



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, 2002 through June 30, 2003

NAIC COMPANY CODE: 91626

NAIC GROUP CODE: 0241

EMPLOYER'S ID NUMBER: 04-2708937



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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

August 19, 2004

Honorable Julianne M. Bowler
Commissioner of Insurance
Division of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Bowler:

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

NEW ENGLAND LIFE INSURANCE COMPANY

at its home office located at:

501 Boylston Street
Boston, MA 02116

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of New England Life Insurance Company (“NELIC” or “Company”) for the period January 1, 2002 to June 30, 2003. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

The following is a summary of all substantive issues found, along with related recommendations and, if applicable, subsequent Company actions made, as part of the comprehensive market conduct examination of the Company.

All Massachusetts laws, regulations and bulletins cited in this report may be viewed on the Division’s website at www.state.ma.us/doi.

I. COMPANY OPERATIONS/MANAGEMENT

STANDARD I-5

Findings: None.

Observations: New England Financial Distributors (“NEFD”) contractual agreement with BISYS expired on July 5, 2000. Subsequent to the contract expiration, the joint venture continued without a written contract. In the fourth quarter of 2003, the joint venture relationship was terminated, and the sales responsibilities of BISYS were assumed by Enterprise GA, a Met Life affiliate and similar distributor. Significant disagreements continue to exist between NEFD and BISYS, which are being addressed by NEFD management.

Specifically, the England Life Partnership Affiliates (“NELPA”) internal audit report dated October 14, 2003 noted the following conclusions, which the internal audit report noted as “serious control concerns:”

- 26 of 51 policy files reviewed were missing carrier-required documentation including sales illustrations, medical information and replacement forms.
- No procedures were implemented to prevent, detect and monitor replacements.
- Complaints received by NELPA were not logged or reported to NEFD as contractually required.
- NELPA was not complying with Company requirements regarding anti-money laundering procedures.

Further, with regard to agent licensing, the report noted the following:

- Agent licensing information was not updated for 704 nationwide agents listed as active on BISYS' system but not listed on NEFD records. We were not able to determine whether any of these agents were licensed in Massachusetts.
- 4,656 nationwide agents were included on BISYS' system for commission processing but not included on NEFD records. We were not able to determine whether any of these agents were licensed in Massachusetts.
- 22 of 90 nationwide new business files reviewed showed that agent licensing information was incomplete. The number of Massachusetts new business files is unknown.

Recommendations: We recommend the following:

- The Company should undertake a review of the specific sales practice findings noted above to correct all identified deficiencies. Such efforts should involve discussions and communication with the respective insurance carriers to address these violations and deficiencies. To the extent that violations of law have occurred which resulted in the applicant not receiving proper disclosure prior to the sale, the applicant should be notified of such disclosure deficiencies with an opportunity to void the sale at the applicant's option.
- Complaint activity should be immediately reviewed to ensure that complaint logs are complete and that all complaints have been forwarded to the respective insurance carrier and responded to in a timely manner. Such efforts also should involve discussions and communication with the respective insurance carriers.
- The Company should reconcile the NEFD records with the BISYS records to ensure that a complete and accurate producer and agent list is created. Producers licensed and agents appointed in Massachusetts should be compared to the Division's listing to ensure that producers are properly licensed and/or appointed.
- The Company should ensure that outsourcing contracts are adequately and frequently monitored to the extent that compliance functions are subcontracted via such contracts.

Subsequent Company Actions: The Company has agreed to prepare a written plan to address each of the internal audit observations by preparing a detailed response to correct all identified deficiencies. This plan will be reviewed by the Division when completed.

II. COMPLAINT HANDING

No Findings, Observations or Recommendations have been made in this Section.

III. MARKETING AND SALES

STANDARDS III-4 AND III-5

Findings: The results of our testing showed the following:

- For 40 of the 41 life and annuity external replacements tested a signed disclosure form as required by 211 CMR 34.04(2) was obtained from the policyholder. For one external annuity replacement, there was no signed disclosure form provided.

- For 12 of the 18 life external replacements, there was evidence of replacement disclosure and a policy summary to the existing carrier within seven days as required by 211 CMR 34.06. For the remaining six sales, it appeared that four did not have evidence of timely notices to the replaced carrier, and two did not have evidence of any notice to the replaced carrier.

Observations: The results of our testing showed the following:

- For each of the 50 life and annuity replacements, there was evidence of replacement disclosure as required by 211 CMR 34.04(1).
- For each of the 50 life and annuity replacements, there was evidence that the managing partner approved each sale as required by Company policy.
- For each of the annuity external replacements, there was evidence of replacement disclosure and a contract summary to the existing carrier within seven days as required by 211 CMR 34.06.
- For each of the annuity replacements tested, an annuity disclosure form was provided to and signed by the policyholder and signed by the general agency managing partner as required by Company policy.
- Full commissions were paid on six internal replacements. Such commission payments were made in compliance with the Company's written policies and procedures as discussed above.
- RNA noted that policies and procedures to monitor significant producer replacement activity and to take appropriate actions as needed are occurring, although not necessarily timely. The review of replacement activity for the 15 month period ended June 30, 2003 did not occur until late October 2003. A review of activity subsequent to June 30, 2003 had not occurred by late October 2003. The review included follow up with managing partners for certain producers with significant replacement activity.
- RNA observed Company personnel responding to notices from replacing carriers of policyholders' intentions to replace life policies as required by 211 CMR 34.06.

Recommendations: We recommend the following:

- As required by 211 CMR 34.04 and Company policy, for each external replacement, state disclosure forms should be presented to the applicant and signed by both the applicant and the producer at the time of sale.
- As required by 211 CMR 34.06, for each external replacement, notice to the replacing carrier should occur within seven days in all instances.
- The Company's newly adopted commission rules for life replacements in which the new premium is at least twice the old premium, and the replaced policy has been in force for five years or more, allows a full commission to be paid on the new sale. The Company should consider whether this policy effectively discourages replacements and whether this policy represents an industry best practice.
- Policies and procedures to monitor significant producer replacement activity and to take appropriate actions as needed should be completed timely to be most effective.

STANDARD III-6

Findings: None.

Observations: The results of our testing indicated that the Company requires the policyholder to sign a copy of approved illustrations when purchasing variable life policies as required by 211 CMR 95.11. However, in eleven of 32 variable life sales, illustrations were used in the sales although the sale dates were after the Company's expiration date on the illustrations. Our understanding is that these illustrations properly illustrated the expected performance of the policies. An expiration date is included on the illustration so that the illustration will be reviewed by Compliance periodically. As such, the periodic review of the illustrations was not completed as required by Company policy.

The results of our testing in conjunction with replacement of existing annuities with bonus feature annuities indicated that of the three bonus annuity replacements which we tested, two sales did not have an approved signed illustration as required by Company policy.

Recommendations: The Company should ensure that all variable life illustrations are reviewed by Compliance prior to expiration as required by Company policy. In addition, the Company should enhance the field and home office sales review processes to ensure that approved bonus annuity illustrations are provided to and signed by the policyholder as required by Company policy.

STANDARD III-7

Findings: None.

Observations: RNA noted that for sales involving variable life and annuity products, a home office suitability review was performed by an NASD licensed Series 26 individual.

For life sales, RNA noted Company review notes and queries where the Company's suitability reviewer asked questions of the producer and appeared to perform a substantive review of the suitability of the investment transaction. However, the procedures requiring the general agency managing partner to review life sales for suitability did not appear to be consistently documented.

For variable annuities, RNA noted that general agency managing partner's approval was documented on the Company's annuity disclosure form for all but one of the sales, which was a transfer from a mutual fund.

Additionally for three annuity replacements, which were approved by the home office and the general agency managing partner, RNA raised questions about whether the replacements were in the best interests of the policyholders. These replacements were adequately supported as suitable by the Company.

Finally, the Company is considering significant changes to its suitability guidelines for annuity sales. These guidelines will be significantly more restrictive than the current guidelines.

Recommendations: We recommend that the Company address the following:

- The Company should require that the managing partner's approval for life sales be clearly documented as required by Company policy.

