



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

*Report on the Comprehensive Market Conduct Examination of*  
*Massachusetts Mutual Life Insurance Company*

*Springfield, Massachusetts*

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

**NAIC COMPANY CODE: 65935**

**EMPLOYER ID NUMBER: 04-1590850**

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**COMMONWEALTH OF MASSACHUSETTS**  
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COMMISSIONER OF INSURANCE

December 15, 2017

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

Dear Commissioner Anderson:

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

**MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY**

at their home offices located at:

1295 State Street  
Springfield, MA 01111

The following report thereon is respectfully submitted.

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination ("examination") of Massachusetts Mutual Life Insurance ("Company") for the period January 1, 2014 to December 31, 2014, with a focus on individual business. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete the examination. The findings and observations expressed in this Report are based upon material and information provided by the Company as of April 27, 2017.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the 2014 NAIC *Market Regulation Handbook* ("the Handbook"), the examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division's financial examination of the Company. For those objectives, RNA and the market conduct examination staff relied on procedures performed by the Division's financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

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**EXECUTIVE SUMMARY**

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

The following is a summary of all findings and observations, along with related recommendations and required actions and, if applicable, subsequent Company actions noted in this examination report. 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 examination resulted in no recommendations or required actions with regard to complaint handling, underwriting and rating, and claims. The examination indicated that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these areas. Further, the tested Company practices appear to meet industry best practices in these areas.

Recommendations and required actions noted in this examination are as follows:

**SECTION I-COMPANY OPERATIONS/MANAGEMENT**

**STANDARD I-18**

**Findings:** None.

**Observations:** Based upon RNA's review of the Company's NAIC Market Conduct Annual Statements ("MCAS"), some life and long-term care information was not properly completed in MCAS, or did not agree to the examination data requested by RNA.

**Recommendations:** The Company should ensure that its transaction coding policies and procedures allow for proper reporting in MCAS. Also, the Company should conduct staff training to ensure that all transactions are properly coded for MCAS, management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration and claims systems.

**Subsequent Company Actions:** The Company's first MCAS filing with long-term care data was made in 2014. Since that filing, the Company has identified a more accurate and complete data source for MCAS reporting, and the Company has updated the 2014 MCAS filing with the NAIC. The new data source will be used for the 2015 MCAS filing. For the 2014 life MCAS, the Company's system coding did not properly identify surrenders for a small block of life policies. A coding fix has been implemented to correct this coding error.

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SECTION III-MARKETING AND SALES

STANDARD III-1

Findings: None.

Observations: Based on review and testing, advertising and sales materials generally appeared accurate and reasonable, and all were approved by the Company prior to use. The Company's website properly disclosed its name and address. RNA noted no use of unapproved sales and marketing materials as part of new business testing.

RNA reviewed one agent-produced sales presentation and illustration showing the use of cash value life insurance for college funding. The presentation provided an abbreviated illustration showing a child whole life policy with premiums of \$10,000 for each of years 1-10, with a cash value in year 15 of \$151,343, and using cash values in years 16-19 of \$164,000 for college funding. That illustration was compared to a brokerage account with an average 5% after tax return showing a \$186,972 value at year 15, which is \$35,000 more than the cash value at that date. Further, the abbreviated illustration showed the values for the brokerage option and the cash value life policy in year 68, where the cash value policy substantially exceeded the value of the brokerage account. The USIG Compliance Department did not challenge the appropriateness of this abbreviated illustration and sales presentation, which was solely prepared to illustrate college funding options to the consumer.

Recommendation: The Company's USIG Compliance Department should more rigorously challenge agent-developed sales presentations and illustrations for appropriateness, particularly those involving cash value insurance as a savings vehicle, to ensure that the presentations and illustrations are prepared in the consumer's interests and are not misleading to the consumer.

Subsequent Company Actions: The Company's policy of reviewing agent-developed sales materials and illustrations was not properly performed for these sales materials. The Company has sent a reminder notice to the sales material review team within the USIG Compliance Department to ensure that the Company's policy related to agent-developed sales materials is consistently performed.

STANDARD III-4

Findings: For two of disability income replacement sales tested, replacement notices were not provided to the applicants in accordance with 211 CMR 42.08 and 42.11.

Observations: Except as noted above, the tested life, annuity, disability income, and long-term care replacement sales appeared to meet the applicants' needs and comply with Company's replacement procedures. Also, the Company appears to monitor agents for the volume and nature of their replacement sales, and takes action as considered necessary.

Required Actions: The Company shall assess its procedures for reviewing agents' actions to provide replacement notices to disability income applicants, and make enhancements as appropriate. Also, the Company shall conduct staff training of their supervisory review procedures to ensure that they evaluate all replacement transactions for issuance of replacement notices to applicants by the agents.

Subsequent Company Actions: The Company implemented a new system in 2015 with more robust in-good-order new business processing rules to ensure that replacement notices are timely provided to applicants.

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SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: None.

Observations: One disability income policy was issued by a licensed producer, but the producer was not appointed in accordance with Company policy, as the disability income new business unit did not notify the Producer Services & Operations Department that the producer needed to be appointed as agent. Based upon testing and except as noted above, the Company's agents were properly licensed and appointed when the application was submitted.

Recommendations: The Company should assess its procedures for appointing licensed producers as agents, and make enhancements as appropriate. Also, the Company should conduct staff training to ensure that staff appoint licensed producers as agents in accordance with Company policy.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-5

Findings: None.

Observations: Based upon testing, except for annuity maturities as noted below, the Company appears to process policyholder and contract holder transactions accurately and timely in accordance with statutory requirements and policy provisions.

In November 2015, the Company informed the Division that the maturity dates for certain of its annuity contracts had in the past been routinely deferred without the written consent of the contract owners. This issue had been previously referenced in a market conduct examination of the company by another state in 2013. The Division requested the Company provide documentation related to annuitization or maturity of Massachusetts fixed and variable annuities. The Division reviewed this material and discussed annuity notification procedures with Company management and its counsel.

The Company provided the Division with documentation regarding the affected variable annuity contracts along with information regarding the other state's examination and multi-state regulatory settlement agreements previously entered into by other companies and state regulators. Based upon examination of the documentation provided, during the period from 1998-2009, out of a total number of 23,885 Massachusetts variable annuity contracts that were in force during these years, the Company unilaterally modified, without owner consent, 636 Massachusetts variable annuity contracts where there were no post-deferral transactions. The forms used to notify annuity contract holders of the maturity date deferral were not submitted to the Division prior to distribution. Further, five irrevocable beneficiaries were identified as not having received notification of the change in the variable contract maturity dates.

Management states that, in 2008, the Company developed process improvements and generally implemented corrective actions. The Company's current and documented practice for deferrals includes: (i) prior notification to annuity contract owner of pending maturity date no later than 45 days prior to maturity date; (ii) mailing of at least two letters to annuity contract owner, the first at least 45 days prior to

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maturity date, the second at least 20 days prior to maturity date, notifying the contract owner of pending maturity date and identifying any alternatives to annuitization available under the annuity contract; (iii) recording the owner's response; and (iv) allowing the owner to have access to the annuity funds, per the contract terms, at any time in the future, upon written notice to the Company.

**Required Actions:** The Company has agreed with the Division to provide reimbursement to all Massachusetts consumers who sustained any diminution in value of the 636 annuity contracts identified in the Observations for Standard V-5. Within sixty (60) calendar days of this Report, the Company shall submit a reimbursement plan to the Division. Said reimbursement plan shall provide, among other things, for quarterly reporting to the Division of reimbursement payments until such time as the plan is complete. In addition, the Company shall promptly notify the Division if any other state or regulatory body commences an examination or enforcement action against the Company in connection with its practices and procedures relative to the annuitization or maturity of fixed and variable annuities.

**Recommendations:** The Company should continue to follow its current practice for deferrals.



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**COMPANY BACKGROUND**

The Company is a mutual life insurance company, organized as a Massachusetts corporation which was originally chartered in 1851. The Mass Mutual Financial Group ("MMFG") is comprised of the Company and its subsidiaries. MMFG is a global, diversified financial services organization providing life insurance, annuities, disability income insurance, long-term care insurance, retirement and savings products, structured settlement products, structured settlement annuities, investments, corporate and bank-owned life insurance, mutual funds and trust services to individual and institutional customers. The Company offers its products and services in all 50 states of the United States and the District of Columbia. The Company is also licensed to transact business in Puerto Rico and Canada.

The Company markets its products through a variety of distribution channels, with the core of its distribution system a career sales force of approximately 5,500 individual agents under contract in 82 general agencies throughout the United States. Two of the general agencies are located in Massachusetts. The Company also maintains selling agreements with independent third party producers including banks, financial institutions, securities firms, broker-dealers, and advisory firms. Many of those producer relationships are managed through the general agencies. Also, the Company has recently begun selling direct term life in Massachusetts through an affiliate using its d/b/a name, Haven Life.

The Company's principal lines of business are protection products and asset accumulation products. The protection business provides life insurance products, disability income products (and related services) and long-term care products to individuals, corporations, and other institutions. The asset accumulation business, covering financial services, retirement services, annuities, and large corporate markets, provides investment services to individuals, group pension and administrative services (primarily to sponsors of tax qualified retirement plans), and advisory services for the Company's general investment account, separate account investment accounts, and investment companies.

The Company is rated A++ (Superior, top category of 15) by A.M. Best Company, AA+ (Very Strong, second category of 21) by Fitch Ratings; Aa2 (Excellent, third category of 21) by Moody's; and AA+ (Very Strong, second category of 21) by Standard & Poor's. The Company reported \$197.2 billion in admitted assets and \$14.2 billion in surplus as of December 31, 2014. Premiums and annuity considerations were \$18.4 billion 2014. The Company reported net income of \$623.1 million in 2014.

