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, 2009 through December 31, 2009

NAIC COMPANY CODE: 65935

EMPLOYER ID NUMBER: 04-1590850

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COMMISSIONER OF INSURANCE

September 19, 2011

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Dear Commissioner Murphy:

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

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

at their home offices located at:

1295 State Street
Springfield, MA 01111

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination of Massachusetts Mutual Life Insurance Company (the "Company") for the period January 1, 2009 to December 31, 2009. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2009 NAIC Market Regulation Handbook*, ("the Handbook") the market conduct examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

The comprehensive market conduct examination resulted in no recommendations or required actions with regard to company operations/management, complaint handling, policyholder service, or claims. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

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. Finally, RNA noted no use of unapproved sales and marketing materials as part of new business testing. However, we have concerns about certain content in some consumer advertising or producer training materials, which may be potentially misleading or suggest actions which may not be appropriate for consumers.

First, the consumer publication, *Why Rent When You Can Own?* notes that term insurance is used to meet "temporary, short-term goals." Our concern is that describing term insurance as only for "temporary, short-term goals" is inappropriate. The Company sells 10 and 20 year level term, and other insurers sell 30 year level term coverage, which are periods longer than what would be considered temporary or short term. Additionally, generally, we believe that when referring to purposes such as funding retirement, education or home purchases, the materials should caveat that savings and supplemental income are not the primary function of permanent insurance and may not be appropriate for all consumers.

Second, the producer guide, *Preparing for Retirement and So Much More* and other consumer and producer publications, frequently refer to the low U.S. savings rate (based on a 2008 study). The U.S. savings rate has increased significantly since 2009. The publication also uses an illustration assuming the same savings rate for a consumer early in his or her career as the expected savings rate for the consumer's later years. We believe that this is overly simplified and

not necessarily realistic for many consumers.

Third, the producer guide, *Opportunity Knocks: Sales Ideas That Open Doors,* which is only for distribution to producers and not to consumers, a comparison of whole life and 20 year level term is given. For the 20 year level term option, the premium difference is invested to yield a 3.6% after tax rate. Further, the comparison shows that the consumer purchases non-specified life insurance at year 20, the cost of which is higher than it was in year one. We believe that the comparison is overly simplified and makes assumptions that are unclear and inappropriate for all consumers. Generally, we believe that illustrations contained in Company sales materials comparing permanent insurance and term insurance should be subject to similar requirements as illustrations provided to consumers with appropriate disclosures and assumptions. When comparing alternatives for general producer use, multiple rates of return and customer choices should be illustrated, with reasonably full disclosure of such options and assumptions, instead of one set of assumptions.

Fourth, an article in The Exceptional Parent on March 1, 2009 entitled *Think You Have No Money for a Financial Strategy? Think Again!* refers to three pages of recommendations to save money, improve cash flow and develop financial strategies in consultation with a financial advisor. One of the recommendations was to "free up money or fund an element of your strategy (such as a life insurance premium), reduce the amount you contribute to a 401(k) employer-matched retirement plan. Increase your contribution at your next salary increase." A general recommendation to consumers to reduce employer-matched contributions, particularly when that results in forgoing an employer-matched contribution, and to increase the contribution at the next salary increase should not be made, since the timing and likelihood of their next salary increase is uncertain.

Recommendations: The Company should ensure that all references to the U.S. savings rate are accurately stated in all advertising and sales materials and updated periodically to remain current.

Since the Company has not completed an independent review, either through internal audit or through U.S. Insurance Group, the Company should conduct an independent internal review and assessment of Company and agent non-variable life and fixed annuity advertising and sales materials used in Massachusetts. This review should be conducted by the U.S. Insurance Group Compliance function, (but not by those primarily and regularly responsible for the review and approval of advertising and sales materials), or by qualified internal audit personnel, or by qualified independent legal and financial personnel, to ensure that the observations noted above are addressed and all materials reflect full and fair disclosure. The audit may be conducted through a statistically-valid, test basis selection based on sampling guidance contained in the *NAIC Market Regulation Handbook.* The results of this review and a summary of any subsequent actions taken as a result of the review should be provided to the Division by June 30, 2012.

Based on the results of the independent review described above, the Company should consider developing a long-term program of ongoing independent review, such as an independent quality assurance program or an internal audit process to review the work, on a periodic basis, of those primarily and regularly responsible for the review, approval and supervision of advertising and sales materials to ensure full adherence to laws and regulations for full and fair advertising and disclosure. Further, based on the results of the independent review, the Company should consider implementing a procedure to rotate the primary reviewer to ensure that materials are evaluated by a different primary reviewer at the next review date. Based on the results of the independent review, the Company should report to the Division by September 30, 2012 on the consideration of these two control enhancements, and describe whether it plans to implement them, and if not, why not.

Subsequent Actions: The Company has agreed to amend term life insurance marketing materials immediately to remove "short-term" from such materials. The Company has also agreed to

ensure immediately that all references to the U.S. savings rate are accurately stated in all advertising and sales materials.

STANDARD III-4

Findings: None.

Observations: The tested life, annuity, individual disability income, and individual long-term care replacement sales of the Company appear to show that such sales meet the applicants' needs and comply with Company's replacement procedures. RNA noted that all variable life insurance replacement sales have at least one level of supervisory review at the general agencies to meet regulatory supervisory requirements for the sale of securities. Since the agent is required to attest that the replacement sale meets the applicant's needs, a similar level of review is not a requirement for non-variable life replacement sales. Finally, 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 consider a requirement that all non-variable life replacement sales have at least one level of supervisory review to ensure that the life replacement is in the best interests of the applicant. This recommended process would treat all life replacement sales similarly regardless of the fixed or variable nature of the contracts. The second level of review could be conducted at the general agency or in the home office and should be documented in the Company's or agency's records. The Company, on or before the filing of its board of director affidavits, shall report to the Division on whether it plans to adopt this recommended process, and if not, why not.

STANDARD III-5

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

Observations: Based upon testing, all replacement sales were properly included on the Company's replacement register. Except as noted above, notices to replaced carriers were timely provided. The Company reduced commissions on internal replacements in compliance with Company policy. Finally, the Company appears to monitor agents for the volume and nature of their replacement sales and take action as considered necessary.

Required Actions: The Company shall enhance the home office review procedures for submitted life and annuity applications to ensure that it always sends the required notice to replaced carriers within seven business days, in compliance with Company policy and 211 CMR 34.06.

Subsequent Actions: The Company has communicated to the annuity new business processing department the requirement to send the notice to replaced carriers timely. Further, the Company will enhance its quality assurance procedures to test for compliance with this requirement.

STANDARD III-6

Findings: For individual long-term care insurance sales, the Company did not provide "A Guide to Health Insurance for People with Medicare" and the "Massachusetts Bulletin for People with Medicare" to those 65 and older and those otherwise eligible for Medicare in violation of Massachusetts Regulation 211 CMR 42.09(4) and Division Bulletin 2009-03. The required disclosures were only provided when requested by the applicant. RNA noted the Company's individual long-term care insurance application does not inquire whether the applicant is eligible for Medicare.

Observations: Based on testing, except as noted above, RNA noted that all life, annuity, individual disability income and individual long-term care policy illustrations and/or summaries, 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.

Required Actions: The Company shall add a question to the individual long-term care insurance application asking whether the applicant is eligible for Medicare or otherwise determine how the Company can obtain such information to be compliant with regulatory requirements. Further, the Company shall ensure that required disclosures are timely provided to all Medicare eligible applicants and that acknowledgements are properly obtained from the applicants. Finally, the Company's USIG insurance compliance group shall conduct an audit to ensure that the required Medicare disclosures are being provided to applicants and acknowledgements obtained. The audit report shall be provided to management and the Division by October 31, 2011.

Subsequent Actions: The Company has completed the above required actions and now requires that all applicants receive "A Guide to Health Insurance for People with Medicare" and the "Massachusetts Bulletin for People with Medicare." Further, the Company added an acknowledgement section to the Massachusetts application to confirm that the applicant received these disclosures. Finally, the Company's USIG insurance compliance group conducted an audit to ensure that the required Medicare disclosures are being provided to applicants and to ensure that acknowledgements are being obtained.

SECTION IV-PRODUCER LICENSING

STANDARD IV-3

Findings: RNA noted that three of the 10 agent terminations tested from the examination period were not timely reported to the Division. Similarly, three additional agents were not properly notified of their terminations, in violation of M.G.L. c. 175, § 162T. As a result of new procedures which were being implemented by the Company during the examination testing, RNA selected 2010 agent terminations for testing. The results indicated that for the period April 1, 2010 through June 30, 2010, agent terminations were processed in accordance with statutory requirements.

Observations: None.

Recommendations: The Company should ensure that agent terminations continue to be properly and timely reported to the Division and that notice to terminated agents is timely.

SECTION VI-UNDERWRITING AND RATING

STANDARD VI-7

Findings: The adverse underwriting notice provided to one individual disability income applicant noted that the rated policy was a result of the "supplementary health statement" filed by the applicant with no specific reason noted. To comply with M.G.L. c. 175I, § 10, the adverse underwriting notice must give the specific reason for the adverse underwriting decision.

