



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**Division of Insurance**

*Report on the Comprehensive Market Conduct Examination of*

*John Hancock Variable Life Insurance Company*

*Boston, Massachusetts*

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

**NAIC COMPANY CODE: 90204**

**EMPLOYERS ID NUMBER: 04-2664016**



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**DIVISION OF INSURANCE**

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NONNIE S. BURNES  
COMMISSIONER OF INSURANCE

July 17, 2009

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

Dear Commissioner Burnes:

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

**JOHN HANCOCK VARIABLE 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 Variable Life Insurance Company ("JHVLICO" 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 does not currently sell products to individuals in Massachusetts. Prior to the examination period, the Company 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 sold 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.

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## EXECUTIVE SUMMARY

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

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

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

The comprehensive market conduct examination resulted in no recommendations with regard to company operations/management, complaint handling, marketing and sales and underwriting and rating. 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 IV-PRODUCER LICENSING

### STANDARD IV-3

Findings: RNA noted that six of 15 agent terminations tested were not timely reported to the Division. In addition, seven agents were not properly notified of their terminations, in violation of M.G.L. c. 175, § 162T. In some cases, reconciliations 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 also complete its review of the reconciliation process and make necessary changes, so ensure that the reconciliation process identifies all differences between the Company’s and the Division’s databases. Finally, the Company should independently monitor the revised reconciliation procedure to ensure that it is 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 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. Claims personnel did not follow procedures related to outstanding requirements for one tested claim, however, where the beneficiary provided insufficient documentation to pay the claim. 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.

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-6

Findings: None.

Observations: RNA noted that the tested claims were reported according to the Company's policies and procedures, and that the claim files were handled in accordance with policy provisions. The Company has policies and procedures requiring life insurance death 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. Although it believes that intercept procedures were completed for all life insurance death claims tested, the Company does not consistently document its performance of these intercept procedures.

Recommendations: The Company should independently monitor its intercept procedures to ensure they are being performed and documented as required by statute.

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## COMPANY BACKGROUND

John Hancock Mutual Life Insurance Company (“JHMLICO”), was founded in 1862. 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 John Hancock Life Insurance Company (“JHLICO”). On February 12, 1980, JHVLICO was established as a wholly-owned subsidiary of JHMLICO. At the time of JHMLICO’s reorganization, 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 JHVLICO.

JHVLICO is headquartered in Boston and domiciled in Massachusetts. JHVLICO is licensed in all states except New York and in Puerto Rico.

Other than a small amount of individual life insurance business sold outside of Massachusetts, JHVLICO no longer sells products to new customers. Prior to the examination period, JHVLICO sold individual life products and variable annuity products, and as a result, has a substantial number of Massachusetts policies and contracts in-force. JHVLICO sold its products through general agencies which are part of JHFN, its broker-dealer network, 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, JHVLICO 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. JHVLICO had \$15.2 billion in admitted assets and \$609 million in surplus as of December 31, 2007. For 2007, premiums and annuity considerations were \$664 million and net income was \$168 million.

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.

<b>Standard I-1. The regulated entity has an up-to-date, valid internal, or external, audit program.</b>
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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 person 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 semi-annually on compliance activities to Manulife's Global Compliance Office 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 issued during the examination period that related to 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 and compliance and risk management.. 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. Each person must also complete annual training in this area..

- The Company has no employees, however, the Company stated that if it were to hire any “prohibited person,” it would seek the Division’s approval regarding such a hiring.

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

Transaction Testing Procedure: RNA reviewed the Company’s policies and procedures for addressing fraud, and 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, the annual certification statements and the annual training materials appeared adequate and reasonable.

Recommendations: None.

<b>Standard I-4. The regulated entity has a valid disaster recovery plan.</b>
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No work performed. All required activity for this Standard is included in the scope of the recently completed statutory financial examination of the Company.

<b>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.</b>
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Objective: This Standard addresses the Company’s contracts with entities assuming a business function and compliance with licensing and regulatory requirements.

