



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

***Report on the Comprehensive Market Conduct Examination of***  
***New England Life Insurance Company***

***Boston, Massachusetts***

***For the Period January 1, 2018 through December 31, 2018***

**NAIC COMPANY CODE: 91626**  
**TAX ID/FEIN: 04-2708937**

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### APPENDIX A – LIFE AND ANNUITY EXAMINATION STANDARDS AND MASSACHUSETTS AUTHORITIES



**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 27, 2022

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

Dear Commissioner Anderson:

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

**NEW ENGLAND LIFE INSURANCE COMPANY**

at their home offices located at:

11225 North Community House Road  
Charlotte, NC 28277

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination (“examination”) of the New England Life Insurance Company (“Company” or “NELICO”), which is a Massachusetts domiciled company, for the period January 1, 2018 to December 31, 2018. The examination was called pursuant to authority in Massachusetts General Laws Chapter (“M.G.L. c.”) 175, § 4. The examination was conducted under the direction, management and control of the market conduct examination staff of the Division. Representatives from the firm of INS Regulatory Insurance Services, Inc. (“INS”) were engaged to complete the examination.

During the examination period, the Company sold individual accident, individual life, individual disability income, and individual annuity policies; however, they were no longer marketing or issuing new business in Massachusetts.

## EXAMINATION APPROACH

A tailored examination approach was developed using the guidance and standards of the *2018 NAIC Market Regulation Handbook* (“the Handbook”), the examination standards of the Division, the Commonwealth of Massachusetts’ insurance laws, regulations and bulletins, and selected Federal laws and regulations. All procedures were performed under the supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed in the Division’s separate financial examination of the Company. For those objectives, INS and the market conduct examination staff used procedures performed by the Division’s financial examination staff to the extent deemed appropriate to ensure that the market conduct objective was adequately addressed. The operational areas that were reviewed under this examination include company operations and management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims. This examination report describes the procedures performed in these operational areas and the results of those procedures.

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

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

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

## EXECUTIVE SUMMARY

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

The following is a summary of all findings and observations, related recommendations and required actions, and, if applicable, subsequent Company actions noted in this examination report. All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division's website at [www.mass.gov/doi](http://www.mass.gov/doi).

The examination resulted in one recommendation concerning company operations and management, one recommendation in complaint handling, and one for claims, and no recommendations regarding marketing and sales, producer licensing, policyholder services, or underwriting and rating.

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

### I. COMPANY OPERATIONS AND MANAGEMENT

#### STANDARD I-6

Observations: The Company did not perform an audit on any of its TPAs during the examination period.

Recommendations: The Company should initiate regularly scheduled audits of all its TPAs to monitor their business practices and to identify and correct potentially inappropriate actions.

### II. COMPLAINT HANDLING

#### STANDARD II-4

Findings: During the examination period, the Company received five direct complaints from consumers. In one of the five complaints tested, the Company did not respond timely. In one instance, the Company received the complaint on January 18, 2018, but did not respond promptly, which resulted in the policyholder filing suit. In addition, records provided indicated that the compliance department was not made aware of the complaint until March 21, 2018. This is a violation of M.G.L. c. 176D, §3(10).

Observations: The Company's policies and procedures do not include specific timeline requirements for handling complaints.

Recommendations: The Company shall communicate expectations for timely complaint resolution to its personnel and revise the policies and procedures for managing complaints to include timeliness.

### VII. CLAIMS

#### STANDARD VII-1

**Findings:** Of the 73 claims tested, examiners found one life file where the Company's initial contact with the claimant was not timely in violation of M.G.L. c. 176D, § 3(9)(b).

**Recommendations:** The Company should ensure claim files include all documentation and that all the documentation is accessible for regulators upon request. In addition, the Company should ensure initial contact with the claimant is timely and meets all applicable Massachusetts standards.

## **STANDARD VII-7**

**Findings:** Correspondence to the claimant referencing the wrong company was found in four of the 73 claims tested; one in the Life Sample and three in the Individual Disability Income ("IDI") sample. INS determined that the Company is not using the correct corporate name on the claim forms for the product offerings, which is a violation of M.G.L. c. 175, § 18.

**Observations:** Based on the Life and IDI claims review, the Company is not using the appropriate Company name on all its customer correspondence.

**Recommendations:** The Company shall make the appropriate changes so that all claim related correspondence includes the appropriate Company name.

## **COMPANY BACKGROUND**

NELICO is a wholly owned stock life insurance subsidiary of Brighthouse Holdings, LLC ("Brighthouse Holdings"), which is a wholly owned subsidiary of Brighthouse Financial. The Company is domiciled in the Commonwealth of Massachusetts, and is licensed to transact insurance business in, and is subject to regulation by, all 50 states and the District of Columbia. The Company does not currently write new insurance business. The Company has in-force variable and universal life insurance policies, fixed and variable annuities, participating and non-participating traditional life insurance policies, pension products, and group life and disability policies. The Company also has a small block of health insurance policies in-force. On August 4, 2017, MetLife, Inc. completed the spin-off and distribution of Brighthouse Financial, Inc. The three main operating entities within Brighthouse are Brighthouse Life Insurance Company, the flagship entity within the organization, Brighthouse Life Insurance Company of NY (the New York marketing arm), and New England Life Insurance Company, which is expected to be used for diversification purposes, and in a reinsurance capacity.

The Company is headquartered in Boston, Massachusetts, and domiciled in Massachusetts. As of December 31, 2018, NELICO had \$8.5 billion in admitted assets and \$210.6 million in surplus. For the year ended December 31, 2018, the Company's premiums were \$140.6 million, and net income was \$92.7 million. The Company is rated A (Excellent) by A.M. Best Company.

The following are the 2018 direct premium and annuity considerations (which include first-year and renewal business) written by the Company in Massachusetts by annual statement line of business:

REPORT OF THE COMPREHENSIVE MARKET CONDUCT EXAMINATION OF  
NEW ENGLAND LIFE INSURANCE COMPANY

Massachusetts Direct Premium and Annuity Considerations in 2018	
Individual Life, Health & Accident Insurance Premiums	\$132,130,590
Individual Annuity Considerations	(\$692,418)
Group Annuities, Accident & Health	\$883,862
Total	\$132,322,034

The following summarizes the approximate life insurance and annuity death claims and accident and health claims paid in Massachusetts in 2018 based on the Massachusetts Annual Statement Page:

Massachusetts Claim Benefits Paid in 2018	
Life Insurance and Annuity Death Benefits Paid	\$20,942,638
Accident and Health Benefits Paid	\$377,853
Total	\$21,320,221

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

## I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company has an Internal Audit Department (IA) led by a Chief Auditor (CA) who performs risk assessments regarding company functions outlined in the Companies audit plan.
- The CA is responsible for recommending the appointment of the Company's external auditor, evaluating performance, and maintaining oversight and coordination on the scope of such audits.
- The CA has a direct and independent reporting relationship to the Audit Committee of the Board of Directors (Audit Committee) and reports administratively to the Chief Executive Officer (CEO).
- The IA Department reports to the Board at least four times per year.
- The IA Department works closely with the Brighthouse Risk Management Department.
- The Audit Plan is reviewed and approved quarterly by the CA and reviewed quarterly by the Audit Committee.
- Audit Reports are issued to senior management and highlight the issues identified and required action plans.
- The IA Department adheres to a five-year risk-based cycle audit plan to ensure that each auditable entity of the organization is subject to coverage on an appropriate frequency for its assessed risk level. Critical-risk and high-risk auditable entities are reviewed annually, medium-risk auditable entities are reviewed every three years and low-risks auditable entities are reviewed every five years.
- The IA Department utilizes the Brighthouse Risk Rating criteria to assess priority, including the severity and frequency of regulatory, reputational, financial, and customer risks.
- The Compliance department conducts compliance reviews that encompass applicable legal, regulatory, broker-dealer, and reporting 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:* INS reviewed a list of 95 internal audits completed between 2013–2018. The list was comprehensive and addressed the most critical operational and financial areas.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The Company's Internal Audit function is providing appropriate oversight and appears to communicate issues effectively throughout the organization. The only issue noted was TPA auditing, as no audits were completed during the examination period. See Standard I-6



Recommendations: None.