Observations: For the applications tested, except as noted above, the Company provided the adverse underwriting notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing adverse underwriting notices generally appear to be functioning in accordance with its policies, procedures and statutory requirements.

Required Actions: The Company shall ensure that all company adverse underwriting notices to applicants provide a specific reason for the Company's decisions as required by M.G.L. c. 175I, § 10.

Subsequent Actions: The Company has communicated to the disability income and life underwriting departments the requirement to provide a specific reason on adverse underwriting notices.

COMPANY BACKGROUND

Massachusetts Mutual Life Insurance 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 4,700 individual agents under contract in 85 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.

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 16) 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 & Poors. The Company had $121.3 billion in admitted assets and $9.3 billion in surplus as of December 31, 2009.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's internal audit plan is annually approved by the audit committee of the board of directors ("Audit Committee"). Key business risks and mitigating controls are identified, and a two-year rolling audit plan has been developed with high risk areas audited annually by the Company's corporate audit department.
- Internal audit 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 corporate audit department verifies that audit recommendations have been implemented by management.
- The Company has an enterprise risk management ("ERM") process led by the Company's Chief Risk Officer who reports to the Chief Executive Officer ("CEO"). The ERM function is responsible for maintaining the Company's internal control documentation based upon the Sarbanes Oxley framework.
- The Company has a Chief Compliance Officer ("CCO") who leads the corporate compliance department. The CCO reports to the Audit Committee. The corporate compliance department is primarily focused on compliance related to employee oversight and training, code of conduct monitoring, home office privacy practices and other Company-wide compliance practices.
- The Company's insurance and securities compliance function is contained within the Company's business unit, USIG Business Group ("USIG"). The USIG compliance department reports to the executive vice-president of USIG, who reports to the CEO. The USIG chief compliance officer also has dotted-line reporting to the corporate compliance department and the CCO. The USIG compliance department monitors field compliance programs for the Company's producers; handles all customer complaints; reviews and approves all sales materials; performs compliance training; manages anti-money laundering and privacy compliance initiatives; and has oversight over the periodic comparison of the Company's in-force database against the Social Security Death Index.
- 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 Company's USIG corporate audit scope and receives an annual corporate audit focused primarily on compliance and information technology. Audit results are reported to management, and any follow-up recommendations 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.

Transaction Testing Procedure: RNA reviewed corporate audit department plans, internal audit reports, corporate compliance audit reports, USIG agency field audit reports, long-term care compliance audit reports, and discussed reported findings with management. Issues noted in such reports were further investigated and reviewed.

Transaction Testing Results:

Findings: None.

Observations: The corporate audit department plans and internal audit reports, corporate compliance audit reports, USIG agency field audit reports, and long-term care compliance audit reports reviewed by RNA provided detailed information on the audit plans, 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.

Recommendations: None.

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

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

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

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

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

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

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

- The Company has adopted written antifraud procedures, which require management and employees to take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The Company's procedures require employees to report suspected fraud to their supervisors. The Company reports fraud to the Massachusetts Insurance Fraud Bureau.
- The Company requires the Board of Directors, all employees and management to annually certify compliance with the Company's Code of Business Conduct. Directors are also required to annually complete Conflict of Interest Disclosure Statements. Additionally, annual training must be completed by each person.

- The Company completes criminal, financial and post-secondary education background checks for prospective employees. The Company's policy is to not hire a "prohibited person" as defined above.

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 Company policies and procedures to address antifraud initiatives and employee hiring due diligence.

Transaction Testing Results:

Findings: None.

Observations: RNA confirmed that the Company has a written antifraud plan which requires that the Company take all reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud. RNA also confirmed that the Company completes criminal and financial background checks for new employees. 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.

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

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

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

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

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

- The Company uses third parties to conduct medical examinations of certain life, individual disability income and individual 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 general agent contracts describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, terminations and reappointments, 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 visits of the general agencies. During these on-

site visits, the general agency is evaluated for compliance with requirements including its assumption of full responsibility for performing, evaluating and monitoring needs assessment and suitability procedures for variable life insurance and annuity sales.

- The Company's long-term care business processing is outsourced to an unaffiliated third party administrator, and that contract contains performance standards requiring timely and accurate business processing and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company 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 management about its use of third parties to perform Company functions, and the monitoring procedures conducted over these third parties. 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 to long-term care business activities.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses the Company's efforts to adequately monitor the activities of the contracted entities that perform business functions on its behalf.

Controls Assessment: See Standard I-5.

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

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties who perform Company functions. As part of new and renewal business testing, RNA reviewed agent documentation that supports the new or renewal business sold. Further, RNA reviewed documentation and audit reports supporting the monitoring of the duties performed by the Company's third party administrator related to long-term care business activities. Finally, RNA reviewed the most recent annual on-site compliance audit reports conducted by the Company for its two Massachusetts general agencies.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that the Company is generally monitoring the

activities of third parties assuming a business function on the Company's behalf, in compliance with statutory and regulatory requirements.

Recommendations: None.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard addresses whether the lines of business written by the Company are in accordance with the lines of business authorized by the Division.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers of life insurance.

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

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

- The Company'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 to whom it refers within 30 days of receipt of a written request for such information by such individual. The Privacy Notice also discloses how a consumer can correct, amend or delete such information.
- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with anyone for marketing purposes, and thus no opt out right is necessary for such information sharing.
- Company policy is to provide the Notice of Adverse Underwriting Decision, 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, and 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 their 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 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 claims documentation for any evidence of the use of pretext interviews. RNA tested compliance with requirements to provide the Notice of Adverse Underwriting Decision in Standard VI-7.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

Objective: This Standard addresses policies and procedures to ensure privacy of nonpublic personal information.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: 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 parties other than the applicant.

Recommendations: None.

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

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

Objective: This Standard addresses requirements to provide privacy notices.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for providing the Privacy Notice 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 50 life, 25 annuity, 25 individual disability income, and 15 individual long-term care applications submitted 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 company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers.

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

Objective: This Standard addresses policies and procedures with regard to opt out rights.

M.G.L. c. 175I, §§ 1-22 and the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to non-affiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to non-affiliated third parties, unless the institution satisfies various disclosure and opt out

requirements and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's collection and use of nonpublic personal financial information.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: Based upon RNA's review, 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.

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

Objective: This Standard addresses efforts to maintain privacy of nonpublic personal health information.

M.G.L. c. 175I, §§ 1-22 and the HIPAA Public Law §§ 104-191 and 45 CFR Parts 160 and 164 set forth proper procedures for inquiry, release, disclosure and maintenance of nonpublic personal health information.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of underwriting and claims. RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 50 life, 25 individual disability income, and 15 individual long-term care applications submitted during the examination period. Finally, RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 25 life and annuity death claims and 25 individual disability income claims submitted during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the HIPAA authorization disclosure was signed by life, individual disability income and individual long-term care insurance applicants, life and annuity death claimants and individual disability income claimants when necessary, in compliance with Company policy. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of life, individual disability income, and individual long-term care underwriting and claims.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's information security efforts to ensure that nonpublic consumer information is protected.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 28.11.

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

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed that the illustration actuary filed certifications with the Division in 2009 for life products requiring an illustration.

Transaction Testing Results:

Findings: None.

Observations: The Company has filed actuarial certifications with the Division related to life illustrations in use in 2009.

Recommendations: None.

II. COMPLAINT HANDLING

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

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

M.G.L. c. 176D, § 3(10).

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

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

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

- The Company considers any written grievance received from a consumer, the Division or the Massachusetts Attorney General a complaint, which is handled according to written complaint handling procedures.
- The Company's Customer Relations Division of the USIG Compliance Department ("Customer Relations") coordinates and addresses complaints for all of the Company's products and business units except for disability income consumer complaints related to claims, which are handled in the disability income claims area; and all long-term care complaints, which are outsourced to the Company's long-term care third party administrator.
- Consumer complaints are received directly by general agencies, business units, Customer Relations or the executive office. Division and Massachusetts Attorney General complaints are received directly by Customer Relations. If a complaint is received by a department other than Customer Relations, it is forwarded to Customer Relations to log the complaint in the Company's complaint register.
- The Company logs all complaints received in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company provides a telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company monitors complaint handling activity and customer service department feedback through quarterly management reporting to senior management, and internal auditing of Customer Relations' complaint handling processes and procedures.
- The Company's CCO receives annual written reports of complaint activity and trends, which are reported to the Company's Board of Directors and 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 and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed the Company's complaint registers for the period January 1, 2009 through March 31, 2010 to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10) and to determine whether the complaint registers included all complaints filed with the Division.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's complaint registers included all required database elements and that the complaint registers included all complaints filed with the Division.

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed five Division complaints and four consumer complaints from the Company's complaint register for the period January 1, 2009 through March 31, 2010 to evaluate the Company's compliance with the provisions of M.G.L. c. 176D, § 3(10). RNA reviewed the complaint handling for each of these complaints, including the adequacy of documentation supporting the facts and resolution of each complaint. In addition, RNA reviewed the Company's web-site, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed five Division complaints and four consumer complaints from the Company's complaint register for the period January 1, 2009 through March 31, 2010 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 reviewed. Documentation for the complaints appeared complete, including the original complaint and related correspondence. It appears that complainants with similar fact patterns are treated consistently and reasonably.