Controls Assessment: No significant controls were noted as the Company does not contract for services.

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company does not appear to contract with entities assuming a business function on its behalf.

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:

- 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 of these third parties. RNA reviewed monitoring procedures over general agencies and unaffiliated agencies conducted by ManuLife, JHFN and the Company. 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 RNA testing, it appears that ManuLife, JHFN and the Company generally monitor third parties, including general agencies and unaffiliated agencies, for compliance with contractual requirements. For ManuLife's general agencies, the annual on-site audit reports conducted by JHFN for the four Massachusetts general agencies appeared to clearly report the procedures performed and conclusions reached during the on-site audits.

Recommendations: None.

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

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

Controls Assessment: The 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 not issuing new 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 Privacy Notice is provided to customers annually 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 the Company collects certain types of personal information, including financial and health information, from third parties, and gives examples of such third parties and such types of information. Further, the Privacy Notice indicates that the Company may disclose information in some cases, and that a right of access and correction exists.
- 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 life 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 Privacy Notice annually to policyholders.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company has procedures for annually providing the Privacy Notice to policyholders, and the U.S. Compliance Department monitors the issuance of these notices.

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. Based upon 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 & 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 & 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 of life claims processing.

Transaction Testing Results:

Findings: None.

Observations: Based on testing and review, RNA noted no instances where the Company improperly disclosed nonpublic personal health information.

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 include review of complaint handling procedures. The Company also monitors complaint activity of certain producers as determined by 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 two 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. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

**M.G.L. c. 176D, § 3(10).**

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed two 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 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 required contact information for consumer inquiries.

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 two 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 two Massachusetts complaint files from the examination period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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### 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; 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 requires life companies and producers to limit offers to those plainly expressed in policies or contracts. 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.
- 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 reviewed the Company's website for disclosure of its name and address.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review and testing, the Company appears to have a process for approving advertising and sales materials prior to use. The Company's website disclosure complies with Division Bulletin 2001-02.

*Recommendations:* None.

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

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

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

- The Company has developed 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.

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.

Transaction Testing Results:

Findings: None.

Observations: The Company's appears to have a process for approving training materials prior to use.

Recommendations: None.

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

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

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

- Producer communications including electronic mail and bulletins are approved by Company personnel prior to distribution, 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.**

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.

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

- Written policies and procedures govern replacement handling.
- The Company's applications require the applicant and the producer to acknowledge whether or not the policy 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 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 their general agencies for compliance with policies and procedures through annual on-site visits, during which, the general agency is evaluated for compliance with requirements for variable life insurance and annuity product replacements.
- JHFN monitors their 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. Since the Company is not selling policies to individuals, RNA performed no replacement testing and no new business testing. RNA selected a sample of 12 life and 12 annuity replacement sales of the Company's affiliates' products produced by the four Massachusetts JHFN general agencies, to evaluate whether the replacement sales appeared suitable for the applicants. Finally, RNA inquired with the Company and JHFN about the monitoring of agents for the volume and nature of their replacement sales, and the extent and nature of actions taken when necessary.

Transaction Testing Results:

Findings: None.

Observations: The tested life and annuity sales of the Company's affiliates' products, 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.

Recommendations: None.

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

**211 CMR 34.05 - 34.07.**

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

Pursuant to 211 CMR 34.05 and 34.06, insurers must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life 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.

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 have a policy requiring that applicants and producers acknowledge in writing whether a submitted application will replace another policy or contract.
- The Company and JHFN review all submitted applications for evidence of signed replacement disclosure forms from the applicants.

- Reduced commissions are paid on certain internal replacements to discourage such replacements.
- The Company's policy is to provide a 20 day free look on all replacement sales.
- JHFN monitors their general agencies for compliance with policies and procedures through annual on-site visits of the general agencies, during which the agency is evaluated for compliance with replacement requirements for variable life insurance and annuity products.
- JHFN monitors their 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. Since the Company is not selling new policies, RNA performed no replacement testing and no new business testing.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have policies and procedures in place for processing replacement sales.