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

No work was performed for this Standard. All required activity for this Standard was included in the scope of the 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.**

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

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

- The Company has a written anti-fraud plan and policy (Brighthouse Financial Anti-Fraud Plan).
- Human resources complete background checks for all incoming associates, which includes criminal history checks.
- New employees must take an online fraud training module that educates employees on defining and detecting different types of fraud and discusses their role in reporting suspected fraud.
- Employees may report suspected fraud cases by calling the Companies Fraud Hotline, sending an email to a dedicated email address monitored by SIU, or directly to the Chief Compliance Officer.
- The Company has a full-time, Special Investigations Unit (SIU) within the Compliance department dedicated to the prevention, detection, and handling of fraudulent activities.
- Potential fraud activity is tracked by SIU and investigated with the assistance of other departments. Activity is reported to regulators and law enforcement as necessary.
- Regulatory changes that impact the anti-fraud initiative are communicated through the Legal or the Compliance departments.
- The SIU provides periodic updates to other Brighthouse risk management functions to share information and enhance fraud awareness protocols.
- Vendors have procedures in place to ensure the escalation and detailed reporting of potential fraud to the Company.

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: The examiners did not perform transaction testing, however, they did review the Brighthouse Financial Anti-Fraud Plan, as well as other documented processes and procedures related to anti-fraud.

Transaction Testing Results:

Findings: None.

Observations: The examiners' review of the Company's Plan found that the policies and procedures appear to be sufficient and comply with 18 U.S.C. §1033.

Recommendations: None.

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

No work was performed during this market conduct examination.

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

Controls Assessment: The examiners noted the following controls in the review of this Standard.

- The Company works with a licensed TPA to handle its Massachusetts block of business.
- There is an in-house team that is responsible for the functions, not outsourced to the TPA. This team is responsible for the oversight of the TPA.
- The Company uses a systematic approach to monitoring/auditing compliance, including SLA monitoring, trend analytics, customer complaint analysis, and call monitoring.
- The Company completed focused disability audits between 2014-2016 to ensure compliance with policy changes such as insured requested cancellations and associated premium refunds. There has not been an audit of the disability TPA since 2016.

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: The examiners interviewed Company management about the use of TPA's to perform Company functions. The examiners also reviewed a list of the Company's completed audits and contracts in effect with its TPA.

Transaction Testing Results:

Findings: None.

Observations: The examiners note there has not been an audit of the TPA during this examination period. The Company should consider conducting annual TPA audits to ensure the TPA is performing following contracts and expectations. A recommendation for annual audits of the TPA's is in Standard I-6.

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

*Controls Assessment:* See Standard I-5.

*Controls Reliance:* See Standard I-5.

*Transaction Testing Procedure:* The examiners interviewed Company management and staff about the use of TPA's and the oversight process. The examiners reviewed a list of the Company's completed Internal Audit reports as well as TPA contracts. Appropriate oversight was considered in the testing of other standards during this examination as well.

*Transaction Testing Results:*

*Findings:* The Company advised the examiners that the Company did not conduct audits of any Third-Party Administrator (TPA) during the examination period

*Observations:* The examiners noted a contract with a TPA that services NELICO's business in Massachusetts which contains an audit provision. However, the Company did not perform an audit during the examination period. Annual audits should be considered by the Company as discussed in Standard I-6.

*Recommendations:* The Company should initiate regularly scheduled audits to ensure the TPA is performing in accordance with the contract and expectations.

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

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

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

- The Company has adopted a conservative approach related to the retention of documents and has not destroyed any documents since the Brighthouse transition occurred.

*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:* The examiners reviewed the Company's record retention policy and tested the Company's compliance with such policies and procedures while testing other Standards as part of this examination.

Transaction Testing Results:

Findings: None

Observations: The Company has a records retention policy in place. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

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

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

Controls Assessment: No control assessment was performed regarding this Standard.

Controls Reliance: Not applicable

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

Transaction Testing Results:

Findings: None.

Observations: The examiners' review of the Company's annual statement indicated that the only new business premiums reported were for the lines of business the Company was licensed to write during the examination period.

Recommendations: None.

<b>Standard I-9. The regulated entity cooperates on a timely basis with INS performing the examinations.</b>
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Objective: This Standard is concerned with the Company's cooperation during the examination. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: The Companies ability to respond timely and provide all information requested.

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

*Observations:* During the examination, the Company was responsive to the needs of the examiners but was unable to respond to several requests promptly. Further, several of the requested population data were not provided as initially requested, which resulted in additional requests.

*Recommendations:* None.

<b>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.</b>
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*Objective:* This Standard addresses the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of individuals. Testing of compliance with adverse underwriting notice requirements is in Underwriting and Rating Standard VI-7.

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

- The Privacy Notice states that certain types of nonpublic personal financial and health information are collected from third parties and provides examples of each. Further, the Privacy Notice indicates that the Company may disclose specific information in some cases and that a right of access and correction exists.
- The Privacy Notice is sent annually to all policyholders and upon policy reinstatement.
- The Company does not share nonpublic personal financial information with other financial service providers and non-financial companies for marketing purposes. Thus, the Company is not required to offer an opt-out for such information sharing.
- Company policy allows for sharing customer and personal information with affiliates but does not share such information with non-affiliates.
- Company policy allows policyholders to opt-out of sharing a policyholder's information with the Company affiliates and unaffiliated business partners as part of a joint marketing arrangement.
- The Company has procedures in place regarding safeguarding personal information, and employees, agents, and vendors must follow these procedures.
- The Company has implemented information technology security practices to safeguard customer, personal, and health information.
- The Company requires all new employees to complete an online privacy training module and current employees to complete periodic online privacy training modules. The Company electronically monitors employee completion of such training modules.
- The Company's internal audit function conducts periodic reviews of privacy policies and procedures.
- The Compliance Department's Distribution Compliance Unit performs sales office reviews that include steps to ensure that privacy policies and procedures are followed.

*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:* The examiners interviewed Company personnel with responsibility for privacy compliance and reviewed documentation supporting its privacy policies and procedures to evaluate compliance with M.G.L. c. 1751, §§1-22 and Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313.

Transaction Testing Results:

Findings: None.

Observations: The Company is not writing new business and is not actively marketing or selling products in Massachusetts. As such, no underwriting of new products is occurring in Massachusetts. The remaining privacy policies and procedures appear to comply with M.G.L.C. 1751, §§ 1-22 and Gramm-Leach-Bliley, Act §§ 502,503,504 and 505 and CFR Part 313. The Company's privacy practices appear to minimize any improper intrusion into policyholders' privacy and are disclosed to policyholders in accordance with the Company's policies and procedures.