Recommendations: None.

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

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

Massachusetts does not have a specific complaint processing time standard in statute or regulation. The Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed five Division complaints and four consumer complaints from the Company's complaint register for the period January 1, 2009 through March 31, 2010 to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company appeared to address each of the Division complaints within 14 days

and each of the consumer complaints 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.

M.G.L. c. 176D, § 3; M.G.L. c. 175, §§ 18, 121 and 181; 211 CMR 27.05, 27.06, 42.09, 65.08 and 95.11; Division Bulletin 2001-02.

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

Pursuant to M.G.L. c. 176D, § 3 and M.G.L. c. 175, § 181, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies or annuity contracts, or the benefits, terms, conditions and advantages of such policies and contracts. M.G.L. c. 175, § 18 requires companies to conduct their business using their corporate name on policies and contracts. M.G.L. c. 175, § 121 prohibits a life company and producers from making any contract other than as plainly expressed in policies or contracts issued. 211 CMR 27.05 and 27.06 provide protections for U.S. military personnel in the sale of life insurance and annuities. 211 CMR 42.09 requires that advertising and marketing for individual disability income and long-term care products not be misleading. 211 CMR 65.08 specifies various requirements for marketing of long-term care insurance, including identifying group vs. individual products and that agents should disclose the name of the carrier that they represent. 211 CMR 95.11 prescribes required information to be furnished to applicants for a variable life insurance policy. Pursuant to Division Bulletin 2001-02, an insurer who maintains an Internet website must disclose on the website the name of the company as it appears on the certificate of authority, and the address of its principal office.

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

- The Company has adopted written policies and procedures for review and use of advertising and sales materials, including a provision in agency and producer contracts requiring adherence to such procedures.
- The USIG compliance department reviews and approves all home office and agency or producer generated sales and advertising materials prior to use. An electronic work flow system tracks and documents the review and approval of such sales and advertising material. All approved sales and advertising materials have an expiration date, which is to be no more than two years from the approval date.
- The Company's career agency system includes an Agency Supervisory Officer ("ASO") at each general agency. The ASO reviews all letters that agents send to customers, although prior approval is not required. Agent email is filtered using information technology controls where identification of key words may trigger a review by the ASO.
- The Company discloses its name and address on its website.
- The Company's corporate audit department has periodically conducted audits of the Company's compliance oversight functions, which approve and monitor the use of sales and marketing 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 10 pieces of field sales materials and 18 pieces of home office sales materials to review for accuracy and reasonableness and evidence of approval prior to use. These 18 pieces included seven pieces for public use and 11 pieces for producer 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 accurate and reasonable, and all were approved by the Company prior to use. The Company's website properly disclosed its name and address. Finally, RNA noted no use of unapproved sales and marketing materials as part of new business testing. However, we have concerns about certain content in some consumer advertising or producer training materials, which may be potentially misleading or suggest actions which may not be appropriate for consumers.

First, the consumer publication, *Why Rent When You Can Own?* notes that term insurance is used to meet "temporary, short-term goals." Our concern is that describing term insurance as only for "temporary, short-term goals" is inappropriate. The Company sells 10 and 20 year level term, and other insurers sell 30 year level term coverage, which are periods longer than what would be considered temporary or short term. Additionally, generally, we believe that when referring to purposes such as funding retirement, education or home purchases, the materials should caveat that savings and supplemental income are not the primary function of permanent insurance and may not be appropriate for all consumers.

Second, the producer guide, *Preparing for Retirement and So Much More* and other consumer and producer publications, frequently refer to the low U.S. savings rate (based on a 2008 study). The U.S. savings rate has increased significantly since 2009. The publication also uses an illustration assuming the same savings rate for a consumer early in his or her career as the expected savings rate for the consumer's later years. We believe that this is overly simplified and not necessarily realistic for many consumers.

Third, the producer guide, *Opportunity Knocks: Sales Ideas That Open Doors,* which is only for distribution to producers and not to consumers, a comparison of whole life and 20 year level term is given. For the 20 year level term option, the premium difference is invested to yield a 3.6% after tax rate. Further, the comparison shows that the consumer purchases non-specified life insurance at year 20, the cost of which is higher than it was in year one. We believe that the comparison is overly simplified and makes assumptions that are unclear and inappropriate for all consumers. Generally, we believe that illustrations contained in Company sales materials comparing permanent insurance and term insurance should be subject to similar requirements as illustrations provided to consumers with appropriate disclosures and assumptions. When comparing alternatives for general producer use, multiple rates of return and customer choices should be illustrated, with reasonably full disclosure of such options and assumptions, instead of one set of assumptions.

Fourth, an article in The Exceptional Parent on March 1, 2009 entitled *Think You Have No Money for a Financial Strategy? Think Again!* refers to three pages of recommendations to save money, improve cash flow and develop financial strategies in consultation with a financial advisor. One of the recommendations was to "free up money or fund an element of your strategy (such as a life insurance premium), reduce the amount you contribute to a 401(k) employer-matched retirement

plan. Increase your contribution at your next salary increase." A general recommendation to consumers to reduce employer-matched contributions, particularly when that results in forgoing an employer-matched contribution, and to increase the contribution at the next salary increase, should not be made, since the timing and likelihood of their next salary increase is uncertain.

Recommendations: The Company should ensure that all references to the U.S. savings rate are accurately stated in all advertising and sales materials and updated periodically to remain current.

Since the Company has not completed an independent review, either through internal audit or through U.S. Insurance Group, the Company should conduct an independent internal review and assessment of Company and agent non-variable life and fixed annuity advertising and sales materials used in Massachusetts. This review should be conducted by the U.S. Insurance Group Compliance function, (but not by those primarily and regularly responsible for the review and approval of advertising and sales materials), or by qualified internal audit personnel, or by qualified independent legal and financial personnel, to ensure that the observations noted above are addressed and all materials reflect full and fair disclosure. The audit may be conducted through a statistically-valid, test basis selection based on sampling guidance contained in the *NAIC Market Regulation Handbook*. The results of this review and a summary of any subsequent actions taken as a result of the review should be provided to the Division by June 30, 2012.

Based on the results of the independent review described above, the Company should consider developing a long-term program of ongoing independent review, such as an independent quality assurance program or an internal audit process to review the work, on a periodic basis, of those primarily and regularly responsible for the review, approval and supervision of advertising and sales materials to ensure full adherence to laws and regulations for full and fair advertising and disclosure. Further, based on the results of the independent review, the Company should consider implementing a procedure to rotate the primary reviewer to ensure that materials are evaluated by a different primary reviewer at the next review date. Based on the results of the independent review, the Company should report to the Division by September 30, 2012 on the consideration of these two control enhancements, and describe whether it plans to implement them, and if not, why not.

Subsequent Actions: The Company has agreed to amend term life insurance marketing materials immediately to remove "short-term" from such materials. The Company has also agreed to ensure immediately that all references to the U.S. savings rate are accurately stated in all advertising and sales materials.

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

211 CMR 65.08.

Objective: This Standard is concerned with whether the Company's producer training materials are in compliance with state statutes, rules and regulations. Sales materials that are producer-related are tested in Standard III-1.

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

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

- The Company has developed extensive agent training and education programs which are tailored to the agents' experience and needs.
- The USIG compliance department reviews and approves all agency and producer sales training materials. An electronic work flow system tracks and documents the review and approval of such sales 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.

Transaction Testing Procedure: RNA evaluated compliance with long-term care training requirements in conjunction new business testing of five 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 five producers.

Recommendations: None.

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

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

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

- 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 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.

211 CMR 27.06(4), 34.04, 42.08 and 42.11.

Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement-related forms. Testing of suitability of all annuity sales is conducted in Standards III-11 through III-13.

Pursuant to 211 CMR 27.06(4), replacement of Serviceman's Group Life to military personnel, unless the replacement takes effect after the serviceman's separation from the military, is considered a deceptive and unfair trade practice. Pursuant to 211 CMR 34.04, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant regarding whether the transaction involves the replacement of existing life insurance or annuities; and (b) a signed statement as to whether the agent or broker knows that the transaction involves or may involve a replacement. In sales involving external replacements, producers must provide a copy of the replacement notice to applicants at the time of application. For accident and sickness insurance, 211 CMR 42.08 and 42.11 require the application to inquire whether the sale involves a replacement, and requires the replacing insurer or producer to furnish a proper replacement notice to the applicant.