Recommendations: None.

<p><b>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.</b></p>
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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.

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

- The Company has written policies and procedures addressing the use and distribution of policy illustrations, required disclosure forms and other mandatory disclosures at the application date.
- The Company has written policies and procedures addressing the distribution of Company-required annuity disclosure forms, including 1035 exchange forms and other transfer forms, at the application date.
- The Company reviews all submitted applications to ensure that required forms and disclosures are provided to the applicants.

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. Since the Company is not selling policies to individuals, RNA performed no new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on RNA's review, the Company appears to have policies and procedures for providing illustrations and disclosures to applicants.

Recommendations: None.

**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 discussion of annuity suitability procedures.

211 CMR 96.06 requires that the producer 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. 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's producers must retain documentation supporting the suitability of all 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 new business processing and obtained supporting documentation. Since the Company is not selling policies to individuals, RNA performed no new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company appears to have policies and procedures to address product suitability.

Recommendations: None.

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

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

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

**211 CMR 55.06.**

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

211 CMR 55.06 requires that a disclosure statement concerning 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 annuity applications to ensure that the Accelerated Withdrawal of Annuity Benefits Without Surrender Charges Disclosure was signed by the applicant at the application date.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for disclosing required accelerated benefits disclosures for annuity sales. Since the Company is not selling policies to individuals, RNA performed no new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on RNA's review, the Company appears to have policies and procedures for providing required disclosures for accelerated benefits.

Recommendations: None.

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

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

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.

The disclosure notices unrelated to extensions 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.

The bank must inform consumers that it cannot condition the extension of credit on the consumer either purchasing or not purchasing an insurance policy or annuity from the bank or any affiliated or non-affiliated entity. The disclosure notice must also 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 is potential for investment risk, including the possible loss of value.

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

- The Company has written policies and procedures for sales of Company annuities by depository institutions, and reviews new business submissions from depository institutions for completeness and use of required Company forms.
- Company policy requires that depository institutions disclose that the 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.
- The Company's product information for consumers, contains required disclosures addressing potential loss of value, and that depository institutions may not tie annuity sales to extensions of credit when selling Company products.

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 Company is not selling policies to individuals, RNA performed no new business testing.

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 applicant's financial status, tax status and investment objectives, 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 annuity sales are suitable and meet the applicants' needs.
- The Company reviews all submitted annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.

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 annuity new business processing and obtained supporting documentation. Since the Company is not selling policies to individuals, RNA performed no new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company appears to have policies and procedures for producer requirements in conjunction with assessing the suitability of annuity sales.

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 applicant's financial status, tax status and investment objectives, 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 annuity sales are suitable and meet the applicants' needs.
- The Company policy is to review all submitted annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.
- 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 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 annuity new business processing and obtained supporting documentation. Since the Company is not selling policies to individuals, RNA performed no new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, the Company appears to have home office policies and procedures for assessing the suitability of annuity sales.

Recommendations: None.

**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.

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

**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 has not offered index life products anywhere it is licensed.

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#### 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 Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division 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 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 the Division's records.

*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. Since the Company is not selling policies to individuals, RNA performed no agent appointment or new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on RNA's review, the Company appears to have policies and procedures for agent appointments and periodic reconciliation of its agent appointment records with the Division's records.

Recommendations: None.

**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 review procedures.

**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 the Division's records.

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 six of 15 agent terminations tested were not timely reported to the Division. In addition, seven agents were not properly notified of their terminations, in violation of M.G.L. c. 175, § 162T. In some cases, reconciliations 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 also complete its review of the reconciliation process and make necessary changes, so ensure that the reconciliation process identifies all differences between the Company's and the Division's databases. Finally, the Company should independently monitor the revised reconciliation procedure to ensure that it is functioning properly.

<b>Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.</b>
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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. Since the Company is not selling policies to individuals, RNA performed no agent appointment or new business testing. RNA tested 15 terminations from the Company's records during the examination period, for 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 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. Debit 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 owed by producers.