Recommendations: None.

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

Details of the Company's controls and testing related to privacy matters were included in the Scope of Standards I-10 and I-12 through I-16.

**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.**

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

**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.**

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

**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.**

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

**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.**

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

**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.**

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

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

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

**Standard I-18. All data required to be reported to departments of insurance is complete and accurate.**

The examiners did not perform any work for this Standard. In addition, New England Life Insurance Company did not market any products during the examination period and is no longer actively marketing products that require specific reporting to the Division.

## II. COMPLAINT HANDLING

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

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

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

*Controls Assessment:* The examiners noted the following controls in the review of this Standard, and Standards II-2 through II-4:

- As required by M.G.L. c. 1760, Section 3(10), the Company has written policies and procedures to manage the complaint handling process for life and annuity complaints. In addition, the disability income TPA also has written policies and procedures in place.
- The Company's definition of the term "complaint" satisfies the statutory requirement and considers any communication from a customer or someone authorized to act on their behalf.
- The Company provides consumers with contact information on various written communications, including policies, contracts, annual statements, and on the Company's website.
- All administrative business units, Third Party Administrators, and Third-Party Firms must promptly notify Compliance of any Customer Complaint by emailing complaints@brighthousefinancial.com or by mail to the BrightHouse Financial Complaints Department.
- All NELICO complaints are entered and tracked in an electronic database. Complaints are recorded in a consistent format related to the appropriate statute.
- The TPA's Customer Relations unit manages the TPA's complaint process and maintains a central log of complaint activity. The Company retains all complaint records.
- Although the Massachusetts statutes and regulations do not define or require a specific time for processing complaints, the Division has established a practice of requiring that insurers respond to complaints received from the Division within 14 calendar days from the date they receive notice of a complaint.
- The Company monitors complaint handling activity through monthly management reports, which include complaint activity and trends.
- The Company performs a quality assurance review on 100% of work performed by new hires and associates in training until supervisory personnel see an acceptable level of proficiency in decision making and letter writing.

*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:* The examiners interviewed Company management and staff responsible for complaint handling. All five complaints received by the Company during the examination period were reviewed for completeness including whether the complaint had been recorded in the Company's standardized format. The Company's complaint register was also compared to the Division's complaint records to ensure that the Company's records were accurate.



Transaction Testing Results:

Findings: None.

Observations: The Quality Assurance (QA) review performed by the Company does not include the disability complaints handled by the TPA.

Recommendations: The Company should consider enhancing its QA process to ensure compliance with this standard.

<b>Standard II-2. The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.</b>
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Objective: This Standard addresses whether the Company has adequate complaint handling procedures and communicates those procedures to policyholders and consumers. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: The examiners interviewed Company management and staff responsible for complaint handling. During the examination period, the Company received five complaints and no Division complaints. The examiners reviewed the complaint files to determine whether the Company responded to each complaint timely and had all the necessary documentation to support the handling of the complaint.

Transaction Testing Results:

Findings: None.

Observations: Based on INS' review of the complaints handled and the review of the complaint handling requirements, the Company has adequate complaint procedures in place and communicates those procedures to its policyholders.

Recommendations: None.

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: The examiners interviewed Company management and staff responsible for complaint handling. The complete complaint files were requested and reviewed to determine whether the Company fully addressed the issues raised.

Transaction Testing Results:

Findings: None.

Observations: Four complaints were reviewed and handled appropriately. The Company only requires marketing complaints to be acknowledged within 48 hours of receipt. Complaints classified as administrative are not acknowledged. The Company should consider aligning its policies with regards to the marketing and administrative complaints so that they are both acknowledged within 48 hours.

Recommendations: None.

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: The examiners interviewed Company management and staff responsible for complaint handling. In the complaint review, the examiners considered timeliness, completeness and whether all the necessary documentation to support the handling of the complaint was appropriate.

Transaction Testing Results:

Findings: During the examination period, the Company received five direct complaints from consumers. In one of the five complaints tested, the Company did not respond timely. In one instance, the Company received the complaint on January 18, 2018, but did not respond within the requested time frame, which resulted in the policyholder filing suit. In addition, records provided indicated that the compliance department was not made aware of the complaint until March 21, 2018. This is a violation of M.G.L. c. 176D, § 3(10).

Observations: The Company's policies and procedures do not include specific timeline requirements for handling complaints

Recommendations: The Company shall clearly communicate and execute on expectations for timely complaint resolution to its personnel.

Subsequent Company Action: The Company provided a response to this finding, and it was noted. The Company indicated a response was provided to the complainant on January 29 and January 30, 2018; however, the examiners found the complaint was not sent to the compliance department for review until March 21, 2018.

### III. MARKETING AND SALES

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

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

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

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

- Written policies and procedures govern the advertising and sales material process.
- All Company-wide advertising and producer generated material is subject to review and approval by members of a team comprised of insurance, tax, legal, and compliance specialists.
- Marketing materials are approved for a specific period and include the expiration date within the approval number on each document.
- Management performs a periodic quality assurance review to validate that approved materials comply with applicable laws, rules, regulations, and company policies. This review is documented on a standardized form and may target the pre- or post-approval process.
- All advertising and sales materials are reviewed electronically in a consistent format through online submission and tracking.
- The Company discloses its name and address on the Company's website.
- Sales representatives annually must certify that they will continue to abide by "Communications with the Public" policies and procedures.
- Sales representatives certify that they have received, read and have access to the Compliance Manual. In addition, they affirm that they understand and agree to abide by the rules and requirements described in the Compliance Manual. This manual includes a chapter on "Communications with the Public" and "Training and Continuing Education."
- Compliance Orientation Training and Certification covers compliance fundamentals, including sales material, and all new representatives must complete training within 90 days of appointment.

*Controls Reliance:* The examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

*Transaction Testing Procedure:* The examiners reviewed the Company's Advertising and Sales Materials review policies and procedures for compliance with applicable statutes. Examiners did not perform transaction testing due to the limited number of new policies issued within the examination experience period.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* The Company has policies and procedures in effect to comply with Massachusetts laws and Division bulletins.

Recommendations: None.

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

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

- The Company's Compliance Manual includes the Company's training requirements mandated by federal and state regulators.
- Producers must complete the requisite training on time or face disciplinary action, which may include termination.
- Company sales representatives must annually certify that they abide by the Company's "Communications with the Public" policies and procedures.
- Sales representatives must certify that they have received, read, and have access to the Compliance Manual and agree to comply with the manual's contents. The Compliance Manual includes chapters on "Communications with the Public" and "Training and Continuing Education."
- Compliance Orientation Training and Certification covers compliance and sales fundamentals. All new representatives must complete the training.

Controls Reliance: The examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The examiners reviewed the Company's Compliance Manual for compliance with applicable statutes. The examiners did not perform detailed transaction testing due to the limited number of policies issued within the examination experience period.

Transaction Testing Results:

Findings: None.

Observations: The Company has policies and procedures in effect to comply with applicable statutes, rules and regulations.

Recommendations: None.

<b>Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.</b>
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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. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company maintains an ongoing training program with its producers.
- Written policies and procedures require that all communications to career and independent

producers be submitted, reviewed and approved by a multi-disciplined team of insurance, tax, legal and compliance specialists.