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

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**I. COMPANY OPERATIONS/MANAGEMENT**

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

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

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

**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 Board of Directors currently consists of 14 members. The Company's By-Laws allow for between seven and 21 board members, and requires that 75% of the directors be independent.
- The Company's internal audit plan, conducted by the Corporate Audit Department ("CAD"), is annually approved by the Audit Committee of the Board of Directors ("Audit Committee"). Key business risks and mitigating controls are identified, and high risk areas are audited annually by the CAD.
- CAD reports are provided to the Audit Committee, including recommendations and management's responses. The Audit Committee is updated on the status of in-process audits at its periodic meetings that occur approximately eight times throughout the year. The CAD verifies that audit recommendations have been implemented by management.
- The Company has an enterprise risk management ("ERM") process led by the Company's Executive Vice President, Chief Enterprise Risk Officer, and Chief Actuary, who reports to the Chief Executive Officer ("CEO"). The ERM function is responsible for maintaining the Company's internal control documentation using the Sarbanes Oxley framework.
- The Company has a Chief Compliance Officer ("CCO"), who leads the Corporate Compliance Department ("CCD") and reports to the Audit Committee. The CCD is primarily focused on compliance related to employee oversight and training, code of conduct monitoring, and other Company-wide compliance practices.
- The Company's insurance and securities compliance function is contained within the Company's United States Insurance Group ("USIG") business unit. The USIG Compliance Officer reports to the Executive Vice-President of USIG, who reports to the CEO and to the CCO. The USIG Compliance Department has various divisions that monitor field compliance programs for the Company's producers and general agencies, handle all customer complaints, review and approve home office and producer sales materials, perform training, participate on product development teams, manage anti-money laundering and privacy compliance initiatives, and oversee the periodic comparison of the Company's policy and contract in-force data against the Social Security Death Master File.
- The Company's long-term care business processing is outsourced to an unaffiliated third party administrator, which provides numerous management reports summarizing business activity and compliance with contractual requirements. The long-term care business is included in the CAD audit scope. Also, USIG Operations management perform quarterly underwriting and new business audits to evaluate compliance with underwriting guidelines. Additionally, an annual audit is performed of the claims processing function. Finally, the Company conducts semi-annual reviews

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of administrative business practices to assess the adequacy and effectiveness of certain operational policies and procedures. For all of these audit processes, results are reported to management and follow-up on recommendations are included in the Company's monitoring process.

- The Company has quality assurance processes for disability income claims, life and annuity death claims, life, annuity and disability income new business processing, life and disability income underwriting, and life, annuity and disability income post-issue processing, including the call center operations. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

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 CAD work, CCD work, USIG compliance activities, and operational quality assurance processes. RNA reviewed selected CAD reports, USIG field compliance reports of the two Massachusetts general agencies, field compliance manuals and checklists, audits of the long-term care third party administrator's work, and summaries of the Company's Board of Directors minutes for 2014 and 2015 prepared by the financial examiners. Issues noted in such reports and minutes were further investigated and reviewed with management.

Transaction Testing Results:

Findings: None.

Observations: The CAD reports, USIG field compliance reports of the two Massachusetts general agencies, field compliance manuals, checklists, and audits of the long-term care third party administrator's work provided detailed information on the compliance policies, audit procedures performed, findings, actions taken, and recommendations for improvements. The review of these audits indicated that the Company is generally in compliance with policies, procedures and regulatory requirements. Also, the Company has documented its corporate decisions in its Board of Directors minutes.

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 Division's 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.**

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

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

- The Company has a written Antifraud Plan, which requires 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 and to the Special Investigations Unit ("SIU"). The Company reports suspected fraud to the Massachusetts Insurance Fraud Bureau.
- The Company's Board of Directors must annually attest to compliance with its Code of Conduct, including its conflict of interest policy.
- All employees are annually required to attest that they are in compliance with the Company's Code of Conduct, including the conflict of interest policy, and to attest that they have not been convicted of a felony involving dishonesty or breach of trust. Any such convictions must be reported immediately.
- Criminal background checks are completed for all prospective employees. The Company generally does not consider anyone convicted of a felony, as defined in the Federal Violent Crime Control and Law Enforcement Act, to be eligible for hire.
- The Company's claims examiners are primarily responsible for claims fraud procedures. The claims examiners investigate suspected fraud and report such fraud to management, SIU, and regulatory authorities as appropriate.
- Office of Foreign Asset Control ("OFAC") checks of all the Company's business relationships are completed daily against the Specially Designated Nationals ("SDN") list, with any matches timely investigated. The payees for all claim disbursements are checked against the OFAC SDN list.

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 antifraud initiatives, compliance procedures, and Code of Conduct policies. RNA reviewed the Antifraud Plan and the Company's OFAC procedures. Finally, RNA reviewed antifraud procedures applicable in complaints, claims, and underwriting testing as applicable.

Transaction Testing Results:

Findings: None.

Observations: The Company has adopted reasonable procedures related to antifraud initiatives, Code of Conduct compliance, and OFAC requirements. RNA also confirmed that the Company completes criminal background checks for new employees. During complaints, claims, and underwriting testing, any fraud concerns appeared to be properly and timely investigated. Based upon our review of the Company's policies and procedures, it appears that the Company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

Recommendations: None.

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

No work performed. All required activity for this Standard is included in the scope of the Division's financial examination of the Company.

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

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

*Controls Assessment:* The following controls were noted in review of this Standard and Standard I-6:

- The Company uses third parties to conduct medical examinations of certain life, disability income, and long-term care applicants. These contracts designate responsibilities and duties, restrictions, general confidentiality, and privacy requirements for all medical information and lab specimens.
- The Company uses independent producers and general agents to sell the Company's products. The independent producer and career agent contracts describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, terminations and reappointments, continuing education responsibilities, compliance with the Company's replacement requirements and errors and omissions coverage requirements.
- The Company and its affiliated broker-dealer, monitor its general agencies for compliance with policies and procedures through annual on-site field visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with contractual requirements, including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for variable life insurance and annuity sales.
- The Company's long-term care business processing is outsourced to an unaffiliated third party administrator, which provides numerous management reports summarizing business activity and compliance with contractual requirements. The long-term care business is included in the CAD audit scope. Also, USIG Operations management perform quarterly underwriting and new business audits to evaluate compliance with underwriting guidelines. Additionally, an annual audit is performed of the claims processing function. Finally, the Company conducts semi-annual reviews of administrative business practices to assess the adequacy and effectiveness of certain operational policies and procedures. For all of these audit processes, results are reported to management and follow-up on recommendations are included in the Company's monitoring process.

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

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Transaction Testing Procedure: RNA interviewed management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. RNA reviewed the standard career agent contract, and the contract with the unaffiliated third party administrator for long-term care business.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

Controls Reliance: See Standard I-5.

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties performing Company functions. RNA reviewed monitoring procedures over general agencies and unaffiliated producers conducted by the Company for contractual requirements including compliance with needs assessment and suitability procedures. Further, RNA reviewed documentation and audit reports supporting the monitoring of the duties performed by the Company's third party administrator related for long-term care business. RNA also reviewed the most recent USIG field compliance reports of the two Massachusetts general agencies. As part of new and renewal business testing, RNA reviewed agent suitability and needs assessment documentation that supports the new or renewal business sold. As part of long-term care new business and claims testing, RNA evaluated procedures for compliance with regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is adequately monitoring the activities of third parties assuming a business function, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

Objective: This Standard addresses the adequacy and accessibility of the Company's records. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has adopted record retention requirements for various documents and records.
- The record retention requirements generally include guidelines for management, maintenance and disposal of records, and 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 obtained a summary of the Company's record retention policies and procedures, 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.**

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: 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.

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

Objective: This Standard addresses Company's cooperation during the course of the examination. See Appendix A for applicable statutes, regulations and bulletins.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. Testing of compliance with Adverse Underwriting Decision Notice requirements is completed in Standards VI-7 and VI-8. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's definitions of "adverse underwriting decision," "personal information" and "pretext interview" comply with Massachusetts law. Company policy prohibits pretext interviews except as allowed by law.
- The Company's policy is to provide the notice of privacy practices ("Privacy Notice") at the application date as part of the policy application, or as part of the variable annuity prospectus. The notice states that personal information may be collected from other persons, and that information may in certain circumstances be disclosed to third parties without authorization.
- The Privacy Notice is also provided with the insurance policy or annuity contract, and each year with the annual statement. For reinstatements where new underwriting procedures are completed, the Privacy Notice is provided at the application date. The Privacy Notice states that the personal information collected or maintained, and the source of such information, are available to the individual within 30 days of receipt of a written request for such information. The Privacy Notice also discloses how a consumer can correct, amend, or delete such information.



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- The Company shares personal information with business partners, who perform a function on behalf of the Company. Beginning in July 2015, the Company changed its processes for "off-boarding" producers, who upon their appointment termination, no longer sell the Company's products. In some instances, a consumer may desire to continue a customer relationship with the producer even after the producer's appointment termination. Accordingly, the Privacy Notice now includes an opt-in provision in Massachusetts, through an 800 number for customers who may wish to consent to allow their personal information to be retained by the producer when he or she leaves the general agency.
- Company policy is to provide the Adverse Underwriting Decision Notice, including all statutory requirements, as required by law. Company policy prohibits basing an adverse underwriting decision on the existence of a previous adverse underwriting decision. The Company's policy prohibits seeking information concerning any previous adverse underwriting decision received by an individual, unless the inquiry also requests the reasons for the previous adverse underwriting decision.
- The Company has summarized its privacy policies on its website.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. 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.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial, and health information is located. Access is frequently and strictly monitored.
- The Company requires the long-term care third party administrator to provide a confidentiality agreement stipulating that it will comply with privacy laws, regulations, policies, and procedures.

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, disability income, and long-term care 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, disability income, and long-term care claims testing, RNA noted no evidence of the use of pretext interviews.

Recommendations: None.

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

*Objective:* This Standard addresses whether the Company has developed and implemented written standards for the management of insurance information. This standard relates to privacy matters and is evaluated 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.

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

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

*Transaction Testing Procedure:* RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of underwriting and claims testing, RNA sought any evidence that the Company improperly provided personal information to parties other than the applicant or claimant as part of new business and claims testing.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon RNA's review, the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to inappropriate parties in conjunction with new business and claims testing.

*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.

*Objective:* This Standard addresses the Company's practice of providing privacy notices to customers and consumers. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard I-10.

*Controls Reliance:* See Standard I-10.

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**Transaction Testing Procedure:** RNA reviewed the Company's policies and procedures for providing the Privacy Notice to all applicants, and annually thereafter to policyholders and contract holders. Further, RNA evaluated compliance with these privacy disclosure requirements in conjunction with testing of 43 life, 35 annuity, 15 disability income, and seven long-term care sales during the examination period.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** The Privacy Notice was provided with each of the applications tested. RNA also noted that the Company has procedures for providing the Privacy Notice annually thereafter to policyholders and contract holders.

**Recommendations:** None.

**Standard I-14.** If the regulated entity discloses information subject to an opt out right, the regulated entity 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 regulated entity provides opt out notices to its customers and other affected consumers.