- The Company should ensure through the home office review process that the annuity disclosure form be provided to and signed by the policyholder and be signed by the managing partner as required by Company policy.
- The Company should strongly consider enhancing the home office review for suitability of annuity sales, particularly replacements, to ensure that all sales are in the best interest of the policyholder.
- Proposed changes to existing suitability guidelines for annuity sales should be implemented as soon as possible.

IV. PRODUCER LICENSING

STANDARDS IV-1 AND IV-2

Findings: None.

Observations: Based on the results of our testing, RNA noted several discrepancies between the producer's appointment dates on the Division's records compared to the appointment dates on the Company's records. RNA also noted several instances where the producer was licensed according to the Division's records, but not appointed as agent by the Company or its affiliates. All producers appeared to be licensed by the Division at the time of sale. RNA noted internal audits conducted in 2001 and 2002, which indicated similar discrepancies in the producer records. However, based upon our testing, we noted no violations of M.G.L. c. 175, §§162, 163, 166, 174 and 177 for the year 2002 or of M.G.L. c. 175, §162I and M.G.L. c. 175, §162S for the year 2003.

Recommendation: We recommend that the Company work with the Division to reconcile its producer licensing and agent appointment records with the Division's records as of a date certain and modify its appointment procedures as necessary to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§162I and 162S.

STANDARD IV-3

Findings: None.

Observations: The results of our testing showed the following:

- Of the ten producer terminations listing Company appointed agents selected from the Division records, all ten were noted as terminated on the Company's records.
- Of the ten producer terminations listing Company appointed agents selected from Division records, only one of the termination dates was consistent between the Company and Division records.
- RNA tested twenty producer terminations selected from Company records, which included termination or broker's licenses, conversion of broker's licenses and termination of agent's licenses. The Division's database included only terminations of Company agent appointments. Of the 20 producer terminations, eight of those were terminations of appointed agents while the remaining were producer terminations or broker's license conversions. Only one of the eight had a consistent termination date in both databases. The Company presented evidence that their termination dates were correct and noted that the NAIC's Producer Database included incorrect information in

some instances. In some cases, confusion may have been due to termination notice dates versus effective dates in the Company's and Division's records.

Recommendation: We recommend that the Company work with the Division to reconcile its terminated agent records with the Division's records as of a date certain and modify its communication procedures to ensure accurate and timely maintenance of terminated agents lists as required by law.

V. POLICYHOLDER SERVICE

STANDARD V-1

Findings: None.

Observations: Based upon our review, life premium notices and billings generally appear to be clear and mailed with adequate advance notice with the disclosure of potential lapse in the event of non-payment as required by M.G.L. c. 175, §110B. However, for universal life policies, the notice does not clearly state that the payment may not be required to maintain its in-force status.

Recommendation: The Company should review premium notice procedures for universal life policies and consider additional clarification stating that payments may not be required to keep the policy in-force.

STANDARD V-4

Findings: None.

Observations: RNA noted no evidence of life reinstatement requests being denied in violation of Company policy, contractual obligations or M.G.L. c. 175, §132 (11). Guidelines for annuity reinstatements appear reasonable, but informal. There is no written policy on reinstatements, which may make it difficult to ensure consistent application for all customers.

Recommendations: We recommend that the Company adopt written guidelines for annuity reinstatements to ensure consistent application for all customers.

STANDARD V-7

Findings: Our discussions with annuity processing personnel indicated that for annuity contracts, no reporting or escheatment is occurring for lost policy owners' funds.

Observations: The Company appears to have processes to locate lost policyholders via company records, the Internet, sales offices and social security databases. It was noted that life policy funds are reported and are escheated as required by state law when no owner can be found.

Recommendation: The Company should ensure that applicable life and annuity funds are reported and/or escheated to the state in accordance with the applicable provisions of M.G.L. c. 200A.

VI. UNDERWRITING AND RATING

STANDARD VI-2

Findings: The results of our testing showed the following.

- In 13 of the 14 non-variable sales which were ultimately consummated, there was no evidence that the policyholder acknowledged receipt of the Buyer's Guide as required by 211 CMR 31.05 by checking the appropriate box on the policy delivery receipt.

Observations: The results of our testing showed the following:

- In 27 of 32 variable life policies tested, there was no evidence that the policyholder acknowledged receipt of the Buyer's Guide, as required by Company policy.
- For 3 of the 25 variable life sales ultimately consummated, no signed policy delivery receipt was obtained, as required by Company policy.
- Each of the 18 non-variable life sales tested provided evidence of a signed Preliminary Policy Summary at application and a signed Policy Summary, before accepting the applicant's premium, as required by 211 CMR 31.05.

Recommendations: We recommend that the Company address the following:

- 211 CMR 31.05 requires that the agent provide the applicant a Buyer's Guide along with other policy costs/benefit disclosures for non-variable sales. The Company should enhance controls over the review of all applications to ensure that evidence exists that the Buyer's Guide, along with other policy costs/benefit disclosures, is timely provided to applicants.
- Company policy requires a policy delivery receipt to document the delivery of an individual insurance contract and its receipt by the applicant/policyholder. The Company should enhance controls over the review of all sales to ensure that the policy delivery receipt has been obtained.
- Company policy requires that agent provide the applicant a Buyer's Guide along with other policy costs/benefit disclosures for all variable sales. The Company should enhance controls over the review of all applications to ensure that evidence exists that the Buyer's Guide, along with other policy costs/benefit disclosures, is timely provided to applicants.

STANDARD VI-14

Findings: RNA noted that a signed copy of the Massachusetts AIDS testing disclosure notice was not obtained from the applicant for 4 of the 50 sales tested.

Observations: None.

Recommendation: The Company should enhance controls over the review of all applications to ensure that the Massachusetts AIDS testing disclosure as required by 211 CMR 36.00 and Company policy is obtained as part of all insurance applications..

VII. CLAIMS

No Findings, Observations or Recommendations have been made in this Section.

FOR INFORMATION PURPOSES ONLY

COMPANY BACKGROUND

NELIC is a stock life insurer based in Boston, and does business in all states and the District of Columbia. The Company was originally chartered April 1, 1835 as New England Mutual Life Insurance Company ("New England Mutual"). Throughout the years, their products and services expanded to include investment management services, broker-dealer operations and other financial services. New England Mutual was merged into Metropolitan Life Insurance Company ("Met Life") in August 1996. As such, New England Mutual policies became Met Life policies. At the same time, an existing subsidiary of New England Mutual, New England Variable Life Insurance Company ("New England Variable"), re-domiciled from Delaware to Massachusetts and changed its name to NELIC. Subsequent to the merger, all new business is written by NELIC. Previously sold policies at New England Mutual are serviced by NELIC.

While New England Variable had traditionally focused on variable products, after the merger, NELIC expanded offerings of non-variable products. The Company's functional and operational areas began to be combined with Met Life's operations in 1998 and 1999, and that consolidation continues today. In 2001, all NELIC employees became Met Life employees.

The high income/high net worth market traditionally has been a key focus of NELIC. The Company's most popular products are variable life, variable universal life and variable annuities. Other products such as group A&H, traditional life, universal life, fixed annuities, private label disability income and long-term care products also are offered. NELIC does not offer accelerated benefit options in Massachusetts.

Distribution primarily is through New England Financial Distributors ("NEFD"), which consists of approximately 80 general agencies including four (three as of December 31, 2003) in Massachusetts. There are approximately 3,500 agents appointed by NELIC throughout the United States. In most cases, agents do not have exclusive contracts to sell NELIC products and generally sell products provided by Met Life affiliates and other carriers. The Company has continued to strengthen its agency field force by increasing the number of agents by approximately 10% annually. In addition, there are selling agreements with some banks and broker-dealers including the Met Life subsidiaries of Walnut Street Securities, Nathan & Lewis Securities, Met Life Securities and New England Securities.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

Objective: This Standard is concerned with whether there is an audit program function that provides meaningful information to management.

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

INTERNAL AUDITS

- The Company has a well-established internal audit department that has performed reviews of a variety of operational functions.
- Audit reports are distributed to all relevant operational and management personnel. The reports contain a summary of control enhancements which management has implemented or agreed to implement as a result of the audit.

