undersigned's participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners ("NAIC") and the *2007 NAIC Market Regulation Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition to the undersigned, Dorothy K. Raymond and James Wright of the Division's Market Conduct Section participated in this examination, and in the preparation of the report.

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

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