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

**Controls Assessment:** See Standard I-10.

**Controls Reliance:** See Standard I-10.

**Transaction Testing Procedure:** RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures including those for the use of opt out or opt in notices.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** During the examination period, the Company did not provide opt out or opt in notices to consumers, as nonpublic personal financial information was not shared for marketing purposes. Beginning in July 2015, the Company changed its processes for "off-boarding" producers, who upon their appointment termination, no longer sell the Company's products. In some instances, a consumer may desire to continue a customer relationship with the producer even after the producer's appointment termination. Accordingly, the Privacy Notice now includes an opt-in provision in Massachusetts, through an 800 number for customers who may wish to consent to allow their personal information to be retained by the producer when he or she leaves the general agency. These opt in procedures appear reasonable.

**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.**

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed new business and claims documentation for any evidence that the Company improperly collected, used, or disclosed nonpublic personal financial information in conjunction with testing of new business and claims.

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review and testing in conjunction with new business and claims, 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 insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer, who is not a customer has authorized the disclosure.**

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: 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 underwriting and claims. RNA reviewed compliance with Health Insurance Portability and Accountability Act ("HIPAA") authorization disclosure requirements in conjunction with testing of 43 life, 15 disability income, and seven long-term care sales during the examination period. Finally, RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 20 life, nine annuity death, 20 disability income, and two long-term care claims submitted during the examination period.

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Transaction Testing Results:

Findings: None.

Observations: RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims. Based upon testing, RNA noted that the HIPAA authorization disclosure was signed by new business applicants, claimants, and beneficiaries.

Recommendations: None.

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

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

Controls Assessment: 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 Division's 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. All data required to be reported to departments of insurance is complete and accurate.**

Objective: This Standard addresses the Company's filing of the MCAS for individual life, annuity, and long-term care business. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's policy administration and claims systems compile and retain life, annuity, and long-term care sales and claims data for inclusion in the MCAS.
- The Company states that it has developed controls and procedures to evaluate the accuracy and completeness of life, annuity, and long-term care sales and claims data for regulatory reporting.

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**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 life and annuity new business and claims operations, and personnel responsible for oversight of the long-term care third party administrator. RNA reviewed the Company's 2014 MCAS submissions and compared that information to detailed examination data requested, for any unusual results and concerns.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** Based upon RNA's review of the Company's MCAS, some life and long-term care information was not properly completed in MCAS, or did not agree to the examination data requested by RNA. Otherwise, the MCAS was properly completed.

**Recommendations:** The Company should ensure that its transaction coding policies and procedures allow for proper reporting in MCAS. Also, the Company should conduct staff training to ensure that all transactions are properly coded for MCAS, management and regulatory reporting. Finally, the Company should adopt new procedures for the independent review of MCAS filings prior to filing with the NAIC, to ensure that the data is accurate, complete and properly reconciled to underlying data contained in the Company's policy administration and claims systems.

**Subsequent Company Actions:** The Company's first MCAS filing with long-term care data was made in 2014. Since that filing, the Company has identified a more accurate and complete data source for MCAS reporting, and the Company has updated the 2014 MCAS filing with the NAIC. The new data source will be used for the 2015 MCAS filing. For the 2014 life MCAS, the Company's system coding did not properly identify surrenders for a small block of life policies. A coding fix has been implemented to correct this coding error.

<p><b>Standard I-19.</b> The regulated entity files all certifications with the insurance department as required by statutes, rules, and regulations.</p>
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**Objective:** This Standard addresses the Company's efforts to file certifications with the Division as required. See Appendix A for applicable statutes, regulations and bulletins.

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

**Controls Reliance:** Not applicable.

**Transaction Testing Procedure:** RNA requested evidence that the illustration actuary filed a 2014 actuarial certification with the Division for life products requiring an illustration.

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Transaction Testing Results:

Findings: None.

Observations: The Company has filed the 2014 actuarial certification with the Division.

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.

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

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

- The Customer Relations Division of the USIG Compliance Department ("Customer Relations") coordinates and addresses complaints for all of the Company's insurance and securities products and business units, except for long-term care complaints, which are outsourced to the Company's third party administrator.
- The Company considers a complaint any written grievance against the Company, or its agents received from a consumer, the Division, or the Massachusetts Attorney General, including grievances received by email, or through social media.
- The Company logs all complaints received in its electronic workflow system, from which the complaint register is compiled by contract issue state.
- The complaint register includes the regulatory case number, source, file number, complainant, product, policy number, function code, complaint description, disposition, received date, and closed date.
- 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 Marketing Department monitors various social media sites, and when negative comments are noted, the Company responds asking the consumer to contact the Company, so the concern may be addressed privately. Once the consumer contacts the Company privately, the concern is referred to Customer Relations, added to the complaint register, and handled accordingly.
- The Company provides its telephone number and address in written responses to consumer inquiries, and on its web site.
- Complaint activity is periodically reviewed by Customer Relations. Quarterly complaint trend reports are provided to the business units and presented during Customer Relations outreach programs. Trend reports are semi-annually provided to the CEO, and the CCO receives annual written reports of complaint activity and trends, which are reported to the Board of Directors and the Audit Committee.

**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 responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for 2014-2015, to evaluate the Company's compliance with statutory complaint requirements. RNA also reviewed the Company's complaint registers for 2014-2015, to determine whether they properly contained all Division complaints.



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Transaction Testing Results:

Findings: None.

Observations: Based on testing, the Company's complaint registers included all statutorily-required database elements. Also, the Company's complaint registers properly included all Division complaints.

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management responsible for complaint handling, and examined evidence of the Company's related processes and controls. From 2014 and 2015 complaint activity, RNA tested two regulatory complaints and 10 consumer complaints to evaluate the Company's compliance with statutory complaint requirements. In addition, RNA reviewed the Company's website and communications to consumers, to determine whether the Company provides contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the Company has adequate procedures to address complaints, and adequately communicates such procedures to consumers.

Recommendations: None.

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

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the issues raised, and whether policyholders or consumers with similar fact patterns are treated consistently and fairly. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

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Transaction Testing Procedure: RNA interviewed management responsible for complaint handling, and examined evidence of the Company's related processes and controls. From 2014 and 2015 complaint activity, RNA tested two regulatory complaints and 10 consumer complaints to evaluate the Company's efforts to properly dispose of complaints.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints tested. Documentation for the complaints appeared complete, including the original complaints and related correspondence.

Recommendations: None.

<b>Standard II-4. The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.</b>
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Objective: This Standard addresses the time required for the Company to process each complaint. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management responsible for complaint handling, and examined evidence of the Company's related processes and controls. From 2014 and 2015 complaint activity, RNA tested two regulatory complaints and 10 consumer complaints to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed the tested regulatory complaints within 14 days as allowed by the Division, and consumer complaints appeared to be addressed timely. The Company appears to respond to complaints in a timely manner in accordance with its policies, procedures, and regulatory requirements.

Recommendations: None.

### III. MARKETING AND SALES

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

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

Objective: This Standard addresses whether the Company maintains a system of control over the content, form, and dissemination for all advertising and sales materials. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including a provision in agency and producer contracts requiring adherence to such procedures.
- The USIG Compliance Department reviews and approves all home office and producer-generated sales and advertising materials prior to use. An electronic work flow system tracks and documents the review and approval of these materials. All approved sales and advertising materials have an expiration date, which is to be no more than two years from the approval date.
- USIG Compliance Department staff consult with the business units during development of proposed materials to ensure efficiency and understanding of compliance requirements.
- The Company's career agency system includes an Agency Supervisory Officer ("ASO") at each general agency. Producers may send personal letters to customers, but the ASO must review securities-related correspondence, although not prior to the letter being sent by the producer.
- Producer email is filtered using information technology controls through identification of key words in emails, which may also trigger a review by the ASO.
- The Company discloses its name and address on its website.
- The Company's CAD periodically conducts audits of the USIG Compliance Department's review and approval of advertising and sales materials.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for review, approval, and maintenance of sales and advertising materials, and obtained supporting documentation. RNA obtained a list of advertising and sales materials utilized during the examination period, and selected 13 home office sales materials and 12 producer-generated sales materials for accuracy, reasonableness, and evidence of approval prior to use. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought evidence of the use of unapproved sales and marketing materials as part of new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing, advertising and sales materials generally appeared

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accurate and reasonable, and all were approved by the Company prior to use. The Company's website properly disclosed its name and address. RNA noted no use of unapproved sales and marketing materials as part of new business testing.

RNA reviewed one agent-produced sales presentation and illustration showing the use of cash value life insurance for college funding. The presentation provided an abbreviated illustration showing a child whole life policy with premiums of \$10,000 for each of years 1-10, with a cash value in year 15 of \$151,343, and using cash values in years 16-19 of \$164,000 for college funding. That illustration was compared to a brokerage account with an average 5% after tax return showing a \$186,972 value at year 15, which is \$35,000 more than the cash value at that date. Further, the abbreviated illustration showed the values for the brokerage option and the cash value life policy in year 68, where the cash value policy substantially exceeded the value of the brokerage account. The USIG Compliance Department did not challenge the appropriateness of this abbreviated illustration and sales presentation, which was solely prepared to illustrate college funding options to the consumer.

**Recommendation:** The Company's USIG Compliance Department should more rigorously challenge agent-developed sales presentations and illustrations for appropriateness, particularly those involving cash value insurance as a savings vehicle, to ensure that the presentations and illustrations are prepared in the consumer's interests and are not misleading to the consumer.

**Subsequent Company Actions:** The Company's policy of reviewing agent-developed sales materials and illustrations was not properly performed for these sales materials. The Company has sent a reminder notice to the sales material review team within the USIG Compliance Department to ensure that the Company's policy related to agent-developed sales materials is consistently performed.

<b>Standard III-2. Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.</b>
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**Objective:** This Standard addresses whether the Company's producer training materials are in compliance with state statutes, rules and regulations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has developed extensive career agent training and education programs, which are tailored to the career agents' experience and needs.
- The USIG Compliance Department reviews and approves all general agency and producer sales training materials. An electronic work flow system tracks and documents the review and approval of such training materials.
- For long-term care business, agents must complete Massachusetts-required training, with such training certified by the Company. The Company maintains a list of agents that have completed such training.

**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.

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Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for review, approval, and maintenance of producer training materials, and obtained supporting documentation. RNA evaluated compliance with long-term care training requirements in conjunction new business testing of 12 individual long-term care applications.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provided evidence of the completion of long-term care producer training for the 12 producers.

Recommendations: None.

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

Objective: This Standard addresses whether the written and electronic communication between the Company and its producers is in accordance with Company policies and procedures. See Appendix A for applicable statutes, regulations and bulletins.