FIELD OFFICE AUDITS

- Periodic audits are performed as necessary by the Compliance Department on each of the Massachusetts field offices based upon prior audit results, complaint activity and enforcement activity. Audit topics cover many of the Handbook areas including:
 - Complaint handling and recordkeeping
 - Use of approved sales materials
 - Communication of mandated disclosures
 - New business procedures
 - Suitability
 - Compliance with replacement guidelines
 - Licensing requirements
 - Sales illustration requirements
 - General supervision
- A formal report is issued at the end of each field office audit. The Managing Partner must sign the report acknowledging that he/she agrees that immediate corrective action will be taken on issues identified in the report. Such findings are considered in planning for the next audit of that operational area.

SURVEILLANCE AND ENFORCEMENT

- The Compliance Department regularly monitors agent activities.
- Monthly exception reports are monitored for any agent with high replacement activity exceeding established thresholds.
- Agents are given warning letters for a first violation of a Company policy and a possible fine.
- Agents generally are terminated after the second violation of a Company policy.

- Unduly received commissions must be returned for all sales violations.

REPORTING TO THE BOARD

- Periodically the Chief Compliance Officer presents a compliance update to the Sales Practice Compliance Committee including the following topics:
 - o Overview of key compliance functions
 - o Performance against key operating indicators
 - o Field office audit summaries
 - o Market conduct/regulatory examinations
 - o Recent industry regulatory actions
 - o Regulatory updates
 - o Recent company and regulatory agent enforcement actions
 - o Areas of recent increased compliance efforts

IMSA

- The Company has been an Insurance Marketplace Standard Association (“IMSA”) member since IMSA’s inception in 1998.
- To maintain its status as an IMSA member, the Company is required to undergo a self-assessment process every three years. This renewal process also includes an assessment by an independent examiner to determine that the Company has met IMSA’s standards.

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

Transaction Testing Procedure: RNA reviewed the Company’s internal audit reports issued from 2001 through 2003 and discussed findings with internal audit personnel. Significant issues noted in such reports were further investigated and reviewed.

Transaction Testing Results: Internal audit findings are included in the examination area to which they relate.

Recommendations: None.

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

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

* * * * *

Standard I-3. The company has an antifraud plan in place.

Objective: This Standard is concerned with whether the Company has an antifraud plan that is adequate, up-to-date, and in compliance with applicable statutes and is implemented appropriately.

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

- The Company has a written antifraud plan.
- The Company has a Special Investigative Unit (“SIU”) dedicated to the prevention and handling of fraudulent activities.
- The SIU holds periodic meetings with representatives from various departments at the Company including those in claims, compliance, internal audit, underwriting, sales and customer service.
- Potential fraud activity is tracked by the SIU and investigated with the assistance of other departments as necessary. Such activity is reported to the regulators as necessary.

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

Transaction Testing Procedure: Due to the nature of this Standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

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

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Standard I-5. The company is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the company.

Objective: This Standard is concerned with (a) whether entity contracts are in compliance with applicable rules and regulations, specifying the responsibilities of all entities as relate to record keeping, as well as responsibilities of the Company as relate to conducting audits; and (b) whether the Company is adequately monitoring the activities of the contracted entities.

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

- Refer to Standard I-1.

- The Company does have certain arrangements where third parties, other than producers, are assuming a business function or acting on behalf of the Company, which would impact the evaluation of market conduct activities.
- The selling agreements between the Company and career and independent producers are required to designate responsibilities in areas including:
 - Licensing and appointment
 - Professional liability and fidelity coverages
 - Compliance with laws and regulations
 - Use of approved sales materials
 - Policyholder records
- The Company's *Supervision Guide, How We Do Business, Communicating Correctly: A Representatives Guide to Sales Material, A Representatives Guide to Client File Documentation* and *Compliance Update* (Quarterly newsletter) parallel the statutory and/or regulatory requirements for advertising and sales material and address the following areas:
 - The Company's Principles of Ethical Market Conduct and IMSA
 - Compliance with laws and regulations
 - Supervision and annual compliance supervisory review
 - Compliance audits
 - Producer hiring process
 - State licensing and NASD registration requirements
 - Outside business activities
 - Training and continuing education
 - Client files and recordkeeping
 - Suitability
 - Replacement guidelines
 - Mandatory disclosures
 - Use of approved marketing materials
 - Sales illustration review guidelines
 - Complaint handling procedures
 - Privacy and information security

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: During our review of internal audit reports, we noted one significant internal audit report, which reviewed the Company's monitoring of activities of an entity that contractually assumes a business function or act on behalf of the Company. Specifically, RNA reviewed an internal audit report of New England Life Partnership Affiliates ("NELPA"), which is a joint venture between the Company's affiliate, NEFD and BISYS (an unaffiliated vendor) to sell and distribute non-Met Life products. In addition to reviewing the internal audit report, RNA held several follow up meetings with internal audit staff and line management to discuss issues raised in

the report. RNA also reviewed detailed internal audit workpapers supporting the report to further understand issues raised.

Transaction Testing Results:

Findings: None.

Observations: NEFD's contractual agreement with BISYS expired on July 5, 2000. Subsequent to the contract expiration, the joint venture continued without a written contract. In the fourth quarter of 2003, the joint venture relationship was terminated, and the sales responsibilities of BISYS were assumed by Enterprise GA, a Met Life affiliate and similar distributor. Significant disagreements continue to exist between NEFD and BISYS, which are being addressed by NEFD management.

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- 26 of 51 policy files reviewed were missing carrier-required documentation including sales illustrations, medical information and replacement forms.
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- Agent licensing information was not updated for 704 nationwide agents listed as active on BISYS' system but not listed on NEFD records. We were not able to determine whether any of these agents were licensed in Massachusetts.
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- 22 of 90 nationwide new business files reviewed showed that agent licensing information was incomplete. The number of Massachusetts new business files is unknown.

Recommendations: We recommend the following:

- The Company should undertake a review of the specific sales practice findings noted above to correct all identified deficiencies. Such efforts should involve discussions and communication with the respective insurance carriers to address these deficiencies. To the extent that violations of law have occurred which resulted in the applicant not receiving proper disclosure prior to the sale, the applicant should be notified of such disclosure deficiencies with an opportunity to void the sale at the applicant's option.
- Complaint activity should be immediately reviewed to ensure that complaint logs are complete and that all complaints have been forwarded to the respective insurance carrier and responded to in a timely manner. Such efforts also should involve discussions and communication with the respective insurance carriers.

- The Company should reconcile the NEFD records with the BISYS records to ensure that a complete and accurate producer and agent list is created. Producers licensed and agents appointed in Massachusetts should be compared to the Division's listing to ensure that producers are properly licensed and/or appointed.
- The Company should ensure that outsourcing contracts are adequately and frequently monitored to the extent that compliance functions are subcontracted via such contracts.

Subsequent Company Actions: The Company has agreed to prepare a written plan to address each of the internal audit observations by preparing a detailed response to correct all identified deficiencies. This plan will be reviewed by the Division when completed.

* * * * *

<p>Standard I-6. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.</p>

Objective: This Standard is concerned with the organization, legibility and structure of files, as well as determining if the Company is in compliance with record retention requirements. Various record retention requirements are outlined at the individual standard level in the Handbook Sections II-VII.

Controls Assessment: Company policy requires that client files be maintained by the agent and the Company as long as the policy is in force and at least six years after the relationship with the policyholder is terminated.

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

Transaction Testing Procedure: RNA performed various procedures throughout this examination, which related to review of documentation and record retention.

Transaction Testing Results: Such testing results are noted in the various examination areas.

Recommendations: None.

* * * * *

<p>Standard I-7. The company is licensed for the lines of business that are being written. M.G.L. c. 175, §§ 32 and 47.</p>
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Objective: This Standard is concerned with whether the lines being written by a Company are in accordance with the authorized lines of business. Pursuant to M.G.L. c. 175, § 32, domestic insurers must obtain a certificate authorizing it to issue policies or contracts. Additionally, M.G.L. c. 175, § 47 sets forth the various lines of business for which an insurer may be licensed.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard I-8. The company files all certifications with the Department of Insurance as required by statutes, rules, and regulations. M.G.L. c. 175, § 25.