*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 as earned in accordance with written producer contracts. Producers are not entitled to commissions on lapsed policies.
- Company policy allows for advance commissions to be paid to financial institution producers, but the Company does not provide general advances to agents.

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

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.

FOR INFORMATIONAL PURPOSES ONLY

## V. POLICYHOLDER SERVICE

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

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

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

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

Pursuant to M.G.L. c. 175, § 110B, no 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.

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

- Individual life policyholders may elect to pay premiums 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 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.
- 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 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: RNA noted that in each case tested, 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.**

Objective: This Standard addresses the Company's procedures for ensuring that insured-requested cancellations are processed timely.

M.G.L. c. 175, § 187C provides that the insured may cancel their policy by giving notice to the Company or a producer.

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

- Upon request to cancel a life insurance policy or annuity, the Company sends the owner a required form, which he or she must sign. The Company then 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 products. Annuity surrender requests are processed within one day for variable annuities.
- All owners have the right to return ("free look") newly purchased contracts within the time period stated in the contract. 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 five individual life insured-requested cancellations, three 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, 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 life insurance policyholder service and annuity contract holder functions include post-issue call centers to answer questions from customers and agents. Company personnel also respond to written correspondence and process post-issue 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 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 loan requests. 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 including settlement and reinvestment options to life insurance policyholders and annuity contract holders prior to policy maturity.
- 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 seven beneficiary change requests (five life and two annuity), seven ownership change requests (six life and one annuity), five policy loan requests and three variable annuity sub-account change requests from the examination period, to ensure that the Company timely and accurately processed transactions in accordance with statutory requirements and policy provisions.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon review and testing results, the Company appears to timely and accurately process policyholder and contract holder transactions 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 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 is 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 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 its 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.

<b>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.</b>
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<b>M.G.L. c. 175, §§ 119B, 119C, 187C and 187D.</b>
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*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 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 products. Annuity surrender requests are processed within one day for variable annuities.
- All owners have the right to 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 return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected five individual life insured-requested cancellations, three 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 with unearned premium owed to the beneficiary, to ensure that it 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 owed to life policy beneficiaries was timely paid.

Recommendations: None.

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

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

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

M.G.L. c. 175, §§ 132(11) state that life insurance policies must allow for reinstatement. M.G.L. c. 175, § 187G states that for life policies which lapse during a strike by producers, in the case

where the premiums are collected by the producers, the insured is entitled to reinstatement without evidence of insurability within thirty-one days of the authorized termination of the strike.

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

- 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.
- 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 reinstatements from the examination period, to ensure that reinstatements were handled consistently and timely 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.

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 uses policy forms designed to meet statutory and regulatory requirements, and filed these with the Division for approval prior to use.
- The Company has a policy for providing applicants for life policies with several dividend or non-forfeiture options, which are listed on the applications. Upon lapse, the selected non-forfeiture option 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.

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 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 eight 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.

<p><b>Standard V-11.</b> 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.</p>
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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. 176D, § 3(7).**

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.

Controls Assessment: Since the Company is not selling policies to individuals, RNA did not identify underwriting and rating controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting or new business testing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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 disclosures are included in Standard III-6. Replacement disclosures are included in Standards III-4 and III-5 and adverse underwriting notices are included in Standard VI-7.

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

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

*Objective:* This Standard prohibits illegal rebating, commission cutting or inducements in Company correspondence to producers, and in advertising/marketing materials. Reduced commissions paid on internal replacements are discussed 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. Since the Company is not selling policies to individuals, RNA performed no testing of rebating, improper commission cutting or inducements.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on RNA's review, the Company appears to have policies and procedures prohibiting rebating, improper commission cutting and inducements.

*Recommendations:* None.



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

**M.G.L. c. 175, §§ 120, 122, and 193T; M.G.L. c. 176D, § 3(7)**

Objective: This Standard addresses unfair discrimination in underwriting.