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

- Agency 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 general agencies and producers on product and compliance matters by circulating newsletters 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 also reviewed producer compliance materials in conjunction with new business testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

**Controls Assessment:** The following controls were noted as part of this Standard and Standard III-5:

- Written policies and procedures govern replacement handling.
- The Company's applications require a response from the applicant and agent as to whether or not the insurance or annuity applied for will replace another policy or contract.
- Agents are required to submit applications to the Company that include copies of the Massachusetts replacement disclosure form provided to, and signed by, the applicant on the application date. The Company reviews submitted application packages for evidence of properly completed applications and signed replacement disclosure forms.
- The Company encourages non-variable life, disability income, and long-term care replacement sales be contemporaneously reviewed by an agency supervisor prior to submission to the Company, although such contemporaneous supervisory reviews are not required.
- Company policy requires that general agency supervisors take responsibility for evaluating all variable life and annuity replacement sales to ensure that they are suitable. The supervisor's review is documented on the application, which is sent to the Company.
- For internal annuity replacement transactions, an internal exchange disclosure form is required where the applicant acknowledges that he or she is replacing the existing contract with a new contract, which may include a new surrender charge period.
- Written Company policy requires that notice to the replaced carrier be sent within two to seven business days for life applications, and within three business days for annuity applications, from the date the application is received "in good order" in the home office.
- Reduced commissions are paid on most internal replacements to discourage such replacements. Internal replacement transactions that are eligible for full commission include: new life contracts where policy loan proceeds are used from an existing policy, as long as the existing policy is not replaced; life policies that qualify under a program for high performing agents, whereby full commissions are allowed for a limited number of replacement transactions with a limited face value; replacements of a Company's life policy with a Company's annuity product, or vice versa, and term to term replacements where the replaced term policy is over nine and one-half years old.
- The Company provides a 20 day free look on all life and annuity replacement sales.
- The Company states that it monitors agents for the volume and nature of their replacement sales, and takes appropriate action when considered necessary.
- The USIG Compliance Department monitors its general agencies for compliance with replacement policies and procedures through annual field visits.
- The Company has quality assurance processes for life, annuity, and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities, and for employee evaluation and training.
- The Marketing Department periodically surveys consumers about their experience with the new business process. Trends are identified and process/service improvements are identified as needed. Surveys are anonymous, but if the respondent has concerns or requests contact, the Company will contact the respondent.
- The Company's long-term care new business processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and processes and compliance with all applicable laws and regulations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of approved replacement sales including 33 life, 20 annuity, three disability income, and two long-term care sales from the examination period for testing. RNA reviewed the applications to ensure that the replacement questions on the applications were properly answered, reviewed evidence that the replacement disclosure forms were properly signed by the applicants at the application dates, and evaluated whether the replacement sales appeared to be suitable for, or meet the needs of, the applicants. Finally, RNA reviewed USIG field compliance reports of the two Massachusetts general agencies for evidence that replacement suitability and needs assessment procedures were monitored.

Transaction Testing Results:

Findings: For two of disability income replacement sales tested, replacement notices were not provided to the applicants in accordance with 211 CMR 42.08 and 42.11.

Observations: Except as noted above, the tested life, annuity, disability income, and long-term care replacement sales appeared to meet the applicants' needs and comply with Company's replacement procedures. Also, the Company appears to monitor agents for the volume and nature of their replacement sales, and takes action as considered necessary.

Required Actions: The Company shall assess its procedures for reviewing agents' actions to provide replacement notices to disability income applicants, and make enhancements as appropriate. Also, the Company shall conduct staff training of their supervisory review procedures to ensure that they evaluate all replacement transactions for issuance of replacement notices to applicants by the agents.

Subsequent Company Actions: The Company implemented a new system in 2015 with more robust in-good-order new business processing rules to ensure that replacement notices are timely provided to applicants.

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

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

Controls Assessment: See Standard III-4.

Controls Reliance: See Standard III-4.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of approved replacement sales including 33 life, 20 annuity, three disability income, and

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two long-term care sales from the examination period for testing. RNA reviewed the notices to the replaced carriers for the life and annuity replacements for timeliness, and evaluated the commissions paid on internal replacements to ensure that they were reduced in accordance with Company policy.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, all notices to replaced carriers were timely provided. The Company reduced commissions on internal replacements in compliance with Company policy.

Recommendations: None.

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

Objective: This Standard addresses issuance of policy illustrations, policy summaries, outlines of coverages, and buyer's guides that contain all required information, and are timely provided to applicants. See Appendix A for applicable statutes, regulations and bulletins.

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 life, disability income, and long-term care policy illustrations, summaries, outlines of coverages, required disclosure forms, and buyer's guides at the application date, and disclosure by the agent that he or she is acting as producer in the sale.
- 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 life, annuity, and disability income insurance applications to ensure that required forms and disclosures are provided to the applicants.
- The Company has quality assurance processes for life, annuity, and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- The Marketing Department periodically surveys consumers about their experience with the new business process. Trends are identified and process/service improvements are identified as needed. Surveys are anonymous, but if the respondent has concerns or requests contact, the Company will contact the respondent.
- The Company's long-term care new business processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and processes and compliance with all applicable laws and regulations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA selected a sample of 43 life, 35 annuity, 15 disability income, and seven long-term care sales during the examination



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period for testing. RNA reviewed the life, annuity, disability income, and long-term care illustrations, policy summaries, outlines of coverages, and other disclosures, and verified that they were timely provided to the applicants where required. Finally, RNA noted whether the insurance policies or contracts received were consistent with those applied for, and that any changes resulted in full written disclosure to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, RNA noted that all life, annuity, disability income and long-term care policy illustrations, summaries, outlines of coverages, disclosures, and buyer's guides were timely provided to the applicants when required. Contracts received by applicants were issued consistent with their applications, or any changes resulted in full written disclosure to the applicants.

Recommendations: None.

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

Objective: This Standard addresses whether the Company maintains suitability or needs assessment standards for its products. See Standards III-4 and III-5 for testing of replacement suitability and needs assessment, and Standards III-11 through III-12 for testing of annuity suitability and needs assessment. See Appendix A for applicable statutes, regulations and bulletins.

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

- Agents are required to submit complete applications to the Company that are signed by the applicant on the application date.
- Company policy requires that agents conclude that all sales are suitable and meet the applicants' needs.
- Most of the Company's life applications require submission of information regarding the applicant's income, net worth, liquidity, family status, and source of funds to assist in determining their needs.
- The USIG Compliance Department monitors its general agencies for compliance with variable product suitability policies and procedures through annual field visits.
- The Company has quality assurance processes for life and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- The Marketing Department periodically surveys consumers about their experience with the new business process. Trends are identified and process/service improvements are identified as needed. Surveys are anonymous, but if the respondent has concerns or requests contact, the Company will contact the respondent.
- The Company's long-term care new business processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and processes and compliance with all applicable laws and regulations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing non-replacement sales testing, RNA selected a sample of 10 life, 12 disability income, and five long-term care sales from the examination period for testing, to evaluate whether the sales appeared to be suitable and meet the applicants' needs. Finally, RNA reviewed USIG field compliance reports of the two Massachusetts general agencies for evidence that suitability and needs assessment procedures were monitored.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each of the non-replacement sales tested appeared to meet the applicants' needs. Finally, the Company appears to monitor agencies processes for evaluating customers' and needs 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.

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

Objective: This Standard addresses the required disclosures related to accelerated benefits coverage. See Standard VI-5 for testing of use of filed policy forms. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted as part of this Standard and Standard VI-5:

- The Company obtains Division approval of all policies, contracts and endorsement forms prior to use.
- The Company has quality assurance processes for life, annuity, and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for requesting accelerated benefits coverage under life insurance, or waivers of annuity surrender charges for total and permanent disability. As part of new business testing of 43 life and 35 annuity sales, we confirmed that such disclosures were completed and signed by the producers and applicants, as applicable.

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Transaction Testing Results:

Findings: None.

Observations: All tested life and annuity applications had properly signed and completed accelerated benefit disclosure riders, as applicable. The Company appears to have procedures to provide proper accelerated benefit disclosures upon request for accelerated benefits.

Recommendations: None.

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

Objective: This Standard addresses policy application forms used by depository institutions with required disclosures. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written policies and procedures for sales of its 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 Federal Deposit Insurance Corporation, or any other agency of the United States.
- 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.
- The Company has quality assurance processes for annuity new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

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 contract issuance. As few of the Company's sales are generated by producers at depository institutions, business generated from the depository institutions was not specifically identified for testing, and none of the new business files tested were submitted by producers at depository institutions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

**Objective:** This Standard addresses whether the producer maintains suitability or needs assessment standards for its products. See Appendix A for applicable statutes, regulations and bulletins.

**Controls Assessment:** The following controls were noted in this Standard and Standards III-12 through III-14:

- Company policy requires that agents conclude that all annuity sales are suitable and meet the applicants' needs.
- The Company requires that agents obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant.
- The Company requires that agents complete training courses on the Company's annuity products prior to selling such products.
- 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.
- For variable annuity applications, a suitability scoring system risk assesses each sale using specific pre-determined criteria. Applications meeting pre-defined score levels are subject to a secondary review by a home office principal.
- For fixed annuity applications, a general agency supervisor performs random supervisory reviews of selected applications, prior to submission to the Company.
- The Company has quality assurance processes for annuity new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- The USIG Compliance Department monitors its general agencies for compliance with annuity suitability policies and procedures through annual field visits.
- The Marketing Department periodically surveys consumers about their experience with the new business process. Trends are identified and process/service improvements are identified as needed. Surveys are anonymous, but if the respondent has concerns or requests contact, the Company will contact the respondent.

**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. RNA tested 10 senior non-replacement, and five non-senior non-replacement sales from the examination period, to evaluate whether the agents made appropriate suitability and needs assessments.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** The annuity sales tested showed that agents obtained the required financial information and investment objectives, and made appropriate suitability and needs assessments.

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Recommendations: None.

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

Objective: This Standard addresses whether the Company maintains suitability or needs assessment standards for its products. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-11.

Controls Reliance: See Standard III-11.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for annuity new business processing and obtained supporting documentation. RNA tested 10 senior non-replacement and five non-senior non-replacement sales from the examination period, to evaluate the Company's efforts to review the applications for suitability and needs assessment.

Transaction Testing Results:

Findings: None.

Observations: The annuity sales tested showed that the Company reasonably evaluated the applications for suitability and needs assessment.

Recommendations: None.

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

Objective: This Standard addresses whether the Company has procedures to educate and monitor compliance with Company training requirements related to annuity products. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-11.