Objective: This Standard is concerned with whether the Company files certifications with the Division, as required. M.G.L. c. 175, § 25 sets forth the form and content requirements for annual statements filed with the Division by insurers.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed with the Division that certifications are filed with the Division in connection with the annual financial reporting process. No further testing was deemed necessary by the Division.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to file all required certifications with the Division.

Recommendations: None.

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Standard I-9. The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders. M.G.L. c. 175I, §§ 1-22

Objective: This Standard is concerned with the Company's compliance with privacy requirements contained in M.G.L. c. 175I, §§1-22.

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

- Company policy allows for the sharing customer and personal information with affiliates, but does not share such information with non-affiliates.

- Company policy requires a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders.
- Company privacy disclosures state that the Company may share customer information using joint marketing associations, although Company personnel are not aware that any such arrangements are in effect.
- Specific roles and responsibilities have been assigned to various business units, and quarterly memos are required from the respective business unit leader stating that all Company practices comply with related policies.
- The Company has stated that they have developed and implemented information technology security practices to safeguard customer, personal and health information.
- The Company has conducted an on-line training program for all office and field staff to explain privacy policy and guide the staff in use and control of customer and health information. Company personnel have stated that most staff have completed this training successfully. Remaining staff are required to complete this training in the future.
- The Company's internal audit function has conducted reviews of privacy policies and procedures.

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

Transaction Testing Procedure: RNA reviewed compliance with the initial privacy disclosure requirements in conjunction with our tests of 100 selected life and annuity sales. In addition, RNA reviewed policies, procedures, disclosure notices and internal audit reports and conducted transaction walkthroughs to evaluate compliance with M.G.L. c. 175I, §§1-22.

Transaction Testing Results:

Findings: None.

Observations: For the annuities tested, RNA noted that the notice of information practices is part of the prospectus, and acknowledgment of receipt of the prospectus is obtained from the applicant when the application is taken.

For life sales, however, we were unable to verify actual delivery of the notice of information practices to the applicant as the Company does not maintain a copy of the notice in its imaged files, nor was an applicant acknowledgement of receipt of such notice required.

To mitigate this concern, the Company indicated that its review of new applications includes review of documentation that states that the notice of information practices was provided to the applicant. Management has attested that they have required notice of information practices to be delivered to applicants at the application date and that, to the best of their knowledge, such notices were delivered timely.

Beginning in the second half of 2003, the Company changed its policy application to include the notice of information practices as part of the application document. Thus, documentary evidence of delivery of the notice of information practices is now retained by the Company.

The remaining privacy policies and procedures appear to comply with M.G.L. c. 175I, §§1-22.

Recommendations: None.

* * * * *

Standard I-10. The company cooperates on a timely basis with examiners performing the examinations. M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

The objective of this Standard was included for review in each Standard where such policy or procedure for the management of insurance information exists or should exist.

* * * * *

Standard I-12. The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.

Objective: Refer to Standard I-9.

Controls Assessment: Refer to Standard I-9.

Controls Reliance: Refer to Standard I-9.

Transaction Testing Procedure: Refer to Standard I-9.

Transaction Testing Results: Refer to Standard I-9.

Recommendations: Refer to Standard I-9.

FOR INFORMATION PURPOSES ONLY

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 or grievances are recorded in the required format on the company complaint register. M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether the Company formally tracks complaints or grievances as required by statute. Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint and the time it took to process each complaint.

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

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint log that addresses the requirements of the statute.
- An automated tracking database is used to record and maintain complaint information.
- The Company's definition of complaint is similar to the statutory requirement.
- The complaint handling process appears to function in accordance with written policies and procedures.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.

The Massachusetts complaint data for the eighteen-month examination period is as follows:

MA Complaints	2002	2003	Total
Marketing	45	15	60
Administrative	15	5	20
Total	60	20	80

MA Complaint-Resolution	Justified	Not Justified	Total
Marketing	15	45	60
Administrative	10	10	20
Total	25	55	80

The determination of whether a complaint was "Justified" or "Not Justified" was made by the Company's compliance staff, and these complaints include those forwarded from the Division and the Massachusetts Attorney General's Office.

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

Transaction Testing Procedure: RNA reviewed 30 Massachusetts complaint files from the period January 1, 2002 to June 30, 2003 to evaluate compliance with M.G.L. c. 176D, § 3(10). For the 30 complaints, we reviewed the complaint files noting the response date and the documentation supporting the resolution of the complaint. Also, RNA compared the Company's complaint register to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

Observations: For the 30 complaints tested, the Company appears to maintain complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10).

Recommendations: None.

* * * * *

Standard II-2. The company has adequate complaint handling procedures in place and communicates such procedures to policyholders. M.G.L. c. 176D, § 3(10).

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed 30 Massachusetts complaint files from the period January 1, 2002 to June 30, 2003 to evaluate this standard. In addition, RNA interviewed management and staff responsible for complaint handling and examined evidence of the Company's processes and controls. To determine whether or not the Company provides contact information for consumer inquiries, a sampling of forms and billing notices sent to policyholders was reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations: For the 30 complaints tested, the Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendations: None.

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

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed 30 Massachusetts complaint files from the period January 1, 2002 to June 30, 2003 to evaluate this Standard.

Transaction Testing Results:

Findings: None.

Observations: For the 30 complaints tested, documentation appeared to be complete including correspondence, original documentation and the Company's complaint summary. In addition, policyholders with similar fact patterns appeared to be treated consistently and reasonably.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in the statutes or regulations. However, the Division has established a practice of allowing 14 days from the date that the notice of complaint is sent to the insurer by the Division for the insurer to respond to the Division. For complaints received by the Company directly, the Company policy is to diligently respond to the complaint as soon as possible.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed 30 Massachusetts complaint files from the period January 1, 2002 to June 30, 2003 to evaluate timely response.

Transaction Testing Results:

Findings: None.

Observations: For the 30 complaints tested, the initial communication with the policyholder was reasonably timely in all cases. The resolution of the cases took between a few days and several months depending on the complexity of the complaint. For all cases, the investigative time period appeared reasonable. Final resolution appeared to be reasonably timely.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

III. MARKETING AND SALES

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

Standard III-1. All advertising and sales materials are in compliance with applicable statutes, rules and regulations. M.G.L. c. 176D, § 3, Division of Insurance Bulletin 2001-02.

Objective: This Standard is concerned with whether the Company maintains a system of control over the content, form and method of dissemination for all advertisements of its policies. Pursuant to M.G.L. c. 176D, §3, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on that site the name of the company appearing on the certificate of authority and the address of its principal office.

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

- Written policies and procedures govern the advertising and sales material process.
- All advertising and sales materials are reviewed electronically in a consistent format through an online submission and tracking process.
- The Company's *Supervision Guide, How We Do Business, Communicating Correctly: A Representatives Guide to Sales Material, A Representatives Guide to Client File Documentation and Compliance Update* (Quarterly newsletter) parallel the statutory and/or regulatory requirements for advertising and sales material.
- All Company-wide advertising and producer produced material is subject to review and approval by a multi-disciplined team of insurance, tax, legal and compliance specialists.
- Prior to final approval, all advertising and sales materials are reviewed to ensure that any necessary changes identified during the initial review were made.
- Approved submissions are approved for use for a specific period, which is incorporated into the approval number on the piece.
- Compliance reviews producer correspondence and sales materials as part of its field audit process.

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

Transaction Testing Procedure: RNA selected ten pieces of advertising and sales material for evidence of proper home office approval prior to use. RNA also reviewed the Company's website for appropriate disclosure of its name and address. Additionally, RNA reviewed correspondence with prospective policyholders on a test basis in conjunction with our tests of 100 selected life and annuity sales.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed that the Company's process to approve advertising and sales material prior to use was functioning in accordance with Company policies and procedures and that the review appears to effectively determine compliance with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02. Finally, the results of our testing of the 100 selected life and annuity sales showed no evidence of use of advertising and sales materials with policyholders which was not approved by the home office prior to use as required by Company policy.

Recommendations: None.