Controls Reliance: The examiners tested the Company's controls by reviewing policies and procedures.

Transaction Testing Procedure: The examiners reviewed the Company's Compliance Manual and Sales Material Review manual for compliance with applicable statutes. The examiners did not perform detailed transaction testing due to the limited number of policies issued during the examination experience period.

Transaction Testing Results:

Findings: None.

Observations: The Company has policies and procedures in effect to comply with applicable statutes, rules and regulations.

Recommendations: None.

<b>Standard III-4. Company rules pertaining to producer requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.</b>
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Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement-related forms. See Appendix A for applicable statutes, regulations and bulletins.

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

- The new business application includes the appropriate replacement policy wording and requires an acknowledgment from both the applicant and producer. This procedure applies to both life and annuity policies.

Controls Reliance: The examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The examiners reviewed the new business population comprised of one life policy and five annuities. Two of the five annuities were beneficiary continuance items and considered to be new business. The examiners reviewed each of the sampled items to determine whether the policy involved a replacement. The four new business items examined did not involve a replacement, and therefore, no policies needed testing to assess compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company's annuity and life applications contain questions designed to identify existing policies that may be replacements. The agent and applicant completed the replacement-related questions in all four of the new business items reviewed. The Company indicated that no life or annuity products were issued because of a replacement transaction in 2018.

Recommendations: None.

**Standard III-5. Company rules pertaining to replacements are in compliance with applicable statutes, rules and regulations.**

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

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

- The application and underwriting process for a new policy requires that the applicant and producer answer whether the new policy will replace an existing policy. This process applies to both life and annuity policies.

Controls Reliance: The examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation and/or conducting transaction testing.

Transaction Testing Procedure: The examiners reviewed the new business population comprised of one life policy and five annuities. Two of the five annuities were beneficiary continuance items and considered to be new business. The examiners reviewed each of the sampled items to determine whether the policy involved a replacement. The four new business items examined did not involve a replacement based upon the responses to the replacement-related questions on the application.

Transaction Testing Results:

Findings: None.

Observations: Although the examiners did not test any policies to determine compliance with this Standard, they did note that the Company's annuity and life applications contain questions designed to identify existing policies that could result in a replacement. The agent and applicant completed the replacement-related questions in all four of the new business items reviewed. In addition, the Company indicated that they did not issue any life or annuity products because of a replacement transaction in 2018. As a result, the Company offered no products available for purchase as a replacement for existing life or annuity coverage.

Recommendations: None.

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

Objective: This Standard is concerned with ensuring that policy illustrations, policy summaries and buyer's guides contain all required information and are timely provided to applicants. See Appendix A for applicable statutes, regulations and bulletins.

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

- Illustration software is designed by the Company and sent to producers after a significant review and testing process.

- Procedures are in place regarding the issuance of illustrations at the time of application as required by 211 CMR 28.09. The producer and the insured must sign the illustrations.
- Variable life illustrations and applications collectively meet the requirements of 211 CMR 95.11.
- Producers supply life policy applicants with a Life Buyer's Guide as required under 211 CMR 31.05.
- The Company has procedures in place regarding producer disclosures as required under 211 CMR 31.07.
- The Company has procedures regarding variable annuity products, which includes providing a prospectus containing illustrations and an information brochure regarding the purchase of annuity products.

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

Transaction Testing Procedure: The Company is not actively marketing or selling products in Massachusetts. As such, there was only one life policy underwritten during the experience period for an existing group account that may select a NELICO product. The examiners further note that the one life insurance policy issued during the review period was a company-owned life insurance policy. The policy reviewed did not entail medical underwriting and was a guaranteed issue.

Transaction Testing Results:

Findings: None.

Observations: One policy was written during the experience period and was a guaranteed issued group policy.

Recommendation: None.

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

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

Controls Assessment: The examiners noted the following controls in the review of this Standard and Standard III-II through III-13:

- The Company's agent training curriculum contains modules regarding the suitability of annuities and insurance products for applicants.
- The Company's annuity applications contain questions to identify an applicant's financial needs and the product's suitability. Agents must complete and sign an annuity suitability questionnaire.
- The Compliance Department conducts sales office risk-based compliance reviews that encompass applicable legal, regulatory, broker-dealer, and reporting company policies and procedures. Compliance Department procedures include face-to-face interviews with selected field representatives, management and administrative personnel, and procedural/system reviews.

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

Transaction Testing Procedure: The examiners reviewed a population of three new business variable annuity transactions to determine compliance with suitability requirements.

Transaction Testing Results:

Findings: None.

Observations: The agents completed the required suitability forms for the three variable annuity policies reviewed.

Recommendations: None.

<b>Standard III-8. Pre-need funeral contracts or pre-arrangement disclosures and advertisements are in compliance with statutes, rules and regulations.</b>
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The examiners did not perform work under this market conduct examination as the Company did not offer products related to this Standard during the examination period.

<b>Standard III-9. The Companies policy forms provide required disclosure material regarding accelerated benefit provisions.</b>
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Objective: This Standard is concerned with whether the Company maintains suitability or needs assessment standards for its products. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company uses policy and contract forms designed to meet statutory and regulatory requirements and files these with the Division for approval prior to use.
- The Company provides annuity applicants a disclosure statement regarding early withdrawals and the waiver of surrender charges at the time of application as required per 211 CMR 55.06(I)(b).

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: The Company does not offer life policy accelerated benefits in Massachusetts. The examiners reviewed the annuity disclosure statement regarding early withdrawals to ensure that it meets the requirements of Massachusetts laws. As part of annuity new business testing, the examiners reviewed three new business applications to ensure that the applicant provided and signed the disclosure statement.

Transaction Testing Results:

Findings: None.



Observations: Based upon review of annuity applications, the Company provides a disclosure statement to applicants, and complies with 211 CMR 55.11.

Recommendations: None.

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

The examiners did not perform any work under this market conduct examination as the Company did not offer products related to this Standard during the examination period.

**Standard III-11. Policy application forms used by depository institutions provide required disclosure material regarding insurance sales.**

Details of the Company's controls and testing related to this standard are included in the Scope of Standards III-7.

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

Details of the Company's controls and testing related to this standard are included in the Scope of Standards III-7.

**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.**

Details of the Company's controls and testing related to this standard are included in the Scope of Standards III-7.

**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.**

The examiners did not perform work under this market conduct examination as the Company did not offer the product covered by this Standard during the examination period.

**Standard III-15. The insurer's underwriting requirements and guidelines pertaining to travel are in compliance with applicable statutes, rules and regulations.**

Objective: This Standard is concerned with whether the Company's underwriting requirements regarding travel comply with Massachusetts requirements. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company's policies and procedures provide the necessary oversight regarding the consideration of travel as a part of the underwriting process.
- To better determine which products are best suited for an applicant, the Company uses standardized applications to gather information consistently for each product. The information gathered through the application is designed to determine the applicant's needs and determine underwriting risk.
- The Company's life underwriting guidelines meet the requirements of M.G.L. c. 175, § 122A.

Controls Reliance: The examiners tested the Company's controls by reviewing policies and procedures, reviewing available documentation, and conducting transaction testing.