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

- Written policies and procedures govern replacement handling.
- The Company's applications require a response from the applicant and agent as to whether or not the insurance policy or annuity contract 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.
- Company policy requires that general agents take responsibility for evaluating all replacement sales to ensure that they are in the applicants' best interests.
- Reduced commissions are paid on most internal replacements to discourage such replacements. Internal replacement transactions that are eligible for full commission include: new contracts where policy loan proceeds are used from an existing policy, as long as the existing policy is not replaced; life policies that quality under a program for high performing agents, whereby full commission are allowed for a limited number of replacement transactions with a limited face value; and replacements of the Company's life policy with the Company's annuity product, or vice versa.
- The Company monitors its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with replacement requirements.
- The Company monitors agents for the volume and nature of their replacement sales, and takes action when considered necessary.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. As part of new business testing, RNA

selected a sample of 25 life insurance, 15 annuity, five individual disability income and five individual long-term care replacement sales from the examination period for testing. RNA reviewed the applications to ensure that the replacement questions on the applications were properly answered, and reviewed evidence that the replacement disclosure forms were properly signed by the applicants at the application dates, and evaluated whether the replacement sales appeared to be suitable for the applicants. RNA reviewed the audit reports issued by the USIG compliance department on the two Massachusetts general agencies for evidence that suitability and needs assessment procedures were monitored. Finally, RNA inquired whether the Company monitors agents for the volume and nature of their replacement sales, and the extent and nature of actions taken when necessary.

Transaction Testing Results:

Findings: None.

Observations: The tested life, annuity, individual disability income, and individual long-term care replacement sales of the Company appear to show that such sales meet the applicants' needs and comply with Company's replacement procedures. RNA noted that all variable life insurance replacement sales have at least one level of supervisory review at the general agencies to meet regulatory supervisory requirements for the sale of securities. Since the agent is required to attest that the replacement sale meets the applicant's needs, a similar level of review is not a requirement for non-variable life replacement sales. Finally, 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 consider a requirement that all non-variable life replacement sales have at least one level of supervisory review to ensure that the life replacement is in the best interests of the applicant. This recommended process would treat all life replacement sales similarly regardless of the fixed or variable nature of the contracts. The second level of review could be conducted at the general agency or in the home office and should be documented in the Company's or agency's records. The Company, on or before the filing of its board of director affidavits, shall report to the Division on whether it plans to adopt this recommended process, and if not, why not.

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

211 CMR 27.06(4), 34.05 - 34.07, 42.08 and 42.11.

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

Pursuant to 211 CMR 27.06(4), replacement of Serviceman's Group Life to military personnel, unless the replacement takes effect after the serviceman's separation from the military, is considered a deceptive and unfair trade practice. Pursuant to 211 CMR 34.05-34.06, an insurer must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life and annuity applications include a signed form acknowledging replacement. 211 CMR 34.07 requires insurers who solicit direct response sales to obtain a signed form acknowledging replacement. 211 CMR 42.08 and 42.11 require that applications for accident and sickness insurance ask whether the sale involves a replacement, and require the replacing insurer or producer to furnish a proper replacement notice to the applicant.

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

- Written policies and procedures govern replacement handling.

- Company policy requires that all replacements be consistently recorded in the Company's replacement register.
- The Company reviews submitted life, annuity and individual disability income applications, which require a signed response from the applicant and producer on the application as to whether or not the policy or contract applied for will replace another policy or contract. The Company also reviews submitted application packages for evidence of signed replacement disclosure forms from the applicants.
- Written company policy requires that notice to the replaced carrier be sent within two to seven business days for life, individual disability income and individual long-term care 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 be paid on most internal replacements to discourage producers from replacing existing Company policies or contracts. Internal replacement transactions that are eligible for full commission include: new contracts where policy loan proceeds are used from an existing policy, as long as the existing policy is not replaced; life policies that quality under a program for high performing agents, whereby full commission are allowed for a limited number of replacement transactions with a limited face value; and replacements of the Company's life policy with the Company's annuity product, or vice versa.
- The Company provides a 20 day free look on all external replacement sales.
- Life, annuity, and individual disability income new business processing functions include a quality assurance review, during which the home office checks a portion of submitted business to evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The Company monitors its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with replacement requirements.
- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company policies and procedures. The third party administrator has a quality assurance function for its long-term care business processes with results reported to the Company monthly. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.

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 25 life insurance, 15 annuity, five individual disability income and five individual long-term care replacement sales from the examination period for testing. RNA reviewed these replacement sales to ensure that they were properly included on the Company's replacement register, reviewed the notice to the replaced carriers for timeliness, and evaluated the commissions paid on internal replacements to ensure that they were reduced in accordance with Company policy. Finally, RNA evaluated the Company's procedures to monitor replacement activity by producer.

Transaction Testing Results:

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

Observations: Based upon testing, all replacement sales were properly included on the Company's replacement register. Except as noted above, notices to replaced carriers were timely provided. The Company reduced commissions on internal replacements in compliance with Company policy. Finally, the Company appears to monitor agents for the volume and nature of their replacement sales and take action as considered necessary.

Required Actions: The Company shall enhance the home office review procedures for submitted life and annuity applications to ensure that it always sends the required notice to replaced carriers within seven business days, in compliance with Company policy and 211 CMR 34.06.

Subsequent Actions: The Company has communicated to the annuity new business processing department the requirement to send the notice to replaced carriers timely. Further, the Company will enhance its quality assurance procedures to test for compliance with this requirement.

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

211 CMR 28.09, 31.05, 31.07, 42.09, 65.09 and 95.11; Division Bulletin 2009-03.

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

211 CMR 28.09 establishes requirements for the delivery of illustrations to applicants. Pursuant to 211 CMR 31.05, non-variable life insurance marketed through agents requires insurers to provide applicants with buyer's guides and preliminary policy summaries before the application is signed, and policy summaries before accepting premium. However, if the policy or policy summary contains an unconditional refund offer, the policy summary may be delivered with the policy. 211 CMR 31.07 requires producers to disclose that he or she is acting as producer in the sale. 211 CMR 42.09 and Division Bulletin 2009-03 require that accident and sickness insurance applicants receive disclosure forms at policy delivery or when the application is made. Such forms require disclosure of information regarding certain policy benefits, terms, premiums, exclusions and limitations. Also, written disclosure must be made to the applicant if a policy is issued other than as applied for. The regulation and bulletin also set forth disclosure requirements for Medicare-eligible applicants. 211 CMR 65.09 requires that individual and group long-term care policies adequately disclose all policy provisions, and that applicants must receive disclosure forms relating to financing, suitability, Medicare and Medicaid eligibility, a policy illustration and an outline of coverage. 211 CMR 95.11 prescribes required information to be furnished to applicants for a variable life insurance policy.

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 insurance and individual disability income policy illustrations or summaries, 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 individual disability income insurance applications to ensure that required forms and disclosures are provided to the applicants.
- Life, annuity, and individual disability income new business processing functions include a quality assurance review, during which the home office checks a portion of submitted business to

evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the agent as necessary.

- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company policies and procedures. The third party administrator has a quality assurance function for its long-term care business processes with results reported to the Company monthly. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.

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 50 life insurance, 25 annuity, 25 individual disability income and 15 individual long-term care sales from the examination period for testing. RNA reviewed the life insurance, annuity contract, individual disability income or individual ling-term care illustrations, policy summaries 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: For individual long-term care insurance sales, the Company did not provide "A Guide to Health Insurance for People with Medicare" and the "Massachusetts Bulletin for People with Medicare" to those 65 and older and those otherwise eligible for Medicare in violation of Massachusetts Regulation 211 CMR 42.09(4) and Division Bulletin 2009-03. The required disclosures were only provided when requested by the applicant. RNA noted the Company's individual long-term care insurance application does not inquire whether the applicant is eligible for Medicare.

Observations: Based on testing, except as noted above, RNA noted that all life, annuity, individual disability income and individual long-term care policy illustrations and/or summaries, 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.

Required Actions: The Company shall add a question to the individual long-term care insurance application asking whether the applicant is eligible for Medicare or otherwise determine how the Company can obtain such information to be compliant with regulatory requirements. Further, the Company shall ensure that required disclosures are timely provided to all Medicare eligible applicants and that acknowledgements are properly obtained from the applicants. Finally, the Company's USIG insurance compliance group shall conduct an audit to ensure that the required Medicare disclosures are being provided to applicants and acknowledgements obtained. The audit report shall be provided to management and the Division by October 31, 2011.

Subsequent Actions: The Company has completed the above required actions and now requires that all applicants receive "A Guide to Health Insurance for People with Medicare" and the "Massachusetts Bulletin for People with Medicare." Further, the Company added an acknowledgement section to the Massachusetts application to confirm that the applicant received these disclosures. Finally, the Company's USIG insurance compliance group conducted an audit to ensure that the required Medicare disclosures are being provided to applicants and to ensure that acknowledgements are being obtained.

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

211 CMR 27.05, 27.06 and 96.06; U.S. Public Law 109-290.

Objective: This Standard is concerned with 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 Standards III-11 through III-13 for testing of annuity suitability.

211 CMR 27.05 and 27.06 provide protections for U.S. military personnel in the sale of life insurance and annuities. 211 CMR 96.06 requires that the producer obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

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 meet the applicants' needs.
- Most of the Company's product 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 Company monitors its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with suitability standards.
- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company policies and procedures. The third party administrator has a quality assurance function for its long-term care business processes with results reported to the Company monthly. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.