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

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

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

- Company has extensive home office developed training programs for its producers. The program includes approximately 200 hours of classroom time in each of the producer's first two years with the Company. The topics are varied and cover subjects such as new products, compliance with new laws or regulations, needs based selling techniques, etc.
- Agencies and the Compliance Department are responsible for ensuring that producers meet required NASD training hour minimums. Producers must have training for the previous year submitted by January 15 of the following year or face suspension of their license.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for field support, training, monitoring and supervision of the Company's product distribution channels. We obtained training materials and other documentation supporting the Company's training program and assertions about the training program.

Transaction Testing Results:

Findings: None.

Observations: The Company's internal producer training materials appear to be adequate and in compliance with the Company's training policy.

Recommendations: None.

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

Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

Controls Assessment: The Company maintains an extensive on-going training program. Written policies and procedures govern that all communications to career and independent producers are submitted, reviewed and approved by the multi-disciplined team noted in Standard III-1.

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: Due to the broad nature of Company-wide producer communications, and our review of such communications in Standards III-1 and III-2, no detailed transaction testing was deemed necessary for this Standard.

Transaction Testing Results:

Findings: None.

Observations: Company communications to producers appear to be in compliance with the Company's communications policy.

Recommendations: None.

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Standard III-4 and Standard III-5. Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations. (III-4) Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations. (III-5) M.G.L. c. 175, § 204, and 211 CMR 34.04-34.06.

Objective: These Standards are concerned with appropriate replacement handling by the agent and the Company, including identification of replacement transactions on applications, use of appropriate replacement related forms, and timely notice to existing insurers of the replacement. M.G.L. c. 175, § 204 addresses the promulgation of regulations governing the replacement of life insurance and annuities based upon the model regulation developed by the National Association of Insurance Commissioners ("NAIC"). It requires that the regulation include the delivery of a notice stating the replacement of a life insurance policy or annuity contract.

For life insurance and annuities, pursuant to 211 CMR 34.04-34.06, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant as to whether replacement of existing life insurance or annuity is involved in the transaction; and (b) a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction. Furthermore, where a replacement is involved, a copy of the replacement notice is required to be provided to the applicant at a time not later than the time of taking the application,

and the producer shall submit a copy of the replacement notice to the replacing insurer within seven (7) working days of the date of the application. The insurer also is required to send the existing insurer a written communication advising of the replacement or proposed replacement and a policy summary.

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

- The Company's policy is to comply with requirements to provide disclosure notices to policyholder and replaced carriers in accordance with 211 CMR 34.04-34.06.
- Written policies and procedures govern the replacement handling process.
- All life and annuity replacements are recorded in a consistent format in the Company's replacement register.
- The Company's definition of replacements parallels the statutory and regulatory requirements.
- Company personnel review applications for completeness of replacement information and forms.
- Quarterly summary reports of reported and unreported replacement activity are reviewed by the Sales Practice Compliance Committee and compliance personnel. Corrective action is to be taken when agents exceed established thresholds of replacement activity.
- Excessive agent replacement activity is referred to the Chief Compliance Officer.
- The Company requires that sales of annuity contracts involving a replacement provide the policyholder with an annuity disclosure form, which the policyholder must sign. The form also must be signed by the general agency managing partner who is an NASD licensed Series 26 individual.
- The Company's policy is to comply with requirements in 211 CMR 34.06 which requires the Company to furnish a policy summary to life policyholders upon receiving notice from a replacing carrier of the policyholder's intention to replace a life policy.
- The Company has policies and procedures, which require that reduced commissions be paid on many, but not all, internal replacements. The policy, where applied, is intended to be a disincentive to producers to replace existing Company policies or contracts, as compensation on such sales will be reduced. This policy recently has been revised to be more restrictive and consistent with the commission policies at other Met Life affiliates.

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

Transaction Testing Procedure: RNA selected a sample of 50 sales included on the Company's replacement register from January 1, 2002 to June 30, 2003 to evaluate compliance with replacement disclosure requirements, as well as Company policies and procedures. Of those 50 sales (25 life and 25 annuity sales), 41 were determined to be external replacements, and 9 were internal replacements at the time of sale. Specifically, RNA performed the following procedures:

- Determine compliance with replacement disclosure as required by 211 CMR 34.04-34.06 and compliance with Company policies and procedures.
- Determine compliance with the Company policies and procedures requiring the annuity disclosure form to be provided to and signed by the policyholder and signed by the general agency managing partner for all annuity replacements.

- Determine the producers' commissions were reduced in accordance with Company guidelines for internal replacement activity.
- Review Company procedures to monitor significant replacement activity by producer and take action as needed.

Transaction Testing Results:

Findings: The results of our testing showed the following:

- For 40 of the 41 life and annuity external replacements tested a signed disclosure form as required by 211 CMR 34.04(2) was obtained from the policyholder. For one external annuity replacement, there was no signed disclosure form provided.
- For 12 of the 18 life external replacements, there was evidence of replacement disclosure and a policy summary to the existing carrier within seven days as required by 211 CMR 34.06. For the remaining six sales, it appeared that four did not have evidence of timely notices to the replaced carrier, and two did not have evidence of any notice to the replaced carrier.

Observations: The results of our testing showed the following:

- For each of the 50 life and annuity replacements, there was evidence of replacement disclosure as required by 211 CMR 34.04(1).
- For each of the 50 life and annuity replacements, there was evidence that the managing partner approved each sale as required by Company policy.
- For each of the annuity external replacements, there was evidence of replacement disclosure and a contract summary to the existing carrier within seven days as required by 211 CMR 34.06.
- For each of the annuity replacements tested, an annuity disclosure form was provided to and signed by the policyholder and signed by the general agency managing partner as required by Company policy.
- Full commissions were paid on six internal replacements. Such commission payments were made in compliance with the Company's written policies and procedures as discussed above.
- RNA noted that policies and procedures to monitor significant producer replacement activity and to take appropriate actions as needed are occurring, although not necessarily timely. The review of replacement activity for the 15 month period ended June 30, 2003 did not occur until late October 2003. A review of activity subsequent to June 30, 2003 had not occurred by late October 2003. The review included follow up with managing partners for certain producers with significant replacement activity.
- RNA observed Company personnel responding to notices from replacing carriers of policyholders' intentions to replace life policies as required by 211 CMR 34.06.

Recommendations: The following recommendations are noted based upon our procedures performed:

- As required by 211 CMR 34.04 and Company policy, for each external replacement, state disclosure forms should be presented to the applicant and signed by both the applicant and the producer at the time of sale.
- As required by 211 CMR 34.06, for each external replacement, notice to the replacing carrier should occur within seven days in all instances.

- The Company's newly adopted commission rules for life replacements in which the new premium is at least twice the old premium, and the replaced policy has been in force for five years or more, allows a full commission to be paid on the new sale. The Company should consider whether this policy effectively discourages replacements and whether this policy represents an industry best practice.
- Policies and procedures to monitor significant producer replacement activity and to take appropriate actions as needed should be completed timely to be most effective.

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Standard III-6. An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations. 211 CMR 95.11.

Objective: This Standard is concerned with ensuring that illustrations contain all required information, are provided to policyholders, and maintained in Company records. Pursuant to 211 CMR 95.11, the applicant for a variable life product must be provided with an illustration of benefits payable at or before the time an application is executed.

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

- Written policies and procedures govern the illustration handling process.
- Illustration software is deployed to the field after a significant in-house review and testing process.
- The Company requires the policyholder to sign a copy of approved illustrations when purchasing variable life insurance policies as required by 211 CMR 95.11. Such illustrations must be approved by home office and consistent with filed and approved policy forms.
- Company policy requires that variable annuity contracts be supported by prospectuses, which include contract illustration.
- The Company's policies and procedures require home office approved illustrations be signed by the policyholder for replacement of existing annuities with a newly purchased annuity with a bonus feature.