Controls Reliance: See Standard III-11.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for annuity new business processing and producer training, and obtained supporting documentation. RNA reviewed procedures for monitoring compliance with Company training requirements related to annuity products.

Transaction Testing Results:

Findings: None.

Observations: Based on review, the Company appears to have reasonable procedures in place for monitoring compliance with Company training requirements related to annuity products.

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Recommendations: None.

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

Objective: This Standard addresses whether the Company has annuity product training requirements for producers prior to selling such products, and whether the Company monitors compliance with such requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard III-11.

Controls Reliance: See Standard III-11.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for annuity new business processing and producer training, and obtained supporting documentation. RNA reviewed procedures for monitoring compliance with Company training requirements related to annuity products.

Transaction Testing Results:

Findings: None.

Observations: Based on review, the Company appears to have reasonable procedures in place for monitoring compliance with Company training requirements related to annuity products.

Recommendations: None.

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

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

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

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

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

*Objective:* This Standard addresses whether the Company's life and disability income underwriting guidelines related to travel are in compliance with statutory requirements. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* The following controls were noted in this Standard:

- The Company's life and disability income underwriting guidelines do not allow higher premium rates or declination of coverage solely because of past or anticipated lawful travel outside of the United States.
- The Company has quality assurance processes for life and disability income underwriting. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

*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 life and disability income underwriting, and obtained supporting documentation. RNA tested 48 life and 20 disability income applications for compliance with statutory requirements related to past or anticipated lawful travel outside of the United States.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based on testing, the life and disability income applications were underwritten in compliance with statutory requirements related to past or anticipated lawful travel outside of the United States.

*Recommendations:* None.

#### 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 and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records.**

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

**Controls Assessment:** The following controls were noted in review of this Standard and Standards IV-2 and IV-4:

- The Company uses three distribution channels including agents in the career agency system ("CAS"), Strategic Distribution Partners ("SDP"), and National Accounts. CAS includes approximately 5,500 individual appointed agents under exclusive contract in approximately 82 United States general agencies, including two in Massachusetts. The SDP channel consists of approximately 20 business entities, such as banks and broker-dealers that do not have an exclusive selling arrangement with the Company, and are not managed through the 82 general agencies. The SDP's product distribution is focused primarily on annuities. The National Accounts channel includes approximately 100 producers primarily focused on life and disability income products.
- All general agencies have written contracts with the Company. The contract contains standard provisions to describe the agency's relationship with the Company including the agency's authorities, compliance, licensing and supervision responsibilities, producer qualifications and compensation (including commission overrides), indemnification, and termination provisions.
- Once a general agent recommends a producer for contracting, an application is submitted to the USIG Producer Services & Operations Department. The submission includes background information on the producer's prior employment, insurance, and Financial Industry Regulatory Authority licenses status, residency, and the proposed agent contract. The USIG Producer Services & Operations Department performs financial, criminal, credit, OFAC, civil litigation and securities background checks on the producer for the past five years in each county where the producer has lived.
- Each CAS agent contract with the general agency is based on standard conditions and terms describing the agent's authority, limits on authority, compensation, and termination provisions. The standard contract also has general provisions that require the agent to participate in a fidelity bonding program, and to maintain errors and omissions coverage of \$2 million excess of \$3 million, through an insurer satisfactory to the Company.
- Once all investigations, background information, and contracts are completed, the appointment process is outsourced to a third party, which submits the appointment application through the Division's On-Line Producer Registration and Appointment System ("OPRA") and the NAIC's producer database within 15 days of new business submitted. Such information is also entered into the Company's producer database, which interfaces with the Company's various new business processing and policy administration systems to ensure that an appointment for the producer is in place, or that a new appointment is being sought within 15 days of new business submitted. For long-term care business, the agents must have completed Massachusetts-required training, with such training certified through documentation in the agent appointment system.



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- The SDP and National Accounts producers must pass an entity-level background check prior to contracting. The SDP and National Accounts entities have written contracts with the Company, which require them to maintain errors & omission coverage, to meet standard duties and responsibilities, including supervising individual producers, and to perform financial and criminal background checks on their producers, who are also appointed as agents by the Company in OPRA within 15 days from the date the contract is executed. When new business is submitted, the Company also performs a credentialing check to verify the business entity holds an active selling agreement and license.
- The Company has a process to reconcile its records of appointed agents with Division records, including OPRA, and NAIC's producer database, through the performance of quality checks of agent appointment and termination activity. Also, an annual reconciliation of the Company's appointment data with OPRA is completed prior to payment of appointment fees. Any differences are investigated, and corrections are made as necessary.
- The USIG Compliance Department performs annual audits of the general agencies to monitor compliance with policies and procedures to producer licensing and agent appointment.
- Appointed agents are responsible for maintaining their producer licensing and continuing education requirements. The general agencies have procedures in place to monitor their agents' compliance with continuing education requirements.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent appointments, and reconciliation of agent records. RNA tested agent appointment procedures in conjunction with testing of 48 life, 35 annuity, 20 disability income, and 12 long-term care applications submitted during the examination period. RNA verified that the agent for each application was included in OPRA and verified that the appointment dates in OPRA were within 15 days of the application date for the agents appointed in 2014.

Transaction Testing Results:

Findings: None.

Observations: One disability income policy was issued by a licensed producer, but the producer was not appointed in accordance with Company policy, as the disability income new business unit did not notify the Producer Services & Operations Department that the producer needed to be appointed as agent. Based upon testing and except as noted above, the Company's agents were properly licensed and appointed when the application was submitted.

Recommendations: The Company should assess its procedures for appointing licensed producers as agents, and make enhancements as appropriate. Also, the Company should conduct staff training to ensure that staff appoint licensed producers as agents in accordance with Company policy.

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

Objective: The Standard addresses licensing and appointment of the Company's producers and continuing education requirements. See Standard IV-1 for testing of producer licensing and agent appointment. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard IV-1.

Controls Reliance: See Standard IV-1.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent appointments, reconciliation of agent records, and monitoring of agent continuing education requirements. RNA selected seven Massachusetts resident producers for compliance with Massachusetts producer continuing education requirements, or an appropriate allowed exemption from such requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, Massachusetts resident producers were in compliance with Massachusetts producer continuing education requirements, or received an appropriate allowed exemption from such requirements.

Recommendations: None.

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

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

Controls Assessment: The following controls were noted in review of this Standard and Standards IV-4 and IV-5:

- 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 through OPRA of agent terminations usually within three business days.
- 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, which complies with statutory and contractual requirements.
- The Company has a process to reconcile its records of appointed agents with Division records, including OPRA, and NAIC's producer database, through the performance of quality checks of agent appointment and termination activity. Also, an annual reconciliation of the Company's

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appointment data with OPRA is completed prior to payment of appointment fees. Any differences are investigated, and corrections are made as necessary.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent termination, and reconciliation of agent records. RNA selected 30 individual and five business entity agent appointment terminations, and compared that information to corresponding information in the Company's data and the Division's OPRA. Finally, RNA reviewed evidence that notices to the Division and the agents, as applicable, complied with statutory requirements.

Findings: None.

Observations: The Company properly notified Division through OPRA, and the agents about the terminations, as applicable, in compliance with statutory requirements.

Recommendations: None.

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

Objective: The Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

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. In conjunction with testing of 48 life, 35 annuity, 20 disability income, and 12 long-term care applications submitted during the examination period, and 30 individual and five business entity agent appointment terminations, RNA reviewed documentation for any evidence of unfair discrimination against policyholders resulting from the Company's agent appointment and termination policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, no evidence of unfair discrimination against policyholders was noted as a result of the Company's agent appointment and termination policies.

Recommendations: None.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent termination, and reconciliation of agent records. RNA selected 30 individual and five business entity agent appointment terminations and reviewed the reasons for each appointment termination. RNA also inquired about any agent that was terminated "for cause" during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's internal records adequately document reasons for appointment terminations. No agent appointment terminations "for cause" were noted.

Recommendations: None.

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

Objective: The Standard addresses whether the Company's contracts with producers limit excessive balances with respect to handling funds. Reduced commissions paid on internal replacements are tested in Standard III-5. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company pays agents' commissions in accordance with written contracts, and permits draws against unpaid earned commissions.
- Company policies, procedures and producer contracts prohibit special inducements and rebates.
- Reduced commissions are paid on most internal replacements to discourage such replacements.
- The Company processes commission charge backs for lapsed policies in accordance with contract provisions.

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. RNA reviewed any evidence of unusual commissions for life, annuity, disability income, and long-term care policies sold.

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Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to pay commissions in accordance with contractual provisions.

Recommendations: None.

## V. POLICYHOLDER SERVICE

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

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

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

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

- Premium billings are automatically generated through one of several of the Company's policy or contract administrative platforms. Consolidated billings are available for families with multiple policies.
- Life and disability income policies are direct billed annually, semi-annually, or quarterly. Payments are received by check or electronically via pre-authorized monthly check, or through other mechanisms such as employer-based payroll deduction. Some annuity products have billing reminders to annuity contract holders, so that they may make voluntary payments to their contracts.
- Life and disability income billing notice are directly mailed to the policyholder 20-30 days prior to the due date, except for variable and universal life policies, which are mailed 25 days in advance of the scheduled payment. The billing notice states that the policy will lapse unless payment is made.
- If premiums are not received when due, an overdue premium notice is mailed 5-21 days after the due date, stating that if the required payment is not made, the policy will lapse. The policy lapses for non-payment 62 days after the original due date, except for whole life policies with long-term care riders, which lapse 31 days after the grace period notification has been sent. The agent is also notified of the overdue premium for conservation efforts. After 62 days, the policy lapses and must go through underwriting for reinstatement.
- The Company has written service standards to ensure the timely processing of premium billing, reminder and lapse notices. Management monitors performance metrics to evaluate compliance with Company goals.
- The Company has quality assurance processes for life, annuity and disability income post-issue processing, including the call center operations. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- Long-term care premium and billing notices are processed by a third-party administrator, which provides numerous management reports summarizing time and service standards compliance.

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 10 life, 10 disability income, and five long-term care policies, which lapsed for non-payment during the examination period, to test for compliance with policies, procedures and statutory requirements.