Transaction Testing Procedure: The Company is not actively selling new business. As such, the Company only received one life application during the review period and no disability applications. Therefore, the examiners reviewed the one life application to determine compliance with this standard.

Transaction Testing Results:

Findings: None.

Observations: The Examiner's testing of the one life policy revealed that the application contained the appropriate wording and complied with M.G.L. c. 175, § 122A.

Recommendations: None.

#### IV. PRODUCER LICENSING

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

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

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

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

- The Company's appointment procedures comply with statutory requirements M.G.L. c. 175, § 162I and 162S. The statutes state that a producer must be licensed. An insurer seeking to appoint a licensed producer as an agent must do so within fifteen days from when the parties execute the producer's contract or when the first policy application is received.
- The Corporate Licensing and Registration Unit (CLR) maintains an automated producer database that tracks all producer licenses, appointments, and terminations.
- The Company requires that producers hold a Massachusetts license before entering into an agent contract with the Company.
- All appointed agents are required to enter a written contract with the Company before selling business.
- The Company maintains fidelity bond coverage, which covers the actions of its agents. Further, the Company encourages its appointed agents to maintain E&O coverage.
- The Company requires that all newly appointed agents complete approved required training prior to selling business.
- Company policy requires completed criminal and financial background checks for all potential producers.
- An independent vendor performs the background checks. Background check results that meet predefined criteria such as an active bankruptcy are referred to CLR and Corporate Compliance for evaluation.
- The Company completes a periodic reconciliation of its agent appointment records with those of the Division.
- The Company's policy is to notify the Division of all agent terminations and the reason for any "for cause" termination.

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

Transaction Testing Procedure: The examiners interviewed Company employees responsible for producer contracting, processing agent appointments and terminations, and the reconciliation of agent records. The examiners also reviewed the appointed agents that were processed during the examination period, to verify that the Company's records reconciled with the Division's records.

Transaction Testing Results:

Findings: None.

Observations: The Company complies with M.G.L. c. 175, §§ 162I and 162S; 18 U.S.C. § 1033.

Recommendation: None.

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

Objective: This Standard addresses the Company's appointment practices, including background checks and continuing education requirements. See Appendix A for applicable statutes, regulations and bulletins.

Refer to IV-1 for work related to this Standard.

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

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

Controls Assessment: The examiners noted the following controls in the review of this Standard and Standard IV-4 and Standard V-5:

- The Company maintains an automated producer database that tracks all appointments, terminations, and other licensing changes related to its agency force.
- The Company's Internal Audit Department and Compliance Department perform periodic reviews regarding agent activities. These reviews may identify areas of concern that may result in a "for cause" termination.
- The Company's policy and practice are to notify the Division of agent terminations as required by statute.
- The Company's policy and practice are 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, complying with statutory and contractual requirements.

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

Transaction Testing Procedure: The examiners interviewed Company employees responsible for processing producer terminations and reviewed 17 terminations occurring during the examination period to determine whether the Company gave timely notice of the terminations to the Division and the producers. In addition, the examiners reviewed two Internal Audit reports regarding licensing functions.

Transaction Testing Results:

Findings: None.

Observation: The Company's termination policies and procedures are compliant with M.G.L. c. 175, §§ 162R, 162T, and 163.

Recommendations: None.

<b>Standard IV-4. The regulated entity's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.</b>
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Objective: This Standard addresses the Company's policy for ensuring that agent appointments and terminations do not unfairly discriminate against policyholders. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard IV-I and IV-3.

Controls Reliance: Refer to Standard IV-1 and IV-3.

Transaction Testing Procedure: The examiners interviewed individuals with responsibility for producer contracting, appointments, and terminations. The examiners also selected active agents and 17 terminations from the Company's records during the examination period to test for any evidence of unfair discrimination against policyholders.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard IV-5. Records of terminated producers adequately document the reasons for terminations.</b>
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Objective: This Standard addresses the Company's documentation of the reasons for agent terminations. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: Refer to Standard IV-3.

Controls Reliance: Refer to Standard IV-3.

Transaction Testing Procedure: The examiners interviewed Company employees with responsibility for processing agent terminations. The examiners reviewed the population of 17 agent terminations from the examination period to test for adequate documentation of termination reasons. In addition, the examiners verified the Company notified the Division of agents terminated for cause and why.

Transaction Testing Results:

Findings: None.

Observations: Termination reasons were adequately documented, and none were “for cause”. The Company has a process for communicating terminations and reasons to the Division.

Recommendations: None.

<b>Standard IV-6. Producer account balances are in accordance with the producer’s contract with the insurer.</b>
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Objective: The Standard is concerned with whether the Company's contracts with producers limit excessive balances with respect to handling funds. See Appendix A or applicable statutes, regulations and bulletins.

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

- Debit balances may be reduced by retaining earned commissions, mitigating the possibility for excessive balances owed by producers.
- The Company has procedures to pay producer commissions following written producer contracts. Commissions are paid as earned, and producers are not entitled to commissions on lapsed policies.
- The Company provides producers with a commission statement of new and renewal premium commissions and asset trails and includes any adjustments.
- The Company actively monitors producers' 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: The examiners 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 debit account balances remain reasonable.

Recommendations: None.

## V. POLICYHOLDER SERVICES

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

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

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

Controls Assessment: Examiners noted the following during the review of this Standard:

- Individual life and disability income policyholders may elect to pay premiums by direct bill quarterly, semi-annually, or annually.
- The Company's billing systems generate and mail billing notices for individual life policies that provide the required statutory notice as required by M.G.L. c. 175, § 110B.
  - Life premium bills are sent 20-30 days before the due date.
  - When the Company does not receive premiums by the due date following action is triggered. The Company mails a first reminder notice to the policyholder approximately 18 to 31 days after the due date and, if necessary, a second notice about 62 to 90 days after the premium due date. These notices mention that the policy will lapse if the payment is not received.
  - If the policyholder does not make a payment, the policy may remain in-force, lapse, or be eligible for a non-forfeiture option, depending on policy provisions. The Company sends a final notice of lapse and a reinstatement application to the policyholder.
- The Company has written service standards regarding prompt processing of premium billings, reminders, and lapse notices.

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

Transaction Testing Procedure: The examiners discussed billing procedures with Company personnel and obtained supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon the Life Policy review and testing results, the examiners noted that the Company gave adequate notice prior to lapse in compliance with statutory requirements for each life billing notice reviewed. Also, premium billing notices are mailed to the policyholder with sufficient advance notice and included required disclosure of potential lapse in the event of non-payment.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures to ensure that policyholder cancellation requests are processed timely. See Appendix A for applicable statutes, regulations and bulletins.

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

- Upon request to cancel an insurance policy, the Company sends the policyholder required forms to sign. The Company also allows verbal requests for transactions under specific amounts after the policy owner has correctly answered security screening questions. The cancellation is effective on the date the Company receives a signed form, and a check for any return premium due is sent to the policyholder. This process is in effect to meet the requirements of M.G.L. c. 175, § 187B and M.G. L. c. 175, § 187C.
- The Company has written service standards to ensure the timely processing of policyholder service transactions. The Company returns premium refunds and surrenders/withdrawals to the policyholder within five days of receiving requests.