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

Transaction Testing Procedure: RNA reviewed illustrations provided to prospective policyholders in conjunction with our tests of 32 variable life sales.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing indicated that the Company requires the policyholder to sign a copy of approved illustrations when purchasing variable life policies as required by 211 CMR 95.11. In addition, the requirement to provide illustrations for variable annuities is satisfied by contract prospectuses provided to the consumer. However, in eleven of 32 variable life sales, illustrations were used in the sales although the sale

dates were after the Company's expiration date on the illustrations. Our understanding is that these illustrations properly illustrated the expected performance of the policies. An expiration date is included on the illustration so that the illustration will be reviewed by Compliance periodically. As such, the periodic review of the illustrations was not completed as required by Company policy.

The results of our testing in conjunction with replacement of existing annuities with bonus feature annuities indicated that of the three bonus annuity replacements which we tested, two sales did not have an approved signed illustration as required by Company policy.

Recommendations: The Company should ensure that all variable life illustrations are reviewed by Compliance prior to expiration, as required by Company policy. In addition, the Company should enhance the field and home office sales review processes to ensure that approved bonus annuity illustrations are provided to and signed by the policyholder, as required by Company policy.

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Standard III-7. The company has suitability standards for its products when required by applicable statutes, rules and regulations.
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Objective: This Standard is concerned with whether the Company maintains suitability standards for its products.

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

- The Company has developed policies and procedures to ensure that products and sales are suitable for prospective policyholders.
- For sales involving variable life and annuity products, a home office suitability review is required to be performed by an NASD licensed Series 26 individual.
- The Company's procedures also require the general agency managing partner to approve all life sales and annuity sales, which are replacements or transfers from mutual funds for suitability. For annuities, this approval is to be documented on the Company's annuity disclosure form, which also must be provided to and signed by the policyholder.

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: For 100 selected life and annuity sales from January 1, 2002 to June 30, 2003 tested in the objective above, which included replacements and non-replacements, we reviewed compliance with the Company's suitability requirements.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for sales involving variable life and annuity products, a home office suitability review was performed by an NASD licensed Series 26 individual.

For life sales, RNA noted Company review notes and queries where the Company's suitability reviewer asked questions of the producer and appeared to perform a substantive review of the suitability of the investment transaction. However, the procedures requiring the general agency managing partner to review life sales for suitability did not appear to be consistently documented.

For variable annuities, RNA noted that general agency managing partner's approval was documented on the Company's annuity disclosure form for all but one of the sales, which was a transfer from a mutual fund.

Additionally for three annuity replacements, which were approved by the home office and the general agency managing partner, RNA raised questions about whether the replacements were in the best interests of the policyholders. These replacements were adequately supported as suitable by the Company.

Finally, the Company is considering significant changes to its suitability guidelines for annuity sales. These guidelines will be significantly more restrictive than the current guidelines.

Recommendations: We recommend that the Company address the following:

- The Company should require that the managing partner's approval for life sales be clearly documented as required by Company policy.
- The Company should ensure through the home office review process that the annuity disclosure form be provided to and signed by the policyholder and be signed by the managing partner as required by Company policy.
- The Company should strongly consider enhancing the home office review for suitability of annuity sales, particularly replacements, to ensure that all sales are in the best interest of the policyholder.
- Proposed changes to existing suitability guidelines for annuity sales should be implemented as soon as possible.

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Standard III-8. Pre-need funeral contracts or pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations.
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No work performed. This Standard not covered in scope of examination because the Company does not offer such products anywhere it is licensed.

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Standard III-9. The company's policy forms provide required disclosure material regarding accelerated benefit provisions.
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No work performed. This Standard not covered in scope of examination because the Company does not offer accelerated benefits in Massachusetts.

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IV. PRODUCER LICENSING

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

Effective January 1, 2003, the Commonwealth of Massachusetts enacted a variety of new producer licensing laws. The statutes referenced in the Standards below are those statutes in effect both before and after the change in producer laws.

Standard IV-1. Company records of licensed and appointed (if applicable) producers agree with department of insurance records. M.G.L. c. 175, §§ 162, 163, 166, 174 and 177 for the period January 1, 2002 through December 31, 2002 (for the year 2002) and M.G.L. c. 175, §§ 162I and 162S for the period January 1, 2003 through June 30, 2003 (for the year 2003).

Objective: The Standard is concerned with ensuring that the Company's appointed producers are appropriately licensed by the Division as required by M.G.L. c. 175, §§ 162, 163, 166, 174 and 177 for the year 2002 and M.G.L. c. 175, §§ 162I and 162S for the year 2003.

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

- The Company maintains an automated producer database that interfaces with new business processing, policy maintenance and producer compensation systems.
- All producers are required to enter into a written contract with the Company prior to their appointment.
- The Company performs background checks (both criminal and financial) and other due diligence procedures on individuals prior to contracting with them. Such procedures include verification that the person is properly licensed for the lines of business to be sold in Massachusetts and that the person's license is in good standing with the Division as required by M.G.L. c. 175, §§ 162, 163 and 166 for the year 2002 and M.G.L. c. 175, § 162I for the year 2003.
- The Company's appointment procedures are designed to comply with the Division's requirements prescribed in M.G.L. c. 175, § 162S for the year 2003, which requires that an agent must be appointed within 15 days from the date the agent's contract is executed.
- The Company's procedures also verify the producer is properly licensed by the NASD, as appropriate. The Company maintains contractual relationships with four licensed general agencies (three as of December 31, 2003) that produce business in Massachusetts and support approximately 150 active producers.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments. RNA selected 100 new business sales for the period January 1, 2002 through June 30, 2003. For each of the selected sale transactions, RNA performed procedures to verify that the producer was licensed and that any agent was appointed according to the Company's records prior to the date of the sale. Finally, RNA reviewed relevant internal audit reports related to producer licensing.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, RNA noted several discrepancies between the producer's appointment dates on the Division's records compared to the appointment dates on the Company's records. RNA also noted several instances where the producer was licensed according to the Division's records, but not appointed as agent by the Company or its affiliates. All producers appeared to be licensed by the Division at the time of sale. RNA noted internal audits conducted in 2001 and 2002, which indicated similar discrepancies in the producer records. However, based upon our testing, we noted no violations of M.G.L. c. 175, §§ 162, 163, 166, 174 and 177 for the year 2002 or of M.G.L. c. 175, §§ 162I and 162S for the year 2003.

Recommendation: We recommend that the Company work with the Division to reconcile its producer licensing and agent appointment records with the Division's records as of a date certain and modify its appointment procedures, as necessary, to ensure accurate and timely maintenance of its licensing and appointment records in accordance with M.G.L. c. 175, §§ 162I and 162S.

* * * * *

Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken. M.G.L. c. 175, §§ 162, 163, 166, 174 and 177 for the year 2002 and M.G.L. c. 175, §§ 162I and 162S for the year 2003.

Objective: Refer to Standard IV-1.

Controls Assessment: Refer to Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: Refer to Standard IV-1.

Transaction Testing Results: Refer to Standard IV-1.

Recommendations: Refer to Standard IV-1.

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Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable. M.G.L. c. 175, § 163 for the year 2002 and M.G.L. c. 175, § 162T for the year 2003.

Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer. Under M.G.L. c. 175, § 163, if the Company does not notify the Division of an agent's termination, the agent's license will remain in effect and the Company will be bound by the agent's actions. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date

of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

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

- Each general agency is supervised by a managing partner who is licensed by the Division and must maintain a NASD Series 24 license.
- A home office compliance program includes periodic on-site inspections of its general agencies by compliance or internal auditing personnel. The Company routinely monitors numerous financial and operating performance indicators for each of its general agencies and producers.
- Any producer or managing partner who violates Company policies is given a warning letter for the first violation. For the second violation of Company policies, the producer or managing partner is generally terminated. The reasons for terminations are documented by the Company.
- The Company has procedures to provide notification of termination to producers and the Division.