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 25 life insurance, 20 individual disability income and 10 individual long-term care transactions sales from the examination period for testing, to evaluate whether the sales appeared to meet the applicants' needs. Finally, RNA reviewed the audit reports issued

by the USIG compliance department on 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 anywhere it is licensed.

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

211 CMR 55.06.

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

211 CMR 55.06 requires that a disclosure statement concerning accelerated benefit provisions on life insurance, and waiver of surrender charges for early withdrawals of annuity contracts, be provided to the applicant at the time of application.

Controls Assessment: See Standard VI-5.

Controls Reliance: See Standard VI-5.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for requesting accelerated benefits coverage. As part of new business testing for 50 life insurance applications, we confirmed that accelerated benefit disclosure riders were completed and signed by the producers and applicants.

Transaction Testing Results:

Findings: None.

Observations: All tested life insurance applications had properly signed and completed accelerated benefit disclosure riders. 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 is concerned with ensuring that policy application forms used by depository institutions provide required disclosures.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting, 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. None of the new business files tested was 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.

211 CMR 27.05, 27.06 and 96.06; U.S. Public Law 109-290.

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

211 CMR 27.05 and 27.06 provide protections for U.S. military personnel in the sale of annuities. 211 CMR 96.06 requires that the producer obtain the applicant's financial status, tax status and investment

objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

Controls Assessment: The following controls were noted in this Standard and Standards III-12 and III-13:

- 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 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.
- The annuity new business processing function includes a quality assurance review, during which the home office checks all submitted business to ensure that all financial information in the package is internally consistent. Errors or non-compliant application packages are returned to processing or to the agent as necessary.
- The Company monitors its general agencies for compliance with policies and procedures through annual on-site visits of the general agencies. During these on-site visits, the general agency is evaluated for compliance with suitability standards.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for annuity new business processing, and obtained supporting documentation. RNA tested 25 annuity applications and sales files from the examination period, to evaluate whether the agents made appropriate needs assessments.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 27.05, 27.06 and 96.06; U.S. Public Law 109-290.

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

211 CMR 27.05 and 27.06 provide protections for U.S. military personnel in the sale of annuities. 211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of

the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

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 25 annuity applications and sales files from the examination period, to review the Company's efforts to review the applications for completeness and consistency.

Transaction Testing Results:

Findings: None.

Observations: The annuity applications and sales files tested showed evidence that the Company reviewed the applications for completeness and consistency.

Recommendations: None.

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

211 CMR 96.06.

Objective: This Standard is concerned with whether the Company has procedures to educate and monitor producers, to provide full disclosure to consumers on fixed-index annuity products and to ensure all such sales meet statutory and regulatory requirements.

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

Controls Assessment: 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 tested 25 annuity applications and sales files from the examination period, to evaluate whether the agents obtained the required financial information and investment objectives, and made appropriate needs assessments. RNA also assessed the Company's efforts to review the applications for completeness and consistency.

Transaction Testing Results:

Findings: None.

Observations: The fixed annuity applications and sales files tested indicated that the agents obtained the required financial information and investment objectives, and made appropriate needs assessments. The fixed annuity applications and sales files also showed evidence that the Company reviewed the applications for completeness and consistency.

Recommendations: None.

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

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

IV. PRODUCER LICENSING

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

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

M.G.L. c. 175, §§ 162I and 162S; 18 U.S.C. § 1033; Division Bulletins 1998-11, 2001-14 and 2008-20.

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

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

Pursuant to 18 U.S.C. § 1033 of the Act, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent. Division Bulletin 2008-20 clarifies that licensure requirements are uniform with regard to producers and companies who market and sell any kind of variable life or annuity product, regardless of whether it is an individual or a group product.

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

- The Company's producers include agents in the career agency system ("CAS") and a third party producer distribution ("TPD") channel. CAS includes approximately 4,700 individual producers under exclusive contract in approximately 85 general agencies throughout the U.S including two in Massachusetts. The TPD channel consists of business entities that do not have exclusive selling arrangements with the Company, such as securities brokers and financial planners. The TPD channel also includes approximately 30 national accounts that are serviced by the home office.
- The Company requires any producer who sells insurance for the Company to be licensed, and the Company verifies that the producer is licensed by the Financial Industry Regulatory Authority, as appropriate. For long-term care business, the producer must have completed Massachusetts-required training with such training certified by the Company.
- CAS general agencies have written contracts requiring them to maintain errors & omission coverage and to meet standard duties and responsibilities, including supervising individual sub-producers. Each individual sub-producer contracts with the general agency using a standard agreement that requires the sub-producer to participate in the Company's fidelity bonding program. The sub-producer contract must be approved by the Company prior to appointment. Criminal, civil litigation, securities, and financial background checks for the past five years are conducted on newly appointed CAS producers and sub-producers.

- The TPD business entities have written contracts with the Company, which require them to maintain errors & omission coverage, to meet standard duties and responsibilities, including supervising individual sub-producers, and to perform financial and criminal background checks on their sub-producers.
- The Company seeks approval of the Division regarding the appointment of any "prohibited person" when the Company wishes to appoint such an agent.
- The Company requires that all producers and sub-producers who sign a contract be appointed as agent within 15 days from the date the contract is executed. Producers and sub-producers are appointed as agents using the Massachusetts On-line Producer Registration and Appointment System ("OPRA") and the NAIC's producer database. A Company database tracks all agent appointments and producer licenses.
- The Company completes an annual reconciliation of its agent appointment records with those of the Division with any differences researched and addressed.
- The Company's distribution compliance department performs annual audits of the general agencies to monitor compliance with various Company policies and procedures, including those related to producer licensing and appointment.

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 45 life insurance, 25 annuity, 20 individual disability income, and 10 individual long-term care non-declined sales during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale. RNA also verified that the appointment dates on the Division's and the Company's databases matched within reason for tested sales where the sales agents were appointed in 2009.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's agents were properly licensed and appointed at the date of sale.

Recommendations: None.

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

M.G.L. c. 175, §§ 162I and 162S; 18 U.S.C. § 1033; Division Bulletins 1998-11, 2001-14 and 2008-20.

See Standard IV-1 for testing.

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

M.G.L. c. 175, §§ 162R and 162T.

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected 10 agent terminations from the examination period, to determine whether the Company gave timely notice of the terminations to the Division and the agents. As a result of the findings below, RNA performed additional testing of 2010 agent terminations to evaluate the Company's enhanced procedures.

Transaction Testing Results:

> *Findings*: RNA noted that three of the 10 agent terminations tested from the examination period were not timely reported to the Division. Similarly, three additional agents were not properly notified of their terminations, in violation of M.G.L. c. 175, § 162T. As a result of new procedures which were being implemented by the Company during the examination testing, RNA selected 2010 agent terminations for testing. The results indicated that for the period April 1, 2010 through June 30, 2010, agent terminations were processed in accordance with statutory requirements.
>
> *Observations*: None.

Recommendations: The Company should ensure that agent terminations continue to be properly and timely reported to the Division and that notice to terminated agents is timely.

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA tested agent appointments in conjunction with testing of 45 life, 25 annuity, 20 individual disability income, and 10 individual long-term care non-declined sales and 10 agent terminations from the Company's records during the examination period, for any evidence of unfair discrimination against policyholders.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

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

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

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected 10 terminations from the examination period to test for adequate documentation of termination reasons. Further, RNA reviewed the terminations to note whether any were "for cause," and whether any such terminations and the related reasons were communicated to the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's policies are direct billed, mitigating the possibility for excessive balances owed by producers.
- The Company pays producers' commissions in accordance with written producer contracts, and permits draws against future commissions.
- The Company actively monitors producers' account balances to ensure that outstanding amounts are within limits it deems reasonable.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and commission processing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

V. POLICYHOLDER SERVICE

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

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

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

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

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

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

- Life insurance and individual disability income policyholders may elect to pay premiums either quarterly, semi-annually or annually by check; or monthly by electronic funds transfer. Individual disability income policies are also list billed monthly through an employer.
- The Company generates and mails billing notices for individual life insurance and disability income policies 20-30 days prior to the installment due date. The billing notices state that the policies will lapse unless payments are made.
- If individual life insurance or disability insurance premiums are not received by the due date, a reminder notice is sent 5-20 days after the due date. An overdue premium notice is mailed 21 days after the due date stating that if the overdue premium is not paid, the policy will lapse for non-payment 62 days after the original due date. If payment is still not made the policy lapses, and a final notice of lapse is sent to the policyholder. Generally, lapsed policies are available for reinstatement with approval from the underwriting department.
- 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.
- Long-term care premium and billing notices are processed by a third-party administrator, which provides numerous management reports summarizing premium activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual compliance audit of the third party administrator's long-term care policyholder service processing functions. Audit results are reported to management, and any follow-up recommendations 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.

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted that 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.

M.G.L. c. 175, §§ 187C and 187H; 211 CMR 34.06 and 42.05.

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

M.G.L. c. 175, § 187C provides that the insured may cancel his or her policy by giving notice to the Company or a producer. M.G.L. c. 175, § 187H requires the Company to provide a 10 day free look on low face amount life policies. Further, 211 CMR 34.06 requires that a 20 day free look be given on life and annuity replacements. Finally, 211 CMR 42.05 requires that a 10 day free look be given on disability income and long-term care insurance policies.