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

Transaction Testing Procedure: The examiners discussed insured-requested cancellation procedures with Company personnel and obtained supporting documentation. Also, the examiners selected a sample of disability income policy insured-requested cancellations, life policy surrenders, annuity surrender, and annuity withdrawal to ensure that the Company processed the transactions accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the life and annuity insured-requested cancellations reviewed were processed accurately and timely in compliance with M.G.L. c. 175, § 187B and M.G. L. c. 175, § 187C.

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 responses to customers. Complaints are covered in the Complaint Handling Section, and claims are covered in the Claims Section. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has product-specific call centers for the annuity, disability income, and life products.
- The customer service staff responds to phone calls and written correspondence from policyholders. The staff has access to computer systems to view contract history, policy values, and other



information to assist policyholders. Certain representatives who have the FINRA Series 6 designation handle fund transfers.

- The Company has written service standards to ensure the timely processing of policyholder service transactions.
- The Company has procedures regarding the proper handling of customer complaints.

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

Transaction Testing Procedure: The examiners discussed correspondence procedures with Company personnel, obtained supporting documentation, and reviewed policyholder requests to ensure that any necessary responses were timely. The examiners also evaluated the Company's efforts to correspond with policyholders in various complaint handling and claims standards.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to respond timely to customer inquiries, including complaints, claims, and policyholder requests as necessary.

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 affected policyholders.**

The examiners did not perform any work under this market conduct examination as the Company did not enter into such agreements covered by this Standard during the examination period.

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

Objective: This Standard addresses the procedures for processing changes to insurance accounts after policy issuance. Standard VI-6 includes objectives for policy issuance. Standard V-1 includes testing for billing transactions, and Standard V-2 reviews insured-requested cancellations. Standard V-7 has the return of premium testing. See Appendix A for applicable statutes, regulations, and bulletins.

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

- Company policy allows beneficiary and ownership change requests to be effective upon signing and mailing an adequately completed form signed by a witness as required by M.G.L. c.175, §123.
- Life and annuity information is imaged into a workflow system and then put into a queue for handling. All items are date/time stamped and are subject to Service standards.
- Annuity correspondence is imaged on the date of receipt and processed timely.
- The Company procedures regarding address changes include sending a confirmation notice to the last known address.

- Company policy requires a signed written request regarding policy loan requests. Loan requests, however, under certain monetary thresholds, can be made verbally.
- The annual interest rate for non-variable life policy loans is under 8% as required under M.G.L. c. 175, § 142.
- The Company developed procedures regarding policy loans on variable life policies to comply with 211 CMR 95.08.
- The Company has procedures that provide written notice to disability income policyholders before expiration when the insured reaches age 65 as required under M.G.L. c. 175, § 110H.
- The Company gives written notice to life policyholders prior to policy maturity and advises them of various settlement options.
- Life Policies allow for conversions and Company procedures to comply with M.G.L. c. 175, § 139, which limits face amounts of conversions for rewritten policies with an effective date before the conversion application date.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.

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

Transaction Testing Procedure: The examiners discussed policy change and loan processing procedures with Company personnel and obtained supporting documentation. A judgmental sample of five insured requested policy change transactions were reviewed that included two address changes (both life policies), one benefit continuation (annuity contract), one increase in benefit amount (disability income) and one fund allocation change (variable annuity). The examiners also selected a judgmental sample of three life policy loans and two annuity contract loans for review.

Transaction Testing Results:

Findings: None.

Observations: The Company processes policyholder transactions accurately, timely, and according to statutory requirements and policy provisions.

Recommendations: None.

<b>Standard V-6. Reasonable attempts to locate missing policyholders or beneficiaries are made.</b>
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Per the Multi-State Regulatory Settlement Agreement (RSA) involving the Social Security Death Master Index, no testing will be performed during this examination since the Division participated in the RSA.

<b>Standard V-7. Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.</b>
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Objective: This Standard addresses return of the correctly calculated unearned premium in a timely manner when policies are cancelled. See Appendix A for applicable statutes, regulations and bulletins.

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

- Upon request to cancel an insurance policy, the Company sends the policyholder required forms to sign and return.
- The Company allows verbal requests for transactions under certain monetary thresholds after the policy owner has correctly answered security screening questions.
- The cancellation is effective on the date the Company receives the signed form, and a check for any return premium due is sent to the policyholder.
- The Company's administration systems automatically calculate the amount of the policyholder's unearned premium or surrender value for a canceled policy. The system processes payments due to the policyholder following M.G.L. c. 175, §§ 1878 and 187C.
- The Company has written service standards to ensure the timely processing of policyholder service transactions. Premium refunds and surrenders/withdrawals are returned to the policyholder within five days of receiving requests.

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

Transaction Testing Procedure: The examiners discussed cancellation procedures with Company personnel and obtained supporting documentation. A judgmental sample of fifteen insured requested disability income cancellations and twenty-five life surrenders from the examination period were reviewed to ensure that requests were processed accurately and timely. There was no new business free look during the examination period. As such, the examiners reviewed policy provisions for the legally required free look provisions.

Transaction Testing Results:

Findings: None.

Observations: Based on review and testing results, the life and annuity insured-requested cancellations reviewed were processed accurately and following statutory requirements. The examiners further note that no disability income policies or policies and contracts involving a replacement were issued during the period. As such, the examiners did not review the Company's compliance with 211 CMR 34.06 in reference to life and annuity replacements free look periods and 211 CMR 42.05 in reference to disability income free look periods.

Recommendations: None

<b>Standard V-8. Reinstatement is applied consistently and in accordance with policy provisions.</b>
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Objective: This Standard addresses consistent reinstatement processing in compliance with policy provisions. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company's Disability products allow for reinstatement up to a specific period after policy lapse.
- Life reinstatements may be subject to underwriting approval and require payment of back premiums at the time of application. In addition, the Company may auto-reinstate a policy or utilize abbreviated reinstatement applications based on the face amount reinstated.

- All annuity reinstatements are subject to approval. A disclosure form is required, and the total amount of funds must be returned within 60 days. Reinstatement approvals are made at the previous investment allocation.
- The Company has written service standards to ensure the timely processing of policyholder service transactions.

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

Transaction Testing Procedure: The examiners discussed reinstatement procedures with Company personnel and obtained supporting documentation. Also, the examiners selected a random sample of life and annuity reinstatements from the examination period to ensure that the Company handled reinstatements consistently, timely, and according to policy provisions.

Transaction Testing Results: INS reviewed two individual disability income reinstatements during the examination period to ensure that the Company handled reinstatements consistently and timely following the pertinent policy provisions.

Findings: None.

Observations: Based on the files tested, INS determined that the Company processed the reinstatements in accordance with the policy provisions.

Recommendations: None.

<b>Standard V-9. Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.</b>
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Objective: This Standard addresses periodic disclosure to the policyholder of contract information. See Appendix A or applicable statutes, regulations, and bulletins.

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

- The Company uses policy and contract forms designed to meet statutory and regulatory requirements and files these with the Division for approval prior to use.
- Some life policies offer an automatic premium loan (APL) where the loan proceeds or dividends can cover the premium. To utilize this option, the policy's cash value or accumulated dividends must support the premium payment and notice issue to the insured of the APL or dividend. In other cases, the paid-up benefit is granted to the policyholder in compliance with M.G.L. c. 175, § 144.
- The Company's annuity contractual obligations are designed to comply with the law that requires payment of minimum cash surrender values. Accordingly, the annuity contracts state that surrender charges are based upon accumulated premium and exclude any gain. Contracts surrendered with a loss; however, will include a surrender charge based upon the contract value at the surrender date.
- No-lapse option guarantees on variable universal life contracts are designed to be in compliance with the Division of Insurance Bulletin 2000-02. The Company does not offer variable whole life policies in Massachusetts.