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Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company gave adequate notice prior to lapse for each policy tested, in compliance with statutory requirements. Further, premium billing notices appeared to be mailed to the policyholders 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.**

Objective: This Standard addresses whether the Company has procedures to ensure that policyholder surrender requests are processed accurately and timely. Policy issuance testing is included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The following controls were noted in review of this Standard and Standard V-7:

- Upon request to cancel a life insurance, disability income, or annuity contract, the Company sends the owner a form requiring his or her signature. 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. A check for any return premium and surrender value is sent to the policyholder or annuity contract holder generally within 10 business days. Variable life and annuity surrenders are processed on the day received.
- All owners have the right to return, or free look, newly purchased contracts within the time period stated in the contracts, which meet or exceed minimum statutory requirements. 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 surrenders. Management monitors performance metrics to evaluate compliance with Company goals.
- The Company's Market Research Department anonymously surveys life policyholders via email related to satisfaction with the Company's customer service. Results are reported to management, and written grievances follow the Company's complaint handling protocols, if the respondent identified himself or herself in the survey.
- The Company has quality assurance processes for life, annuity, and disability income post-issue processing, including the call center operations. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- Long-term care post-issue transactions are processed by a third-party administrator, which provides numerous management reports summarizing time and service standards compliance.

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 surrender procedures with Company personnel, and obtained supporting documentation. RNA selected nine life and 10 annuity surrender requests from the examination period, to ensure that requests were processed accurately and timely. Additionally, as part of

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new business testing, RNA noted three life sales and one annuity sale where the applicants exercised their free look option. RNA verified that the Company timely and accurately processed the free look requests.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the requested surrenders and free looks 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 by the appropriate department. Complaints are covered in the Complaint Handling section, and claims are covered in the Claims section. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's life, disability income, and annuity post-issue operations include a call center to answer questions from customers and agents. Customer Service Representatives within post-issue departments 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. Management monitors performance metrics to evaluate compliance with Company goals.
- The Company's Market Research Department anonymously surveys life policyholders via email related to satisfaction with the Company's customer service. Results are reported to management, and written grievances follow the Company's complaint handling protocols, if the respondent identified himself or herself in the survey.
- Long-term care post-issue transactions are processed by an unaffiliated third-party administrator, which provides numerous management reports summarizing time and service standards compliance.

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 policyholder service and underwriting standards.

Transaction Testing Results:

Findings: None.



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**Observations:** Based upon the review of the above information and review of general correspondence between insureds and the Company regarding underwriting and policyholder service matters, it appears that the Company has adequate resources and procedures to handle customer inquiries. Correspondence directed to the Company appears to be answered in a timely and responsive manner.

**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.

**Objective:** This Standard addresses procedures for the accurate and complete processing of policy transactions, including life and annuity beneficiary and owner changes, life and annuity contract loans, and maturities. Billing transactions are tested in Standard V-1. Surrenders are tested in Standard V-2. Return of premium is tested in Standard V-7. Objectives pertaining to policy issuance are included in Standard VI-6. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy provides for life and annuity 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 notarized signed written request to process life and annuity loans greater than \$50,000. Smaller policy loan requests may be made by phone.
- Significant life policy changes must be made in writing. The call center staff regularly process name and address changes, dividend payments, certain policy coverage changes and certain policy rider changes.
- The call center staff regularly process annuity contract holder name and address changes, and variable annuity sub-account changes.
- The Company's current policy is to give written notice to life and annuity contract holders prior to contract maturity that annuitization must occur at maturity unless the contract holder requests that the annuity or maturity date be extended in accordance with Massachusetts law.
- The Company has written service standards to ensure the timely processing of contract holder service transactions. Management monitors performance metrics to evaluate compliance with Company goals.
- The Company has quality assurance processes for life, annuity, and disability income post-issue processing, including the call center operations. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

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- Long-term care post-issue transactions are processed by an unaffiliated third-party administrator, which provides numerous management reports summarizing time and service standards compliance.

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 the policies and procedures for processing post-issue transactions with Company personnel, and obtained supporting documentation. RNA selected 22 beneficiary change requests (13 life and nine annuity), 10 ownership change requests (eight life and two annuity), two life coverage changes, and six loan requests (five life and one annuity) from the examination period, to ensure that the Company processed transactions accurately, timely and in accordance with statutory requirements and policy provisions. Also, RNA reviewed and evaluated procedures and documentation over several years related to notification of fixed and variable annuity contract owners about upcoming annuitization dates, previously referred to as maturity dates in older annuity contracts. Further, the Division discussed these annuity notification procedures with Company management.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, except for annuity maturities as noted below, the Company appears to process policyholder and contract holder transactions accurately and timely in accordance with statutory requirements and policy provisions.

In November 2015, the Company informed the Division that the maturity dates for certain of its annuity contracts had in the past been routinely deferred without the written consent of the contract owners. This issue had been previously referenced in a market conduct examination of the company by another state in 2013. The Division requested the Company provide documentation related to annuitization or maturity of Massachusetts fixed and variable annuities. The Division reviewed this material and discussed annuity notification procedures with Company management and its counsel.

The Company provided the Division with documentation regarding the affected variable annuity contracts along with information regarding the other state's examination and multi-state regulatory settlement agreements previously entered into by other companies and state regulators. Based upon examination of the documentation provided, during the period from 1998-2009, out of a total number of 23,885 Massachusetts variable annuity contracts that were in force during these years, the Company unilaterally modified, without owner consent, 636 Massachusetts variable annuity contracts where there were no post-deferral transactions. The forms used to notify annuity contract holders of the maturity date deferral were not submitted to the Division prior to distribution. Further, five irrevocable beneficiaries were identified as not having received notification of the change in the variable contract maturity dates.

Management states that, in 2008, the Company developed process improvements and generally implemented corrective actions. The Company's current and documented practice for deferrals includes: (i) prior notification to annuity contract owner of pending maturity date no later than 45 days prior to maturity date; (ii) mailing of at least two letters to annuity contract owner, the first at least 45 days prior to maturity date, the second at least 20 days prior to maturity date, notifying the

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contract owner of pending maturity date and identifying any alternatives to annuitization available under the annuity contract; (iii) recording the owner's response; and (iv) allowing the owner to have access to the annuity funds, per the contract terms, at any time in the future, upon written notice to the Company.

**Required Actions:** The Company has agreed with the Division to provide reimbursement to all Massachusetts consumers who sustained any diminution in value of the 636 annuity contracts identified in the Observations for Standard V-5. Within sixty (60) calendar days of this Report, the Company shall submit a reimbursement plan to the Division. Said reimbursement plan shall provide, among other things, for quarterly reporting to the Division of reimbursement payments until such time as the plan is complete. In addition, the Company shall promptly notify the Division if any other state or regulatory body commences an examination or enforcement action against the Company in connection with its practices and procedures relative to the annuitization or maturity of fixed and variable annuities.

**Recommendations:** The Company should continue to follow its current practice for deferrals.

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

**Objective:** This Standard addresses efforts to locate missing policyholders or beneficiaries, and to comply with unclaimed property reporting requirements. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Document Management Services and Data Quality Department handles mail that is returned as undeliverable and attempts to find a better address for the returned mail, and/or determine if a consumer is deceased for further analysis and validation.
- Company policy requires that unclaimed maturities, premium refunds, and checks for life and annuity death claims, be reported and escheated when the owner cannot be found.
- For checks returned in the mail, such as policy loan checks or dividend payments, the returned mail processes are followed to locate a current address. For policyholders and contract holders who cannot be located, the Treasury Department is responsible for reporting unclaimed funds.
- The Treasury Department utilizes vendor software, to manage its unclaimed property reporting and tracking. Once a check remains un-cashed for 150 days, the information is sent to the Treasury Department's abandoned property section for research and reporting. Higher dollar value checks are further researched to see if payment was made using another means, such as electronic funds transfer to avoid possible duplicate payments. A letter is sent to the last known address in an attempt to locate the owner. The Treasury Department also uses public databases to validate addresses and conduct research in an attempt to locate owners.
- Annual reporting of all amounts escheatable to Massachusetts is provided on May 1 as required by Massachusetts law. Prior to escheatment of funds to the Commonwealth, a final attempt is made to locate the owner. If the owner is not located, the funds are escheated as required by law.
- The Company completes a monthly comparison of the life and annuity in-force and terminated business against the Social Security Administration Death Master File in an attempt to locate deceased policyholders or contract holders. Also, the Company utilizes a vendor database to perform quarterly reviews of its life and annuity in-force and certain terminated business, which utilizes enhanced search logic using state vital records, civil service records, and other death record sources.

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

Transaction Testing Procedure: RNA discussed with Company personnel procedures for locating missing policyholders, contract holders and beneficiaries, and procedures for escheatment of funds, and reviewed supporting documentation. RNA reviewed the 2014 escheatment filing made to the State Treasurer.

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. The Company appears to report unclaimed items and escheat them as required by statute, when the Company is made aware of such escheatable items.

Recommendations: None.

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

*Objective:* This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Appendix A for applicable statutes, regulations and bulletins.

*Controls Assessment:* See Standard V-2.

*Controls Reliance:* See Standard V-2.

*Transaction Testing Procedure:* RNA discussed surrender and return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected nine life and 10 annuity surrender requests from the examination period, to ensure that any unearned premiums were properly calculated and timely returned. During life claim testing, RNA ensured that any unearned premium was timely paid.

*Transaction Testing Results:*

*Findings:* None.

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

*Recommendations:* None.

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

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

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

- The Life and Disability Income Underwriting Departments review reinstatement requests considering the age and risk assumed. The Company's policy is that rules for each underwriting class are applied to reinstatement applicants on a non-discriminatory basis. A new contestability period is applied to any new information on the reinstatement application. Also, reinstatement may result in a new rate charged the applicant and/or a new exclusion.
- If the disability income reinstatement application is denied, the applicant may request reconsideration, which will be performed by the underwriter, manager and chief underwriter.
- The Company has written service standards to ensure the timely processing of reinstatement requests. Management monitors performance metrics to evaluate compliance with Company goals.
- The Company has quality assurance processes for life and disability income underwriting. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.

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- Long-term care post-issue transactions are processed by an unaffiliated third-party administrator, which provides numerous management reports summarizing time and service standards compliance.

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, obtained supporting documentation, and reviewed the procedures for reasonableness.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to have reasonable procedures for processing reinstatement requests in accordance with policy provisions.

Recommendations: None.

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

Objective: This Standard evaluates notification to life policyholders regarding non-forfeiture options, and requires application of these options in accordance with the contract. The selection of life dividend and non-forfeiture options is reviewed in conjunction with new business testing and the procedures noted in Standard VI-10. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company uses life and long-term care contract forms designed to meet statutory and regulatory requirements, and has filed these with the Division for approval prior to use.
- The Company provides 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 to be applied to any cash value remaining in the policy.
- The Company's newly issued long-term care policies offer a non-forfeiture benefit. If the applicant declines the non-forfeiture benefit, the Company provides a contingent benefit upon lapse available for a specified period following a substantial increase in premium rates.