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

Transaction Testing Procedure: RNA selected a sample of 30 terminated agents and reviewed documentation related to the termination. Ten of the terminations were selected from Division records, and twenty were selected from Company records. In addition, RNA reviewed internal audit reports, results of compliance department monitoring, and enforcement actions taken against producers.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed the following:

- Of the ten producer terminations listing Company appointed agents selected from the Division records, all ten were noted as terminated on the Company's records.
- Of the ten producer terminations listing Company appointed agents selected from Division records, only one of the termination dates was consistent between the Company and Division records.
- RNA tested twenty producer terminations selected from Company records, which included termination of broker's licenses, conversion of broker's licenses and termination of agent's licenses. The Division's database included only terminations of Company agent appointments. Of the 20 producer terminations tested, eight were terminations of appointed agents while the remaining were producer terminations or broker's license conversions. Only one of the eight agent terminations had a consistent termination date in both the Company and Division databases. The Company presented evidence to RNA that the Company's termination dates were correct and noted that the NAIC's Producer Database included incorrect information in some instances. In some cases, confusion may

have been due to termination notice dates versus effective dates in the Company and Division records.

Recommendation: We recommend that the Company work with the Division to reconcile its terminated agent records with the Division's records as of a date certain and modify its communication procedures to ensure accurate and timely maintenance of terminated agents lists as required by law.

* * * * *

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

Objective: The Standard is concerned that the Company has a policy for ensuring that producer appointments and terminations do not unfairly discriminate against policyholders.

Controls Assessment: Refer to Standards IV-1 and IV-3.

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

Transaction Testing Procedure: RNA selected 100 new business sales for the period January 1, 2002 through June 30, 2003. For each of the selected sale transactions, RNA performed procedures to verify that the producer was licensed and that any agent was appointed according to the Company's records prior to the date of the sale. Documentation was reviewed for any evidence of unfair discrimination against policyholders as a result of producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Through our testing noted above, no evidence of unfair discrimination against policyholders was noted as a result of producer appointments and terminations.

Recommendations: None.

* * * * *

Standard IV-5. Records of terminated producers adequately document reasons for terminations. M.G.L. c. 175, § 162T.

Objective: The Standard is concerned that the Company's records for terminated producers adequately document the action taken. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

Controls Assessment: Refer to Standard IV-3.

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

Transaction Testing Procedure: RNA obtained a listing of terminated agents and reviewed the reasons for termination for each agent.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing noted above, Company records adequately document reasons for agent terminations, including for cause terminations.

Recommendations: None.

* * * * *

Standard IV-6. Debit producer accounts current (account balances) are in accordance with the producer's contract with the company.

Objective: The Standard is concerned with whether the Company's contract with the producer limits debit balances (i.e., constructive loans to producers).

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: The Company represented that the compensation process does not allow for and/or result in debit account balances. Material debit account balances are included in the scope of the statutory financial examination of the Company.

Transaction Testing Results: Not applicable.

Recommendations: None.

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V. POLICYHOLDER SERVICE

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

Standard V-1. Premium notices and billing notices are sent out with an adequate amount of advance notice. M.G.L. c. 175, § 110B.

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due and disclosure of the risk of lapse. Pursuant to M.G.L. c. 175, §110B, no life policy shall terminate or lapse for nonpayment of any premium until the expiration of three months from the due date of such premium, unless the company within not less than ten nor more than forty-five days prior to said due date, shall have mailed a notice showing the amount of such premium and its due date. The notice shall also contain a statement as to the lapse of the policy if no payment is made as provided in the policy.

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

- Billing notices are generated automatically through the policy administration systems, based on contract anniversary dates and payment cycles.
- For life policies, a billing notice is generated 25-60 days prior to the due date, and such notices are directly mailed to the policyholder 30 days prior to the due date.
- A notice of premium due also is sent to the agent for annual billing notices on traditional products.
- Daily exception reports are generated noting bills that were not processed properly. Those bills are corrected and manually mailed to the policyholder.
- If premiums are not received as required, an overdue premium notice is mailed 10-24 days after the due date, depending on the policy type, noting that non-payment will cause the policy to lapse.
- For universal life policies, contributions often vary based on the performance of the product. While payments are often not required, a billing notice is sent to the policyholder on a quarterly or annual basis.

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: No detailed testing was performed due to the nature of this standard; however, RNA reviewed examples of billing notices and exception reports.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, life premium notices and billings generally appear to be clear and mailed with adequate advance notice with the disclosure of potential lapse in the event of non-payment. However, for universal life policies, the notice does not clearly state that the payment may not be required to maintain the policy in-force status.

Recommendation: The Company should review premium notice procedures for universal life policies and consider additional clarification stating that payments may not be required to keep the policy in-force.

* * * * *

Standard V-2. Policy issuance and insured requested cancellations are timely. M.G.L. c. 175, §§187C and 187H; 211 CMR 34.06.

Objective: This Standard is concerned with whether the Company has cancellation and withdrawal procedures to ensure that such policyholder requests are processed timely. Company processes must be in compliance with M.G.L. c. 175, §187H regarding free looks and the Division's policy to require ten day free looks on all life policies and annuity contracts, 211 CMR 34.06 regarding 20 day free looks on replacements, and with M.G.L. c. 175, §187C regarding written notice for Company cancellations. Policy issuance review is included in Underwriting and Rating Standard VI-9. Lapse notice requirements are included in Policyholder Service Standards V-1 and V-6.

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

- When a customer requests that a life policy be cancelled, written and signed authorization must be provided by the owner. Once received by the Company, the cancellation is effective on that date, and a check is then sent within five days. The policyholder receives the value of the policy on that effective date.
- The Company's goal is to process 95% of insured requested cancellations within five days, and this benchmark is monitored quarterly. An exception report is generated for variable product cancellations that are processed outside of the five day window. Paid up policy withdrawals also are processed within five days. These benchmarks are monitored quarterly.
- All policyholders have the right to return a newly purchased policy within 10 days of the receipt date by the policyholder which meets, and in certain instances, exceeds the requirements of M.G.L. c. 175, §187H and is in compliance with the Division policy to require a ten day free look on all life policies and annuity contracts. Additionally, policyholders who replace life policies and annuity contracts are allowed a 20 day free look period.
- The Company's policy is to provide written notice to the policyholder when the Company cancels a policy for material misrepresentation or non-payment as required by M.G.L. c. 175, §187C.
- For annuity contracts, when a customer requests a cancellation or withdrawal, written and signed authorization from the owner must be received. The agent is given notice from the Company immediately for all full withdrawals over \$5,000 to allow the agent to conserve the business. The agent has until 11:00 a.m. the next day to give notice to the Company that he or she wishes to conserve. Thereafter, the agent is given six days to conserve. On the seventh day, if the agent does not give notice to the Company that the business has been conserved, the request is processed. If the agent does not notify the Company on the day following original notice to them that the agent wishes to conserve, the funds are sent to the contract holder that day. Once the original request is received, the transfer is effective on that date, and the contract holder receives the value of the contract on that date. A surrender charge may or may not apply depending on the type of annuity contract and when the transfer occurs.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel, reviewed documentation and exception reports and conducted a transaction walkthrough to corroborate information received regarding the Company's policies and procedures with regard to free looks, insured requested cancellations and Company cancellations. In the event of such cancellations, written notice to the policyholder is provided.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have reasonable procedures to process insured requested cancellations, free looks and Company cancellations, and such transactions appear to be processed timely in compliance with statutory requirements.

Recommendations: None.

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Standard V-3. All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.
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Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants.

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

- The Company has customer call centers to respond to policyholders' and or agents' questions.
- For life policies, the Company receives approximately 12,000 calls per month and has approximately 23 call center representatives who handle such calls. The representatives have access to Company systems to view policy history and values. Requests for address changes, loans, dividend accumulation withdrawals and variable life fund transfers are handled directly by the call center representative. Certain representatives have the NASD licensed Series 6 designation, and only those licensed individuals handle fund transfers. Service results are benchmarked and tracked quarterly.
- For annuity contracts, the Company has approximately 13 call center representatives who handle such calls. The representatives have their NASD licensed Series 6 designation and have access to various Company systems. Many requests are handled directly by the call center representative including post issue calls and new business calls to check the status of an in-process transaction. Post issue calls typically include change of sub-account selection, address changes, withdrawal date changes, and tax withholding changes. Service results are benchmarked and tracked quarterly.
- The Company has a customer contact process, which surveys policyholders about their understanding of purchased life policies and annuity contracts.

For discussion of written complaint procedures, refer to the Complaint Handling section.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed documentation and exception reports to corroborate information received.