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

- Upon request to cancel a life insurance, individual disability income policy 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 within five days.
- All owners have the right to return ("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 transactions. Management monitors performance metrics to evaluate compliance with Company goals.
- Life insurance, annuity, and individual disability income policyholder service processing functions include a quality assurance review, during which post-issue transactions are sampled to evaluate the accuracy and timeliness of the Company's policyholder transaction servicing.

- The Company conducts post-sale policyholder satisfaction surveys of its life insurance customers. Survey results are summarized and reported to management. Written grievances are addressed through the Company's complaint handling processes.
- Long-term care new business and policyholder service transactions are processed by a third-party administrator, which provides numerous management reports summarizing premium activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual compliance audit of the third party administrator's long-term care policyholder service processing functions. Audit results are reported to management, and any follow-up recommendations 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.

Transaction Testing Procedure: RNA discussed free look and insured-requested cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected five life insurance insured-requested cancellations and five annuity surrenders from the examination period, to ensure that requests were processed accurately and timely. Additionally, as part of new business testing, RNA noted 11 life insurance, one annuity, seven individual disability income and two individual long-term care underwriting applications where the applicants exercised their free look option. RNA verified that the Company timely and accurately processed the free looks.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's life insurance and individual disability income policyholder and annuity contract holder service functions include a post-issue call center to answer questions from customers and agents. Customer service representatives also respond to written correspondence and process post-issue transactions.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder correspondence. Management monitors performance metrics to evaluate compliance with Company goals.
- Long-term care policyholder service transactions are processed by a third-party administrator, which provides numerous management reports summarizing long-term policyholder service activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual compliance audit of

the third party administrator's long-term care policyholder service processing functions. Audit results are reported to management, and any follow-up recommendations 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.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

M.G.L. c. 175, §§ 110H, 123, 126, 139, 142 and 187B; 211 CMR 95.08.

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

M.G.L. c. 175, § 110H requires notice to the policyholder for accident and sickness insurance, including disability income coverage cancelable at age 65, at least 60 days prior to cancellation. M.G.L. c. 175, § 123 requires a disinterested witness for life insurance beneficiary changes. M.G.L. c. 175, § 126 limits life insurance beneficiary changes once a married woman is named as beneficiary. M.G.L. c. 175, § 139 limits face amounts of conversions for rewritten life insurance policies or annuity contracts with an effective date prior to the exchange application date. M.G.L. c. 175, § 142 addresses loan interest rates for non-variable whole life policies. M.G.L. c. 175, § 187B requires insurers to return premium after they cancel any insurance policy. 211 CMR 95.08 governs policy loans on variable life policies including transactions after the initial sale.

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

- Company policy provides for beneficiary and ownership change requests to be effective upon the signing and mailing of a properly completed form. Company policy requires a witness signature to process life beneficiary changes.

- Company policy requires a signed written request to process life insurance policy loans greater than $25,000. Smaller policy loan requests may be made by phone. Other life insurance policy changes are made in writing or by phone, but significant 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 gives written notice to life insurance policyholders and annuity contract holders prior to policy maturity, and advises them of various settlement and reinvestment options.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder service transactions. Management monitors performance metrics to evaluate compliance with Company goals.
- Life insurance, annuity, and individual disability income policyholder service processing functions include a quality assurance review, during which post-issue transactions are sampled to evaluate the accuracy and timeliness of the Company's policyholder and contact holder transaction servicing.
- Long-term care policyholder service transactions are processed by a third-party administrator, which provides numerous management reports summarizing policyholder service activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual compliance audit of the third party administrator's long-term care policyholder service processing functions. Audit results are reported to management, and any follow-up recommendations 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.

Transaction Testing Procedure: RNA discussed policy change procedures with Company personnel, and obtained supporting documentation. RNA selected eight beneficiary change requests (five life insurance and three annuity), six ownership change requests (five life insurance and one annuity), and six policy loan requests (five life insurance 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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires that unclaimed maturities, unclaimed premium refunds, uncashed checks for life insurance and annuity death claims be reported and escheated when the owner cannot be found.
- The Company has implemented procedures for locating lost owners through searches of Company records and public databases. Once unclaimed checks have been outstanding for more than nine months, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner. When a check is returned, a check stop payment is issued, and notice to the owner is given that the check payment was returned and/or not cashed, and subsequently voided. A new check is sent once a better address is located. For checks outstanding for more than nine months where a new address is not found, the amounts are reported and escheated according to Massachusetts statutory requirements.
- The Company completes a periodic comparison of the Company's contracts in-force against the Social Security Death Index in an attempt to locate deceased policyholders or contract holders.
- The Company annually reports escheatable funds to the State Treasurer on May 1st as required by statute. Prior to escheatment of funds, a final attempt is made to locate the owner.

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

Transaction Testing Procedure: RNA discussed with Company personnel procedures for locating missing policyholders, contract holders and beneficiaries, and procedures for escheatment of funds, and reviewed supporting documentation. RNA reviewed the escheatment filing made to the State Treasurer for 2009. The Division also circulated a survey to the Company, as well as to other domestic life insurers, on these procedures.

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.

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

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

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

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

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

- The Company's policy and contract administration systems automatically calculate the unearned premium on cancelled policies and unearned premium after an insured's death. Such amounts are returned to owners or beneficiaries.
- Upon request to cancel a life insurance, individual disability income policy or annuity contract, the Company sends the owner a required form, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium and surrender value is sent to the policyholder within five days.
- All owners have the right to a free look for newly purchased contracts within the time period stated in the contracts. Premium refunds are to be promptly returned to the owners.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested transactions. Management monitors performance metrics to evaluate compliance with Company goals.
- Life insurance, annuity, and individual disability income policyholder service processing functions include a quality assurance review, during which post-issue transactions are sampled to evaluate the accuracy and timeliness of the Company's policyholder transaction servicing.
- Long-term care policyholder service transactions are processed by a third-party administrator, which provides numerous management reports summarizing policyholder service activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual compliance audit of the third party administrator's long-term care policyholder service processing functions. Audit results are reported to management, and follow-up recommendations 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.

Transaction Testing Procedure: RNA discussed return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected five life insurance insured-requested cancellations and five annuity surrenders from the examination period, to ensure that unearned premiums were properly calculated and timely returned. Additionally, as part of new business testing, RNA noted 11 life insurance, one annuity, seven individual disability income and two individual long-term care underwriting applications where the applicants exercised their free look option. RNA verified that the Company timely and accurately processed the free looks. Further, during life insurance claim testing, RNA tested claims where unearned premium was due to the beneficiary, to ensure that unearned premium was timely paid.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

M.G.L. c. 175, § 108 addresses individual disability income policy reinstatement requirements. M.G.L. c. 175, § 132(11) requires that life insurance policies allow for reinstatement. M.G.L. c. 175, § 187G states that for life policies which lapse during a strike by producers, in the case where the premiums are collected by the producers, the insured is entitled to reinstatement without evidence of insurability within 31 days of the authorized termination of the strike. 211 CMR 65.10 requires that long-term care policies allow for reinstatement for five months after policy termination if the policyholder was cognitively impaired or functionally incapacitated before the grace period expired.

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

- Most lapsed life insurance and individual disability income policies may be reinstated by the policyholder.
- The policyholder must undergo various levels of underwriting prior to reinstatement, depending upon when the policy lapsed. Unpaid premiums must be paid to reinstate the policy.
- The Company has written service standards to ensure the timely processing of reinstatement requests. Management monitors performance metrics to evaluate compliance with Company goals.
- Long-term care underwriting and policyholder services are processed by a third-party administrator, which provides numerous management reports summarizing premium activity and time and service standards compliance. The third party administrator has a policyholder service quality assurance function, and such monthly results are reported to the Company. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines. Audit results are reported to management, and any follow-up recommendations 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.

Transaction Testing Procedure: RNA discussed reinstatement procedures with Company personnel and obtained supporting documentation. RNA selected three life insurance and two individual disability income reinstatements from the examination period, to ensure that reinstatements were handled consistently, timely and in accordance with policy provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard evaluates notification to life policyholders regarding non-forfeiture options, and requires application of these options in accordance with the contract. 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.

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

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

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

- The Company uses policy forms designed to meet statutory and regulatory requirements, and 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 applied to any cash value remaining in the policy.

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

Transaction Testing Procedure: RNA discussed non-forfeiture procedures with Company personnel, and reviewed supporting documentation. In conjunction with new business testing, RNA reviewed 50 life insurance applications and sales files from the examination period, to ensure the applicant selected a non-forfeiture option. During testing of life insurance lapses and life insurance reinstatements, RNA sought any evidence of inappropriate application of the policyholders' selected non-forfeiture options.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 28.10 and 95.13.

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

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

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

- The Company mails annual reports to life insurance 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.
- The Company mails annual reports to all annuity contract holders, disclosing current contract current value and the projected value for the next year.
- The Company has written service standards to ensure the timely processing of annual 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 report disclosure procedures with Company personnel, and selected five life insurance and five annuity annual 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 policyholders and annuity contract holders with timely annual reports, in compliance with Company policies and regulatory requirements.