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. In conjunction with new business testing, RNA reviewed 48 life and 12 long-term care applications from the examination period, to ensure the applicant was offered and selected a non-forfeiture option, as applicable. During testing of life and long-term care lapses, RNA sought any evidence of inappropriate application of the policyholders' selected non-forfeiture options.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to communicate non-forfeiture options to policyholders, and to ensure that life and long-term care applicants select a non-forfeiture option at the application date, as applicable. Finally, RNA found no evidence of inappropriate application of life and long-term care non-forfeiture options.

Recommendations: None.

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

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

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

- The Company mails annual reports to whole, term, 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. Many variable life products also provide quarterly reporting.
- The Company mails annual, semi-annual, or quarterly reports to annuity contract holders, disclosing the current contract current value, the projected value for the next year, interest crediting rates, and other contract information.
- Selected disability income products have annual statements disclosing policy premiums and benefits.
- The Company has written service standards to ensure the timely processing of annual, semi-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, semi-annual and quarterly report disclosure procedures with Company personnel, and selected six life, eight annuity, and five disability income annual, semi-annual and quarterly reports sent to owners during the examination period for testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to have adequate procedures for providing life, annuity and disability income contract holders with timely annual, semi-annual, and quarterly reports, as applicable, in compliance with Company policies and regulatory requirements.

Recommendations: None.

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

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's rating plan.

**Objective:** This Standard addresses whether the Company is charging premiums using properly filed rates and in a non-discriminatory manner. See Appendix A for applicable statutes, regulations and bulletins.

**Controls Assessment:** The following controls were noted as part of this Standard and Standard VI-4:

- The Company has written underwriting and rating policies and guidelines, which are designed to assure reasonable consistency in classification and rating of new business.
- The Company utilizes a five class underwriting system for its life insurance products. Applicants are categorized as preferred or standard risks according to written guidelines based upon the applicant's tobacco use, medical history, family history, height, weight, and personal history. Premium surcharges or discounts are also used to modify rates based upon the underwriter's evaluation of claim risks and other factors.
- The Company determines the premium rate for disability income policies based on the applicant's own occupational class, age, gender, job duties, years of experience, health, and habits. Premium surcharges are used to increase rates where claim risk is greater.
- The Company determines the premium rates for long-term care policies based on the applicant's age and health condition.
- All policy rates are filed with the Division prior to use.
- The Company has quality assurance processes for life and disability income underwriting. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- Long-term care underwriting is conducted by an unaffiliated third party administrator, which provides numerous management reports summarizing business activity and compliance with contractual requirements. The Company conducts semi-annual reviews of administrative business practices to assess the adequacy and effectiveness of certain operational policies and procedures.

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

**Transaction Testing Procedure:** RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 43 life, 15 disability income, and seven long-term care sales during the examination period, to test Company rate classifications as part of the underwriting processes. Further, RNA selected nine life, six disability income, and four long-term care applications processed during the examination period, and re-rated the premium charged for each application.

**Transaction Testing Results:**

**Findings:** None.

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

Recommendations: None.

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

This Standard addresses mandated underwriting disclosures for insurance policies, which are required in accordance with statutes, regulations and Company policy. Replacement disclosures are included in Standards III-4 and III-5. Requirements to provide policy illustrations, policy summaries, outlines of coverages, buyer's guides, and other disclosures are included in Standard III-6. Adverse underwriting notices are included in Standards VI-7 and VI-8.

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

Objective: This Standard addresses illegal rebating, commission cutting or inducements in Company correspondence to producers, and in advertising/marketing materials. Reduced commissions paid on internal replacements are tested in Standard III-5. Agent commissions are reviewed in Standard IV-6. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company pays agents' commissions in accordance with written contracts, and permits draws against unpaid earned commissions.
- Company policies, procedures and producer contracts prohibit special inducements and rebates.
- Reduced commissions are paid on most internal replacements to discourage such replacements.
- The Company processes commission charge backs for lapsed policies in accordance with contract provisions.

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

Transaction Testing Procedure: RNA interviewed company personnel with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, improper commission cutting or inducements. Finally, during testing of 48 life, 35 annuity, 20 disability income, and 12 long-term care applications submitted during the examination period, RNA sought indications of rebating, improper commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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Observations: Based upon testing, RNA noted no evidence of rebating, improper commission cutting or inducements.

Recommendations: None.

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

Objective: This Standard addresses unfair discrimination in underwriting primarily related to rating. Also, see Standard VI-1 for testing of premium rating, Standard VI-7 for testing of declined applications and related adverse underwriting notices, and Standard VI-8 for testing adverse underwriting notices issued for non-declined business. Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VI-1.

Controls Reliance: See Standard VI-1.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 48 life, 20 disability income, and 12 long-term care applications submitted during the examination period, to verify that the applications were approved by underwriting without discriminatory contract provisions. Further, RNA selected nine life, six disability income, and four long-term care applications processed during the examination period, and re-rated the premium charged for each application.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard III-9.

Controls Reliance: See Standard III-9.

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.

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Transaction Testing Procedure: RNA interviewed individuals with responsibility for filing policies, contracts, and endorsements. RNA selected 48 life, 35 annuity, 20 disability income, and 12 long-term care applications submitted during the examination period to test whether policies, contracts and endorsements were approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company utilized policies, contracts, and endorsements approved by the Division prior to their use.

Recommendations: None.

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

Objective: This Standard addresses whether the Company issues policies, contracts and endorsements timely and accurately. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's new business processing areas review all life, annuity and disability income applications and supporting forms to ensure that they are complete and internally consistent, and obtain any additional information needed to make underwriting decisions.
- The Company has quality assurance processes for life, annuity, and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- The Company's long-term care new business processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and processes and compliance with all applicable laws and regulations.
- The Company's Marketing Department periodically surveys consumers about their experience with the new business process. Trends are identified and service improvements are identified as needed. Surveys are anonymous, but if the respondent has concerns or requests contact, the Company will contact the respondent.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance. RNA selected 43 life, 35 annuity, 15 disability income, and seven long-term care sales from the examination period, to determine whether policies and contracts were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

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Observations: Based upon testing, it appears that policies and contracts are issued timely, accurately and completely in accordance with Company policies, procedures and statutory requirements.

Recommendations: None.

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

Objective: This Standard addresses whether application denials are fair, and whether proper notice for adverse underwriting decisions was provided by the Company. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- If the life or disability income applicant is declined for coverage, the applicant will receive an Adverse Underwriting Decision Notice. A Fair Credit Reporting Act Notice is also delivered for declinations where the information used came from third party consumer reporting agencies.
- The Company has quality assurance processes for life and disability income underwriting. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- Long-term care underwriting is conducted by an unaffiliated third party administrator, which provides numerous management reports summarizing business activity and compliance with contractual requirements.

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

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the Adverse Underwriting Decision Notice be provided when the Company declines applications. From a list of declined applications, RNA tested five life, five disability income, and five long-term care underwriting declinations for evidence that the Company declined coverage in a non-discriminatory manner, and provided a timely Adverse Underwriting Decision Notice. If the underwriting information came from third party consumer reporting agency, RNA tested to see whether a Fair Credit Reporting Act Notice was also issued.

Transaction Testing Results:

Findings: None.

Observations: For the applications declined, the Company provided the Adverse Underwriting Decision Notice and a Fair Credit Reporting Act Notice, as applicable. Based upon testing, the Company appears to decline coverage in a non-discriminatory manner, and to provide Adverse Underwriting Decision Notices and Fair Credit Reporting Act Notices in accordance with regulatory requirements.

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Recommendations: None.

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

Objective: This Standard addresses whether the Adverse Underwriting Decision Notices are provided when the life applicant is approved at a class that is less than standard, or if disability income and long-term care coverage is approved for a different rate than quoted. Declinations and related notices are tested in Standard VI-7. Lapses for non-payment are tested in V-1. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- If the life applicant is approved for a class at less than standard, the applicant will receive an Adverse Underwriting Decision Notice notifying him or her the reason for the underwriting decision. Similarly, if a preferred or standard rate class is approved at a rate higher than the rate quoted, the applicant receives a letter and updated illustration that must be signed by the applicant, when the policy is delivered to the applicant by the agent.
- If the disability income applicant is granted a different rate than quoted, the applicant will receive an Adverse Underwriting Decision Notice notifying him or her the reason for the underwriting decision.
- The Company has quality assurance processes for life and disability income underwriting. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- Long-term care underwriting is conducted by an unaffiliated third party administrator, which provides numerous management reports summarizing business activity and compliance with contractual requirements.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 43 life, 15 disability income, and seven long-term care sales during the examination period, to test whether Adverse Underwriting Decision Notices were issued as appropriate.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, 13 life, four disability income and four long-term care Adverse Underwriting Decision Notices for approved sales were issued as appropriate. The Company appears to be issuing Adverse Underwriting Decision Notices for approved sales in accordance with regulatory requirements.

Recommendations: None.

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

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

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

- The Company does not have a right to cancel insurance coverage absent the conditions set forth in the contracts, statutes, or regulations.
- The Company may rescind coverage in cases of fraud or material misrepresentation.
- The Company's underwriting processes consider the risk of material misrepresentation by applicants, and attempts to corroborate information received including health status.
- Cases considered for rescission are reviewed by the Underwriting Departments and approved by 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:** RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. Since grounds for rescission in Massachusetts are limited, and such incidents are rare, RNA did not test the Company's rescission procedures, but sought evidence of improper rescission during testing of complaints, underwriting declinations and claims.

**Transaction Testing Results:**

**Findings:** None.

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

**Recommendations:** None.

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

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

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

- The Company's life applications require submission of information regarding the applicant's existing life insurance coverage, family member information, occupation, monthly earnings, age and the purpose of the applied for coverage.
- The Company's annuity applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, and family member information, to assist in determining the applicant's needs.
- The Company's disability income applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, existing disability income coverage, and family member information, to assist in determining the applicant's needs.
- The Company's long-term care applications require submission of information regarding the applicant's type and amount of coverage requested, age, medical history, and benefit limits.
- The Company reviews all life, annuity, and disability applications to ensure that they are complete and internally consistent.
- The Company has quality assurance processes for life, annuity, and disability income new business processing. Quality assurance results are documented and are used to determine process improvement opportunities and for employee evaluation and training.
- The Company's long-term care new business processes are outsourced to a third-party administrator. The contract contains performance standards requiring timely and accurate new business and processes and compliance with all applicable laws and regulations.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 43 life, 35 annuity, 15 disability income, and seven long-term care sales from the examination period for testing. RNA verified that each of the applications was signed and completed in accordance with Company policy. RNA further reviewed each application package, and confirmed that the policy or contract was issued consistent with the application, or that any changes resulted in proper disclosure to the applicant.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.