M.G.L. c. 175, § 193T prohibits discrimination in the issuance of life insurance based on blindness, mental retardation or physical impairment. 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.

Controls Assessment: Since the Company is not selling policies to individuals, RNA did not identify underwriting controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting or new business testing.

Transaction Testing Results:

Findings: None.

Observations: None.

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, 132, 139, 144A ½, 192A, 193F, 193G and 193H; 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. 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. Division Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist.

Controls Assessment: Since the Company is not selling policies to individuals, RNA did not identify policy form and rate filing controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting or new business testing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

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

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: Since the Company is not selling policies to individuals, RNA did not identify policy issuance controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting or new business testing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

**M.G.L. c. 175, §§ 120 and 193T; and M.G.L. c. 176D, § 3(7).**

Objective: This Standard addresses whether application denials are fair.

M.G.L. c. 175, § 193T prohibits discrimination in the issuance of life insurance based on blindness, mental retardation or physical impairment. 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. 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.

Controls Assessment: Since the Company is not selling policies to individuals, RNA did not identify rejection or declination controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting testing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

**M.G.L. c. 175, § 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 addressed in Standard VI-7.

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.

Controls Assessment: Since the Company is not selling policies to individuals, RNA did not identify cancellation controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting testing.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

**M.G.L. c. 175, § 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, § 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 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: Since the Company is not selling policies to individuals, RNA did not identify application review controls.

Controls Reliance: Not Applicable.

Transaction Testing Procedure: Since the Company is not selling policies to individuals, RNA performed no underwriting testing or new business testing.

Transaction Testing Results:

Findings: None.

Observations: None.

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 offer any products 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).**

*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.

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

- Written policies and procedures govern the Company's claims handling processes.
- 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 pending 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 must be included in the claim file. A supervisory function reviews death claims according to objective criteria to ensure compliance with Company policies and procedures.
- The Company has a quality assurance function, during which 10% of all closed life insurance death claims for each claims processor are reviewed monthly by a supervisor. 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 nine 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 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) and 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 claim 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 nine 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. Claims personnel did not follow procedures related to outstanding requirements for one tested claim, however, where the beneficiary provided insufficient documentation to pay the claim. 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.

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).**

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

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 nine life and annuity death claims from the examination period, to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected nine 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 nine 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 the 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 nine 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: None.

Observations: RNA noted that the tested claims were reported according to the Company's policies and procedures, and that the claim files were handled in accordance with policy provisions. The Company has policies and procedures requiring life insurance death 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. Although it believes that intercept procedures were completed for all life insurance death claims tested, the Company does not consistently document its performance of these intercept procedures.

Recommendations: The Company should independently monitor its intercept procedures to ensure they are being performed and documented as required by statute.

<b>Standard VII-7. Regulated entity claim forms are appropriate for the type of product.</b>
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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 nine 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: The Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected nine 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. No denied life or annuity death claims were selected for testing since the Company had no such denied claims during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

<b>Standard VII-10. Cancelled benefit checks and drafts reflect appropriate claim handling practices.</b>
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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 life and annuity death claim selected for testing was recorded according to the Company's policies and procedures, and that claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of testing, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

*Controls Assessment:* See Standard VII-1.

*Controls Reliance:* See Standard VII-1.

*Transaction Testing Procedure:* RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected nine 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 RNA's review, it appears that the Company has a process for providing proper disclosures to policyholders when accelerated benefits are requested, and has processes to timely and accurately adjudicate accelerated benefit requests..

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 nine 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. We have made recommendations to address various concerns in the areas of Producer Licensing, Policyholder Service and Claims.

FOR INFORMATIONAL PURPOSES ONLY

### ACKNOWLEDGEMENT

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

The undersigned’s participation in this comprehensive examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the examination performed, which was in accordance with, and substantially complied with, those standards established by the National Association of Insurance Commissioners (“NAIC”) and the *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  
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