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: As previously discussed in this report, the Company is not selling products in Massachusetts. There was one life policy and three annuity new business transactions available for review. The examiners requested policies and contracts in relation to the items reviewed in the loans and surrender/withdrawal areas of review. The examiners tested the policies and contracts for life dividend, automatic premium loan, or other non-forfeiture options and confirmed that the issued policies and contracts contained non-forfeiture clauses as required by law.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of policies and contracts issued, the Company appears to communicate non-forfeiture options to policyholders and to apply selected options in accordance with the policy contract.

Recommendations: None.

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

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

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

- The Company mails annual reports to life policyholders disclosing policy current value, sub-account values, policy cash value, policy insured value, benefits cost, accrued interest and dividends and loan balances.
- The Company mails annual statements to fixed annuity policyholders and quarterly statements to variable annuity policyholders disclosing account balances, sub-account balances, cash surrender value, and recent performance.
- The Company has written service standards to ensure the timely processing of annual reports to policyholders.

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

Transaction Testing Procedure: The examiners discussed annual report disclosure procedures with Company personnel. Also, the examiners tested a random sample for the testing period which included six annual reports sent to life policyholders. The selection also included four quarterly statements sent to annuity policyholders.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing results, the Company appears to have adequate procedures for providing life policyholders 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 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 periodic disclosure to the policyholder of contract information. See Appendix A or applicable statutes, regulations and bulletins.

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

- The Company uses policy and contract forms designed to meet statutory and regulatory requirements and files these with the Division for approval before use.
- The Company provides annuity contract holders with an early withdrawal disclosure statement at the time of withdrawal request.

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

Transaction Testing Procedures: The examiners discussed accelerated benefit procedures with Company personnel and reviewed supporting documentation. The Company does not offer life policy accelerated benefits in Massachusetts. As a result, there were no accelerated benefit requests during the review period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of annuity applications, the Company provides the disclosure statement to applicants. Also, the Company maintains a signed copy of the disclosure statement that the applicant must sign.

Recommendations: None.

## VI. UNDERWRITING AND RATING

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

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

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

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

- Rates are automatically computed based on applicant information and rating classifications assigned by the underwriter.
- The Company has written underwriting policies and procedures designed to assure consistency in the classification and rating of new business.

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

*Transaction Testing Procedure:* The examiners did not perform transactional testing due to the low volume of new business transactions during the experience period.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* None.

*Recommendations:* None.

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

*Objective:* This Standard addresses mandated underwriting disclosures required under statutes, regulations, and Company policy.

Standard III-6 includes requirements to provide illustrations and other disclosures. Replacement disclosures appear in Standards III-4 and III-5, and Standards VI-7 and VI-8 include adverse underwriting notices. See Appendix A or applicable statutes, regulations, and bulletins.

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

*Objective:* This Standard addresses whether unfair discrimination occurs regarding the rebating or inducement to purchase coverage via commission adjustments. See Appendix A for applicable statutes, regulations, and bulletins.

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

- The Company has procedures for paying producer commissions in accordance with written contracts provisions.
- Company policies, procedures, and producer contracts prohibit special inducements and rebates.

*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:* The examiners interviewed Company personnel responsible for commission processing and producer contracts. The examiners reviewed producer contracts, new business materials, and manuals for indications of rebating, improper commission cutting or inducements. In addition, the examiners reviewed the population of six policies issued during the examination period to ensure that the related commission payments were in accordance with contractual terms.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Based upon the examiners review of the six new business files, there were no indications of agent inducements.

*Recommendations:* None.

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

*Objective:* This Standard addresses whether unfair discrimination is occurring in insurance underwriting. See Standard VI-7 for testing of declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- Company policy is intended to prohibit unfair discrimination in underwriting in accordance with statutory requirements.
- Written underwriting guidelines are designed to assure reasonable consistency in the classification and rating of risks. The underwriting system automatically sets policy rates based upon the applicant's criteria as entered into the system.
- IA conducts periodic reviews to ensure that underwriting guidelines are followed.



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: The examiners interviewed individuals with responsibility for underwriting and the classification of risks. The examiners reviewed the population of six issued contracts during the examination period to verify that the Underwriting Department approved the applications without discriminatory contract provisions. This sample is referenced again in other standards in this section.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

<b>Standard VI-5. All forms, including contracts, riders, endorsement forms and certificates, are filed with the insurance department, if applicable.</b>
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Objective: This Standard addresses whether the Company files policy forms and endorsements with the Division for approval. See Appendix A for applicable statutes, regulations, and bulletins.

Controls Assessment: The examiners noted the following controls while reviewing this Standard:

- The Company's designed written underwriting guidelines and policy forms to assure reasonable consistency in classifying risks.
- The Company obtains Division approval of all policy forms, contract riders, endorsement forms and illustrations before 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: The examiners did not perform transactional testing due to the low volume of new business transactions during the experience period.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

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

*Controls Assessment:* The examiners noted the following controls during the review of this Standard:

- The Company has written underwriting guidelines and procedures that require compliance with statutory requirements. In addition, company underwriters review all insurance applications and supporting forms to ensure the forms are complete and internally consistent and obtain any additional information needed to make underwriting decisions.
- The Company's practice is to issue policies and riders in a timely and complete manner.

*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:* The examiners interviewed individuals with responsibility for underwriting and policy issuance. The examiners reviewed the population of six issued contracts during the examination period to determine whether policies were issued timely, accurately and completely.

*Transaction Testing Results:*

*Findings:* None.

*Observations:* Testing results support those policies are issued timely, accurately, completely, and following Company policies, procedures, and statutory requirements.

*Recommendations:* None.

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

*Objective:* This Standard addresses the fairness of application rejections and declinations. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination.
- The Company sends applicants an adverse underwriting notice when an application is rejected or declined.

*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:* The examiners reviewed written Company policies and procedures requiring that the Company provide an Adverse Underwriting Notice when the Company declines applications, elects to provide a reduced amount of coverage, and when it offers coverage at higher than standard rates. The Company stopped marketing new annuity, disability income and life policies prior to

January 1, 2018, and did not have any rejections or declinations during the examination period. No transactional testing will be conducted.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

<b>Standard VI-8. Cancellation/non-renewal, discontinuance and declination notices comply with policy provisions, state laws and regulated entity guidelines.</b>
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Objective: This Standard addresses whether the reasons for cancellation are valid according to policy provisions and state laws. Standard VI-8 tests compliance with Adverse Underwriting Notice requirements. See Appendix A for applicable statutes, regulations, and bulletins.

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

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

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

Transaction Testing Procedure: INS selected a judgmental sample of five policies canceled for non-payment of premium during the examination period to test compliance with policies, procedures, and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the examiners did not note any instances of improper cancellation for non-payment of premium and pointed out that the Company gave adequate notice before cancellation in each case.

Recommendations: None.

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

Objective: This Standard addresses whether decisions to rescind and cancel coverage are made appropriately. See Appendix A for applicable statutes, regulations and bulletins.