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

**Objective:** This Standard addresses procedures to ensure that the Company does not use medical records indicating AIDS-related concerns to discriminate against life and disability income insurance applicants, without medical evidence of disease. See Appendix A for applicable statutes, regulations and bulletins.

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

- The life insurance and disability income Underwriting Departments' procedures require that an applicant give prior written informed consent before the Company may conduct an AIDS-related test, and that the applicant acknowledge in writing that he or she understands his or her rights regarding AIDS-related tests.
- A standard form that includes required Massachusetts AIDS-related test disclosures is provided to the life insurance and disability income applicant at the time an application is taken.
- Applications for lower face value life insurance coverage and lower monthly benefit individual disability income coverage do not require the applicants to undergo AIDS-related tests.

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

**Transaction Testing Procedure:** RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 48 life and 20 disability income applications from the examination period to verify that the Company obtained signed Massachusetts AIDS testing disclosure notices from the applicants when necessary. RNA sought evidence of unfair discrimination when testing underwriting declinations.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** Based upon testing, it appears that the Company obtains the Massachusetts' AIDS testing disclosure notice from applicants in accordance with Company policies, procedures and statutory requirements. RNA noted no evidence of unfair discrimination based on sexual orientation in underwriting declinations.

**Recommendations:** None.

## 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 regulated entity with the claimant is within the required time frame.**

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

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

- Written policies and procedures govern the Company's claims handling processes.
- When a life or annuity death claim is 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 three business days. The contract is researched to determine its status, and Company records pertaining to the deceased person are researched to determine if other contracts are in-force. The contract is then pended in the applicable policy administration system using a "freeze code." A claims adjuster is assigned based on a predetermined dollar authority limit, and a claim form is sent to the claimant. If the claim is filed during the two-year contestability period, an authorization form to request medical information is also sent.
- When a disability income claim is reported, either through an agent or through the company's 800 phone number, the claim is assigned to a claims adjuster, and a claim packet with all necessary forms is sent to the claimant within 48 hours. The claim packet includes the HIPAA authorization form, allowing the Company to communicate with the claimant's attending physician. The claim is assigned to a Relationship Manager, and an outreach call is made to the claimant within one day after assignment to gather basic information regarding the claim circumstances, set expectations regarding the claim process, and offer an opportunity to discuss policy coverage. Follow up letters are sent to the claimant every 30 days until the claim form is received. After 60 days without receipt of the claim form, and after final notice is provided to the claimant that information must be submitted or the claim will be closed, the claim is then closed, unless more time is requested.
- Once the Company receives the life or annuity death claim form in the home office, the claims adjuster investigates the claim to ensure that it includes the death certificate, a signed claim form, and any other information needed. All paper information received is scanned into an electronic imaging and work flow system. The Massachusetts Department of Revenue website is checked for intercept program compliance for unpaid child support and taxes. The Company contests few claims, as most are received after the two-year contestable period has passed. When such claims are investigated, a referral may be made to the Underwriting Department, the SIU, and the Legal Department as necessary. The claim settlement amount includes the payment of interest at 3% from the date of death, and may also include return premium amounts, pro-rata dividends, or netting of policy loans amounts, as applicable. The claims examiner's review and approval is completed and tracked in the Company's workflow system. The Company's goal is to process in good order life claims within five business days, and within seven days for annuity death claims. Variable product death claims are processed on the day received.
- Life and annuity death claims are paid to the beneficiary according to the beneficiary's instructions. If instructions are not given, the Company's default for payment is a lump sum check. Beneficiaries may also elect to put the death proceeds into a supplementary contract or in a retained asset account.

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Annuity contract beneficiaries have several additional settlement options, with some unique to qualified contracts, such as a spousal takeover or an internal or external qualified plan rollover.

- Once the Company receives a disability income claim form, medical records are ordered, and the claim is appropriately investigated. Any cases of suspected fraud are concurrently sent to a SIU investigator. Claim documentation and history notes are maintained. All disability income claims are evaluated based on total and partial disability using the definitions in the policy, which can vary substantially based upon when the policy was written and coverage in-force. Those definitions often require that the insured be prevented from working in his or her "own occupation." Partial disability coverage pays a proportionate benefit based on prior and post-disability earned income. To the extent that occupational experts are needed to assess the extent of disability, these experts are available to assess the occupational description, and to conduct on-site visits. While the contestability period is two years for a material misrepresentation from the coverage date, fraud can be found during the claim payment period for behavior indicating that the insured is no longer disabled.
- Disability income claims adjusters have authority limits, and any claim exceeding those limits are reviewed by a supervisor. If there is a waiver of premium on the policy and any life policies owned by the insured, the waiver of premium is processed by the claims adjuster.
- Most pending disability income claim denials are also reviewed by a supervisor for concurrence. All denials are communicated in writing to the insured noting the denial reason. Also, the denial describes the appeal process should the claimant wish to file an appeal, which is either based upon Employee Retirement Income Security Act ("ERISA") guidelines requiring an independent medical staff review, or for non-ERISA qualified policies, an independent review by a claims examiner. Once the appeal review is completed, the claims examiner notifies the insured about the review results. If the decision is unfavorable to the insured, the insured may seek a second appeal, which is reviewed by a newly assigned claims examiner and a claims committee. The decision of the claims committee is communicated in writing to the insured.
- On-going disability income claims require that periodic reports about continued disability be provided to the Company. The frequency of reporting is tailored to the disability and the individual case, and the frequency ranges from monthly to annually.
- The Company offers a life insurance accelerated benefit rider, which allows early payment of a death benefit when an insured is living but has a terminal illness. Such benefit requests must be validated by an Attending Physician's Statement. A statement providing required disclosures is sent to the claimant at time of the request for accelerated benefits.
- Claims management periodically reviews open claims to evaluate pending issues and ensure appropriate reserves have been established.
- The payees for all claim disbursements are checked against the OFAC SDN list.
- The Company has implemented a quality assurance function to ensure consistency in handling life and annuity death, and disability income claims, and to monitor compliance with Company policies and procedures.
- The Company's long-term care claims process is outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate claims processes and compliance with all applicable laws and regulations.
- The Company anonymously surveys claimants to ask about their experience when filing a claim. The results are analyzed, and necessary follow up items are 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.

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Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to determine whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the initial contact by the Company was timely, and the claims were processed in accordance with the Company's policies, procedures and statutory requirements.

Recommendations: None.

**Standard VII-2. Timely investigations are conducted.**

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim investigations and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that it conducts timely investigations and, when required, to verify that searches for multiple policies involving deceased persons are conducted.

Transaction Testing Results:

Findings: None.

Observations: Based upon 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-3. Claims are resolved in a timely manner.**

Objective: The Standard addresses whether the Company timely resolves claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

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Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim settlement practices and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that claim resolutions were timely. For on-going disability income claims exceeding two years, RNA verified that claimants file timely reports updating their disability condition.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to resolve claims timely in accordance with its policies, procedures and statutory requirements. Claimants with on-going disability conditions also filed timely reports as required by statute.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that claim correspondence was answered timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon 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 files. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim documentation practices and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's claim files were properly documented 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 HIPPA), rules and regulations.**

Objective: This Standard addresses whether appropriate claim amounts, including applicable interest, have been paid to the appropriate beneficiary/payee, and whether the Company is in compliance with specific Massachusetts regulatory requirements. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim handling practices and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during 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.

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Observations: Based upon testing, the Company properly handles claims in accordance with policies, procedures and statutory requirements, including claims subject to intercept requirements in M.G.L. c. 175, §§ 24D and 24F prior to making the claim payment.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim handling practices and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, appropriate claim forms were 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 Company's process to establish and monitor claim reserves. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim reserving practices and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, and 20 long-term care payments, during the examination period, to evaluate claims reserving policies and procedures. The Division's financial examiners and actuaries are also testing reserving in conjunction with the ongoing financial examination of the Company.

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Transaction Testing Results:

Findings: None.

Observations: Based upon testing, claim reserves were evaluated, established and adjusted in accordance with the Company's policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the adequacy of the Company's decision making and documentation of denied claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes for denied claims and obtained supporting documentation. RNA selected 11 long-term care payment denials, during the examination period, to evaluate the decision making and documentation of the denied claims. The Company reported no denied life, annuity death and disability income claims/payments in Massachusetts during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, processing of denied claims appear to be in compliance with contractual and statutory requirements.

Recommendations: None.

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

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

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA reviewed procedures regarding the use of claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check.



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Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company does not use claim payment checks for the claimant to attest to full claim settlement by endorsing the claim check. Based upon review, it appears that the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than due under the policy. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard VII-1.

Controls Reliance: Refer to Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to review claims handling practices. RNA reviewed the file for each selected claim, and noted whether claim practices appeared to compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and whether the Company attempted to settle claims for less than reasonable amounts due under the policies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's claim policies and procedures do not compel claimants to institute litigation to recover amounts due under the policies by offering substantially less than would be due under the policies, and do not settle claims for less than reasonable amounts due under the policies.

Recommendations: None.

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

Objective: The Standard addresses required disclosures when accelerated benefits are requested. See Appendix A for applicable statutes, regulations and bulletins.

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 supporting documentation related to accelerated benefit payment disclosures.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, it appears that the Company has a process for providing the proper disclosures to policyholders when accelerated benefits are requested.

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.

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes and obtained supporting documentation. RNA selected 20 life claims, nine annuity death claims, 20 disability income claims, 12 disability income payments, two long-term care claims, 20 long-term care payments, and 11 long-term care payment denials, during the examination period, to verify that there is no unfair discrimination against claimants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses whether the Company provides detailed written guidance for life and annuity claim settlement options when the claim is made. See Appendix A for applicable statutes, regulations and bulletins.

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 supporting documentation. RNA selected 20 life claims and nine annuity death claims during the examination period, to verify that the Company provides written information describing settlement options available under the contract and how to obtain such settlement options.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company provides written information describing settlement options available under the contract and how to obtain such settlement options.

Recommendations: None.

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**SUMMARY**

Based upon the procedures performed in this examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Policyholder Service, Underwriting and Rating, and Claims as set forth in the *2014 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has provided recommendations and required actions to address standards in Company Operations/Management, Marketing and Sales, Producer Licensing, and Policyholder Service.

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**ACKNOWLEDGEMENT**

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

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

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

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Richard N. Bradley, Esquire, MCM  
Director of Market Conduct  
Commonwealth of Massachusetts  
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