Recommendations: None.

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

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

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 175, §§ 9, 108 and 190B; M.G.L. c. 176D, § 3(7); 211 CMR 39.00, 42.06 and 65.07; Division Bulletins 2008-08 and 2008-18.

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

M.G.L. c. 175, § 9 and Division Bulletin 2008-18 require that the mortality table must be on a gender neutral or gender blended basis for any individual annuity, group annuity or pure endowment contract issued after January 1, 2009. M.G.L. c. 175, § 108 prohibits the issuance or delivery of any individual disability income or long-term care policy until rates have been on file with the Division for 30 days, or until the Division has approved the policy within that period. Pursuant to M.G.L. c. 175, § 190B, no mass marketed life insurance may be sold if the Commissioner finds that the total charges for the insurance are unreasonable in relation to the benefits provided. Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. 211 CMR 39.00 provides guidance for allowable mortality tables for annuities issued on or after January 2, 2009. 211 CMR 42.06 and 65.07 require that individual accident and health insurance, including individual long-term care insurance rates, be filed with the Division. Finally, Division Bulletin 2008-08 provides guidelines for rate and form filings.

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

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

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual long-term care sales from the examination period, to test Company rate classifications as part of the underwriting processes. Product filings, including rate-

setting processes, were reviewed for evidence that they were submitted to the Division. RNA selected five life insurance, three individual disability income, and two individual long-term care applications processed during the examination period, and re-rated the premium charged for each application.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses mandated underwriting disclosures for insurance policies, which are required in accordance with statutes, regulations and Company policy. Requirements to provide illustrations and other disclosures are included in Standard III-6. Replacement disclosures are included in Standards III-4 and III-5, and adverse underwriting notices are included in Standards VI-7 and VI-8.

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

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

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed company personnel with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, improper commission cutting or inducements. Finally, during testing of 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual long-term care sales from the examination period, RNA sought indications of rebating, improper commission cutting or inducements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 9, 24A, 108A, 108C, 108G, 108H, 120, 120A-120E, 122, 128 and 193T; M.G.L. c. 176D, § 3(7); 211 CMR 32.00; Division Bulletin 2008-18.

Objective: This Standard addresses unfair discrimination in underwriting.

M.G.L. c. 175, § 9 and Division Bulletin 2008-18 require that the mortality table must be on a gender neutral or gender blended basis for any individual annuity, group annuity or pure endowment contract issued after January 1, 2009. M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120A-120E, and 193T prohibit discrimination in the issuance of life insurance, disability income or long-term care insurance based on gender; and against blind persons, individuals with DES exposure, domestic abuse victims, persons with intellectual disability or physical impairment; as well as on the basis of genetic tests. Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between insureds of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, § 122 prohibits a life insurer from discriminating between white persons and persons of color as to premiums or rates charged. M.G.L. c. 175, § 128 states minors at age 15 may contract for life insurance in certain situations. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy, although some deviations in rates are expressly allowed. Finally, mortality tables must conform to the requirements set forth in 211 CMR 32.00.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements.
- Written underwriting guidelines are designed to assure reasonable consistency in classification and rating of risks.
- The Company's long-term care underwriting processing is outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate underwriting 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 individuals with responsibility for underwriting and classification of risks. RNA selected 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual long-term care sales from the examination period, to verify that the applications were approved by underwriting without discriminatory contract provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 22, 24, 108, 129, 132, 132B, 132G, 134, 139, 144A½, 192A, 193F, 193G and 193H; 211 CMR 42.06, 65.07, 95.06, 95.08 and 95.12; Division Bulletins 2001-05, 2008-08, 2009-07 and 2009-10.

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

Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance may be delivered to more than 50 policyholders until it has been on file with the Division for 30 days, or the Division approves the form during that time. Further, no life, endowment or annuity form may be delivered unless it complies with readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions. M.G.L. c. 175, § 24 permits the inclusion of accidental death and disability benefits as part of a life insurance policy. M.G.L. c. 175, § 108 sets forth a 30 day filing requirement, and identifies mandated provisions for individual disability income and long-term care insurance. M.G.L. c. 175, § 129 requires bold letters on the policy face page describing the contract. M.G.L. c. 175, § 132 sets forth a 30 day filing requirement, and identifies mandated provisions for life, endowment and annuity forms; M.G.L. c. 175, § 132B sets forth a 30 day filing requirement, and identifies mandated provisions for group annuity contracts; M.G.L. c. 175, § 132G sets forth a 30 day filing requirement, and identifies mandated provisions for variable annuity contracts; and M.G.L. c. 175, § 134 sets forth a 30 day filing requirement, and identifies mandated provisions for group life contracts. M.G.L. c. 175, § 139 permits the exchange or conversion of life or endowment insurance or an annuity contract at the policy owner's request. M.G.L. c. 175, § 144A½ defines required provisions in annuity contracts. M.G.L. c. 175, § 192A allows policies in loose leaf form. M.G.L. c. 175, §§ 193F, 193G and 193H permit the 30 day filing requirements to be extended, describe resubmission procedures for disapproved forms, and provide for an appeal procedure in the event that the insurer wishes to contest the Division's decisions. 211 CMR 42.06 and 65.07 include policy form requirements for individual disability income and long-term care insurance, including the proper form and content of such policies. 211 CMR 95.06, 95.08 and 95.12 include policy form requirements for variable life insurance, including the proper form and content of such policies. Division Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist. Division Bulletin 2008-08 sets forth guidelines for filing rate and form filings for all lines of business. Division Bulletin 2009-07 sets forth guidelines for group life and annuity form filings for contracts offering coverage to

discretionary groups. Finally, Division Bulletin 2009-10 sets forth guidelines for "war" exclusions in life insurance policies.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for filing policy forms, contract riders, and endorsements. RNA selected 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual long-term care sales from the examination period to test whether policy forms, contract riders and endorsement forms were approved by the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses whether the Company issues insurance policies accurately, timely and completely. See Standard V-8 for testing of reinstatements.

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

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

- The Company has written underwriting guidelines and procedures that require compliance with statutory requirements.
- Company underwriters review all life insurance, annuity and individual 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's practice is to issue life insurance, annuity and individual disability income policies and riders in a timely and complete manner.

- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company policies and procedures. The third party administrator has a quality assurance function for its long-term care business processes with results reported to the Company monthly. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.
- Life insurance, annuity, and individual disability income new business processing functions include a quality assurance review, during which the home office checks a portion of submitted business to evaluate the accuracy of the Company's new business processing. Errors or non-compliant application packages are returned to processing or to the producer as necessary.
- The Company conducts post sale policyholder service surveys of its life insurance customers. The Company's policy is to respond to survey questions and responses when a policyholder is unsatisfied, or does not understand his or her policy.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance. RNA selected 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual 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.

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.

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120A-120E and 193T; M.G.L. c. 175I, § 12; M.G.L. c. 176D, § 3(7).

Objective: This Standard addresses whether application denials are fair and whether proper notice for adverse underwriting decisions was provided by the Company.

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120A-120E and 193T prohibit discrimination in the issuance of life, disability income or long-term care insurance based on gender; and against blind persons, individuals with DES exposure, domestic abuse victims, persons with intellectual disability or physical impairment; as well as on the basis of genetic tests. M.G.L. c. 175I, § 12 states that an adverse underwriting decision for life, individual disability income or long-term care insurance applicants may not be based, in whole or in part, on a previous adverse underwriting decision, on personal information received from certain insurance-support organizations or on sexual orientation. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between

individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

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

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- The Company's life, annuity and disability income home office underwriting approval processes and procedures, training of home office underwriters and communication with producers are designed to prohibit unfair discrimination.
- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.

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

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the adverse underwriting notice be provided when the Company declines applications, elects to provide a reduced amount of coverage and when it offers coverage at higher than standard rates. From a list of declined applications, RNA tested five life insurance, four individual disability income and five individual long-term care underwriting declinations for evidence that the Company provided a timely adverse underwriting notice. Additionally, as part of new business testing, RNA noted 14 life insurance, six individual disability income and four individual long-term care underwriting applications where the Company either offered coverage with exclusions or offered coverage at higher than standard rates, and verified that the Company provided a timely adverse underwriting notice to the applicants.

Transaction Testing Results:

Findings: The adverse underwriting notice provided to one individual disability income applicant noted that the rated policy was a result of the "supplementary health statement" filed by the applicant with no specific reason noted. To comply with M.G.L. c. 175I, § 10, the adverse underwriting notice must give the specific reason for the adverse underwriting decision.

Observations: For the applications tested, except as noted above, the Company provided the adverse underwriting notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing adverse underwriting notices generally appear to be functioning in accordance with its policies, procedures and statutory requirements.

Required Actions: The Company shall ensure that all company adverse underwriting notices to applicants provide a specific reason for the Company's decisions as required by M.G.L. c. 175I, § 10.

Subsequent Actions: The Company has communicated to the disability income and life underwriting departments the requirement to provide a specific reason on adverse underwriting notices.