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

- The Company does not have a contractual right to cancel insurance coverage absent the conditions set forth in statutes or regulations.
- Although rare, within the first two years of the policy issuance date for Massachusetts policies, the Company will rescind a policy in the instances of fraud or material misrepresentation. After the said two-year period, the Company will rescind a policy only if the applicant made fraudulent misstatements during the application process.
- The Company's underwriting process considers the risk of material misrepresentation by applicants and attempts to corroborate information received, including health status.
- The Underwriting and Legal Departments review all cases considered for rescission.

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

Transaction Testing Procedure: The Company did not rescind any policies for the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, the examiners did not note any instances of improper rescissions.

Recommendations: None.

## VII. CLAIMS

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

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

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

*Controls Assessment:* The examiners noted the following controls in the review of this Standard, and Standards VII-2 through VII-13:

- Generally:
  - The Company has written policies and procedures to provide oversight of the claims handling process.
  - The Company performs a search to identify all policies where the deceased is a named insured as required by Division Bulletin 2001-07.
  - The Company has procedures for complying with requirements in M.G.L. c. 175, Sections 24 D and 24 F to intercept non-recurring payments for past due child support and to check with the Department of Revenue for unpaid taxes owed by claimants before issuing claim payments for life and annuity policies.
- Life Claims:
  - The Company's TPA performs periodic QA reviews of the life insurance claims handling process.
  - Upon notification of a claim, the processor reviews the policy and places the policy into a death pending status.
  - Policy and claim data fields are populated electronically through an automated overnight batch feed from the life policy administration system and manually by the claims processors. They validate key data on the policy application, contract, claim form, and death certificate before processing a claim.
  - The processor enters the date of notice and date of death into the systems. Then, the requirements letter and claim forms and the requirements letter and claim forms are mailed to the claimant. The system generates an automated follow-up letter if no response is received after 30 days from the date the policyholder reports the claim.
  - After the first 30 days any follow-up is manually performed.
  - AJI documentation sent or received by the Company is scanned into the system, capturing the scan date and date of documentation received.
  - Once the requested documentation is received, the processor reviews the documentation for completeness. Then, the system automatically calculates the death benefit, including any Delayed Settlement Interest (DSI), according to the most favorable interest calculation for the payee.
  - When there are multiple beneficiaries, the Company pays claims proceeds to each claimant. Claims checks are sent to each beneficiary or the agent.

- **Annuity Claims:**
  - The Company performs same or next-day QA reviews for large claims. In addition, each month, the Company conducts a QA review on a random sample of death claims. Management receives all audit results for review.
  - The agent, beneficiary, or beneficiary's representative may report death claims to the Operations call center unit.
  - Upon notification of a claim, the contract is reviewed by the Death Claims team and placed into death pending status.
  - The date of notice and date of death is entered into the recordkeeping system, and the requirements letter and claims form(s) are mailed to the claimant. Follow-ups are performed with the claimant until the required documentation is received.
  - Once the requested documentation is received, the Death Claim team member reviews the documentation for completeness. Then, the system calculates the guaranteed death benefit.
  - Depending on the annuity contract, claimants may elect to receive their payment in the form of a Total Control Account (TCA), a lump sum check, or electronic funds transfer (EFT). The Company ceased issuing new TCAs in March 2017.

**Controls Reliance:** The examiners tested the Company's controls by reviewing policies and procedures or conducting transaction testing.

**Transaction Testing Procedure:** The examiners interviewed Company management and staff responsible for claims handling. Utilizing ACL, the examiners selected a random sample of 25 life claims, 25 annuity claims, and 23 Individual Disability claims for review. This sample is referenced again in other standards within this section.

**Transaction Testing Results:**

**Findings:** None.

**Observations:** Of the 73 claims tested, the examiners found one life file where the Company's initial contact with the claimant was not timely in violation of M.G. L. c 176D, Section 3(9)(b) and M.G.L. c. 175, § 108. The Company could not provide copies of the "requirements letter" and could not demonstrate that initial contact was timely.

**Recommendations:** The Company should ensure claim files include all documentation and that all the documentation is accessible for regulators upon request. In addition, the Company should ensure initial contact with the claimant is timely and meets the Massachusetts standards.

<b>Standard VII-2. Timely investigations are conducted.</b>
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The objective of this Standard relates to claims protocols reviewed and included in Standard VII-1.

<b>Standard VII-3. Claims are resolved in a timely manner.</b>
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The objective of this Standard relates to claims protocols reviewed and included in Standard VII-1.

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

The objective of this Standard relates to claims protocols reviewed and included in Standard VII-1.

**Standard VII-5. Claim files are adequately documented.**

The objective of this Standard relates to claims protocols reviewed and included in Standard VII-1.

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

The objective of this Standard relates to claims protocols reviewed and included in Standard VII-1.

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

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

*Controls Assessment:* See Standard VII-1

*Controls Reliance:* See Standard VII-1

*Transaction Testing Procedure:* See Standard VII-1

*Transaction Testing Results:*

*Findings:* Correspondence to the claimant referencing the wrong company was found in four of the 73 claims tested; one in the Life Sample and three in the Individual Disability Income ("IDI") sample. INS determined that the Company is not using appropriate claim forms for the product offerings and does not comply with this Standard.

*Observations:* Based on the Life and IDI claims review, the company is not using the appropriate company name on all its customer correspondence.

*Recommendations:*

The Company shall make the appropriate changes so that all claims correspondence includes the appropriate company name.

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

The examiners did not perform work on this Standard during this examination. The Division's statutory financial examination of the Company includes all the necessary activity for this Standard

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

Objective: This Standard addresses the adequacy of the Company's decision making and documentation of denied and closed-without-payment claims. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: The examiners interviewed Company management and staff responsible for claims handling. The Company told examiners that they did deny individual life or annuity claims during the examination period. Therefore, the examiners performed no work in this area under this market conduct examination. Future market conduct examinations by the Division may include the required activity under this Standard.

Transaction Testing Results:

Findings: None.

Observations: None.

Recommendations: None.

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

Objective: This Standard addresses the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices. See Appendix A for applicable statutes, regulations and bulletins.

Controls Assessment: See Standard VII-1

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: See Standard VII-1.

Transaction Testing Results:

Findings: None.

Observations: There were no errors identified in the 73 claims tested.

Recommendations: None.



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

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

*Controls Assessment:* See Standard VII-1.

*Controls Reliance:* See Standard VII-1.

*Transaction Testing Procedure:* See Standard VII-1.

*Findings:* None.

*Observations:* The examiner's testing found one instance previously noted where claimants needed to institute litigation to receive claim payments. Testing of the 73 claims indicated that the Company's policies and procedures generally appear to be sufficient and in compliance with statutory requirements M.G.L. c 176D, §§ 3(9)(g) and 3(9)(h).

*Recommendations:* None.

## SUMMARY

Based upon the procedures performed in this examination, INS has reviewed and tested company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims following the standards as outlined in the *2018 NAIC Market Regulation Handbook*, the examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations, and bulletins. As a result, the Division has mandated required actions to address concerns in complaint handling and claims.

## ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with INS Regulatory Insurance Services, Inc., applied certain agreed-upon procedures to the corporate records of Paul Revere Life Insurance Company in order for the Division of the Commonwealth of Massachusetts to perform a comprehensive market conduct 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, following and substantially complying with those standards established by the NAIC and the Handbook. In addition, 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 comprehensive examination is hereby acknowledged.



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