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

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

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

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual disability income or a long-term care policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years. M.G.L. c. 175, §§ 108A, 108C, 108G and 108H prohibit discrimination in the issuance or renewal of individual disability or long-term care insurance based on gender, and against those with physical impairment. In addition, discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists. M.G.L. c. 175I, § 10 provides guidance on the content and timely issuance of adverse underwriting notices. Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

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

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

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

Transaction Testing Procedure: RNA selected five life insurance and three individual disability income policies, which lapsed for non-payment during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

M.G.L. c. 175, § 108 (3)(a)(2) requires that an individual disability income or long-term care policy continue in-force subject to its policy terms by the timely payment of premium, and further requires that a policy is incontestable as to statements contained in the application after being in-force for two years. M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's life insurance 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 contract applications require submission of information regarding the applicant's employment status, occupation, monthly earnings, income, age, and family member information, to assist in determining the applicant's needs
- The Company's individual 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 insurance, annuity and individual disability applications to ensure that they are complete and internally consistent.
- The Company's long-term care new business and policy servicing processes are outsourced to an unaffiliated third party administrator. The contract contains performance standards requiring timely and accurate new business and policy servicing processes and compliance with all applicable laws and regulations. The Company monitors monthly activity reports to ensure compliance with Company policies and procedures. The third party administrator has a quality assurance function for its long-term care business processes with results reported to the Company monthly. Finally, the Company performs quarterly underwriting audits to evaluate compliance with the Company's underwriting guidelines.

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 50 life insurance, 25 annuity, 25 individual disability income, and 15 individual 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.

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

211 CMR 36.04-36.08.

Objective: This Standard addresses procedures to ensure that the Company does not use medical records indicating AIDS-related concerns to discriminate against life and individual disability income insurance applicants, without medical evidence of disease.

211 CMR 36.04 sets forth prohibited practices with respect to AIDS-related testing and information. Pursuant to 211 CMR 36.05, an applicant must give prior written informed consent before an insurer may conduct an AIDS-related test. 211 CMR 36.06 specifies that the insurer notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. 211 CMR 36.07 requires insurers to maintain applicant information as confidential. 211 CMR 36.08 prohibits insurers from requesting any information about the applicant's, policyholder's or beneficiary's sexual orientation.

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

- The life insurance and individual 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 individual 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 50 life insurance and 25 individual disability income sales from the examination period to verify that the Company obtained signed Massachusetts AIDS testing disclosure notices from the applicants when necessary. RNA looked for 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 company with the claimant is within the required time frame.

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

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

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

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

- Written policies and procedures govern the Company's claims handling processes.
- When a life insurance 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 one or two 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, 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. A phone call is made to the claimant after 10 days to ensure that the claimant received the claim packet, which includes the HIPAA authorization form, allowing the Company to communicate with the claimant's attending physician and to obtain his or her statement. Follow up letters are sent to the claimant every 30 days until the claim form is received. After 90 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.
- 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 to ensure compliance with the intercept program requirements 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 to the SIU and the legal department is made. 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. A checklist documenting the adjuster's review and approval is completed and included in the claim file. The Company's goal is to process in good order claims within two days for life policies and seven days for annuity contracts. Variable product death claims are processed on the day received. All claims receive a supervisory or peer review.
- Annuity and death claims are paid to the beneficiary according to instructions on the claim form. For payments less than $10,000 or if instructions are not made on the claim form, a check is sent and made payable to the beneficiary. For payments greater than $10,000, there are several

payment options. An interest-bearing retained asset account is one option. The checks for these accounts clear through State Street Bank, although the accounts are not FDIC insured bank accounts, and that lack of guarantee is fully disclosed. If the account balance drops below $1,000, the account is closed and the owner is mailed a check for the account balance. Prior to August 2009, the default option for amounts greater than $10,000 was the retained asset account. Life insurance beneficiaries can also elect a supplementary contract for the face amount of the policy. For supplementary contracts, an annual notification of the interest rate on the contract is provided to the contract owner, but a formal annual statement is not provided. Annuity contract beneficiaries have several available settlement options with some being unique to qualified plan contracts such as a spousal takeover or an internal and 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. Total disability is deemed to have occurred when the insured is 75% or more disabled, while partial disability is deemed to have occurred at less than 75% disabled. 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 as necessary. 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 which indicates that the insured is no longer disabled.
- Disability income claims adjusters have authority limits, and any claim exceeding those limits would be reviewed by a supervisor and documented in the Company's claims system, which automatically calculates the benefit amount using policy language information. If there is a waiver of premium on the policy and any life policies owned by the insured, the waiver of premium is processed in the Company's system by the claims adjuster. Most pending denials are also reviewed by a supervisor for concurrence. All denials are communicated in writing to the insured noting the reason for the denial. Also, the denial letter describes the appeal process should the claimant wish to file an appeal, which is generally based upon Employee Retirement Income Security Act guidelines. The appeal process includes an independent review by a newly assigned claims examiner who completes the review and sends a letter to the insured about the results of the appeal review. If the decision is unfavorable to the insured, the insured may seek a second appeal which is reviewed by a newly assigned claims adjuster and a claims committee. The decision of the claims committee is also communicated in writing to the claimant.
- On-going disability income claims management personnel 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, or a total and permanent disability. 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 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 payees for all claim disbursements are checked against the Office of Foreign Asset Control list as required by Law.
- The Company periodically surveys claimants to ask about their experience when filing a claim. The results are analyzed, and necessary follow up items are monitored.

- Long-term care claims are processed by a third-party administrator, which provides numerous management reports summarizing claim activity and time and service standards compliance. The third party administrator has a claims quality assurance function, and such monthly results are reported to the Company. Finally, the Company's risk management team performs an annual audit of the third party administrator's long-term care claims processing function.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period to determine whether its initial contact with the claimant was timely acknowledged. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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.

M.G.L. c. 176D, § 3(9)(c); Division Bulletin 2001-07.

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

Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. Division Bulletin 2001-07 requires that, upon receipt of a claim and proof of death, the Company is required to diligently search its records, and those of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim investigations and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, 20 paid and five pending disability income claims and selected complaints from 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. In reviewing one 2009 complaint, RNA noted that the Company closed a disability income claim when the claimant did not file a disability income claim in good order after several requests to do so. Much later, the claimant filed a complaint about the claim, and the Company reopened the claim for investigation. Once the claimant filed all necessary claim information, the Company paid the claim with 10% interest. Although the delay appears to be an isolated instance, the Company also updated its claim monitoring procedures to more closely monitor reopened claims.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim settlement practices and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from 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. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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.

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, 20 paid and five pending disability income claims and selected complaints from the examination period, to verify that claim correspondence was answered timely. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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 records.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim documentation practices and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to verify that claim files were adequately documented. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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 HIPAA), rules and regulations.

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, §§ 22I, 24D, 24F, 110F, 119B, 119C, 125 and 132C.

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

Pursuant to M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), respectively, unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation, and failure to effectuate prompt, fair and equitable settlement of claims in which liability has become reasonably clear. M.G.L. c. 175, § 22I allows insurers to deduct unpaid premiums from claim settlements. M.G.L. c. 175, § 24D requires interception of non-recurring life insurance payments for past due child support. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes when adjudicating life insurance claims. M.G.L. c. 175, § 110F requires that benefits due under a disability policy not be reduced by an increase in Federal social security benefits once payment of benefits has commenced. M.G.L. c. 175, §§ 119B and 119C require that prepaid premium be returned after death of the insured, and that once proof of death is provided, the Company must pay interest on claims beginning 30 days after the insured's death. M.G.L. c. 175, §§ 125 and 132C define situations where beneficiaries' and annuitants' creditors have claims to policy proceeds or prepaid premium.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim handling practices and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to verify that claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

Transaction Testing Results:

> *Findings*: None.
>
> *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 use of claim forms that are appropriate for the policy.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim handling practices and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to verify that claim forms were appropriate for the type of product. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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: This Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim reserving practices and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to evaluate claims reserving policies and procedures. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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.

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes for denied and closed-without-payment claims and obtained supporting documentation. There were no life insurance and annuity death claims denied in Massachusetts during the examination period, and no denied disability income claims were selected for testing. Finally, since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, policies and procedures for denied and closed-without-payment claims appear to be incompliance with 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.

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 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period to test the process for issuing claim checks. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's processes for issuing claim payment checks are appropriate and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to review claims handling practices. RNA verified the date the claims were reported, reviewed correspondence and investigative reports, and noted the whether the Company handled the claims timely and properly. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation to recover amounts due under the Company's 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.

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

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

M.G.L. c. 176D, § 3(7).

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes and obtained supporting documentation. RNA selected 20 paid and five pending life insurance and annuity death claims, and 20 paid and five pending disability income claims from the examination period, to verify that there is no unfair discrimination against claimants. Since the Company had no long-term care claims filed in Massachusetts during the examination period, no long-term care claims were available for testing.

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.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2009 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has made recommendations or the Division has set forth required actions to address various concerns in the areas of Marketing and Sales, Producer Licensing and Underwriting.

ACKNOWLEDGEMENT

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

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

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

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