Transaction Testing Results:

Findings: None.

Observations: Recent results showed that the life policy call center is meeting or exceeding their goal of answering 60% of calls within 30 seconds or less. Recent results showed that the annuity call center is generally meeting or exceeding their goal of answering 80% of calls within 20 seconds. As such, the Company appears to have adequate resources and procedures to handle customer questions.

Recommendations: None.

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Standard V-4. Reinstatement is applied consistently and in accordance with policy provisions. M.G.L. c. 175, § 132(11).
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Objective: This Standard is concerned with whether the Company consistently processes reinstatements and that reinstatements comply with policy provisions. Pursuant to M.G.L. c. 175, § 132(11), life policies must include a provision that the policyholder is entitled to have the policy reinstated, with certain limitations.

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

- For life policies, MetLife recently has standardized its guidelines regarding reinstatements among all enterprise companies.
 - All life reinstatement requests received with cash for the lapsed premium within ten days of lapse, and having a face value less than \$1 million are automatically reinstated.
 - Other reinstatement requests require completion of forms and some level of re-underwriting.
 - All lapsed policies between 11 and 62 days and less than \$500,000 face value require confirmation that there has been no change in health status. If there has been no change, underwriting automatically reinstates the policy.
 - All other reinstatement requests require re-underwriting. Once these reinstatement requests are reviewed and approved or denied by underwriting, the policy either is reinstated or remains in lapsed status.
- For annuities, the Company's general unwritten policy is to allow reinstatements if the contract holder replaced the contract with another carrier's contract but ultimately decided to waive the sale, or if the Company's check has not been cashed or cashed generally

within seven days. The customer must submit his intentions in writing, and the funds must be returned to the Company before reinstatement will occur.

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

Transaction Testing Procedure: RNA reviewed a Company report showing lapsed and reinstated life policies. RNA discussed procedures with Company personnel and reviewed documentation and detailed summary reports to corroborate Company policies and procedures. The vast majority of reinstatement requests are processed with little or no underwriting. According to Company underwriting records, the number of reinstatements, which require full underwriting, are minimal and these requests are subject to underwriting processes and controls noted in the Underwriting and Rating Standards.

Transaction Testing Results:

Findings: None.

Observations: RNA noted no evidence of life reinstatement requests being denied in violation of Company policy, contractual obligations or M.G.L. c. 175, § 132(11). Guidelines for annuity reinstatements appear reasonable, but informal. There is no written policy on annuity reinstatements, which may make it difficult to ensure consistent application for all customers.

Recommendations: We recommend that the Company adopt written guidelines for annuity reinstatements to ensure consistent application for all customers.

* * * * *

Standard V-5. Policy transactions are processed accurately and completely. M.G.L. c. 175, §§ 123, 139 and 142; 211 CMR 95.08(12).
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Objective: This Standard addresses Company's procedures for processing transactions including beneficiary and ownership changes, conversions and policy loans to ensure that they are processed accurately, completely and in compliance with M.G.L. c. 175, §123 which requires a witness for beneficiary changes; with M.G.L. c. 175, §139 which limits face amounts of conversions for rewritten policies with an effective date prior to the exchange application date; with M.G.L. c. 175, §142 regarding loan interest rates for non-variable whole life policies; and with 211 CMR 95.08(12) governing policy loans on variable life policies.

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

- For life policies, the Company's goal is to process 95% of beneficiary and ownership changes in good order within five business days. For annuities, the Company's goal is to process 98% of beneficiary and ownership changes in good order within five business days. These benchmarks are tracked quarterly.
- Once written signed authorization is received with a witness, as required under M.G.L. c. 175, § 123, the beneficiary change is effective at signing and binding upon the Company.

- For beneficiary changes, a confirmation letter is sent to the owner, and for ownership changes, a confirmation is sent to the old and new owners.
- Conversions are contractually permitted, and Company policy is designed to comply with M.G.L. c. 175, § 139, which limits face amounts of conversions for rewritten policies with an effective date prior to the conversion application date.
- Policy loan requests for less than \$25,000 for individuals can be processed by a representative in the customer service call center over the phone. Amounts over \$25,000 require authorization in writing. Policy loans generally are processed within five days, and this benchmark is monitored quarterly.
- The Company's practices with regard to interest rates on non-variable life policy loans are designed to comply with M.G.L. c. 175, § 142.
- For policy loans on variable life policies, the Company's practices with regard to policy loans are designed to comply with the requirements in 211 CMR 95.08(12).

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and completed a transaction walkthrough supporting documentation and summary reports to corroborate beneficiary changes or loan interest rates. None of the policies selected through our new business testing were conversions. RNA reviewed the Company's variable life prospectuses for proper disclosure.

Transaction Testing Results:

Findings: None.

Observations: The Company has implemented procedures for processing transactions including beneficiary and ownership changes and appears to process these accurately, completely and in compliance with M.G.L. c. 175, § 123. Interest rates on policy loans on non-variable whole life are in compliance with M.G.L. c. 175, § 142. Per review of variable life prospectuses, notice of variable life policy loan provisions including interest rates is properly disclosed in the prospectus given to the policyholder at the application date in accordance with 211 CMR 95.08(12).

Recommendations: None.

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<p>Standard V-6. Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract. M.G.L. c. 175, §§ 144 and 144A; Division of Insurance Bulletin 2000-02.</p>

Objective: This Standard is concerned with the Company's notification to life policyholders and annuity contract holders regarding non-forfeiture options and that non-forfeiture options are applied in accordance with the policy contract. Pursuant to M.G.L. c. 175, § 144, life policyholders may, in the event of a default, elect to (a) surrender the policy and receive its value in cash, or (b) take a specified paid-up non-forfeiture benefit effective from the due date of the premium in default. In lieu of such specified paid-up non-forfeiture benefit, the Company may substitute an actuarially

equivalent alternative paid-up benefit, which provides a greater amount or longer period of death benefits. M.G.L. c. 175, § 144A provides similar options for annuity contracts. Finally, no-lapse guarantees on variable whole life and variable universal life policies are addressed by Division of Insurance Bulletin 2000-02.

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

- Life policy lapses contractually occur 31 days after non-payment of premium. However, the Company does not process the lapse until between 62 and 90 days after non-payment depending on policy type, and at that time notifies the policyholder and the agent of the lapse.
- In certain cases an automatic premium loan (APL) may be taken or dividends may be used to cover the premium if the cash value or accumulated dividends in the policy support the premium payment with a corresponding notice to the insured of the APL or dividend transaction. In other cases, the paid-up benefit is granted to the policyholder in compliance with M.G.L. c. 175, § 144.
- Annuity contractual obligations are designed to be in compliance with M.G.L. c. 175, § 144A, which requires payment of minimum cash surrender values. The contracts state that surrender charges are based upon accumulated premium and exclude any gain. However, when the contracts are surrendered with a loss, the surrender charge is 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 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: RNA discussed procedures with Company personnel and completed a transaction walkthrough supporting the application of the non-forfeiture benefit. RNA reviewed the product prospectuses to ensure that non-forfeiture benefits and no-lapse guarantees are communicated to the policyholder at the application date.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, the Company appears to communicate non-forfeiture options to policyholders and appears to apply such options in accordance with the policy contract. In addition, the Company's procedures appear to ensure that the payment of cash surrender values follows contractual obligations and M.G.L. c. 175, §§ 144 and 144A. Finally, no-lapse option guarantees on variable universal life contracts are communicated in compliance with Division of Insurance Bulletin 2000-02.

Recommendations: None.

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Standard V-7. Reasonable attempts to locate missing policyholders or beneficiaries are made. M.G.L. c. 200A, §§ 5A, 7-7B, 8A and 9.

Objective: This Standard is concerned with the adequacy of the Company's processes to locate missing policyholders and beneficiaries and to comply with escheatment and reporting requirements as set forth in M.G.L. c. 200A, §§ 5A, 7-7B, 8A and 9. These statutes state that a life policy or annuity contract, **which has matured**, is presumed abandoned if unclaimed and unpaid for more than three years after the funds became due and payable. They provide for the annual reporting to the State Treasurer's Office and requirements to attempt to find the owner of the abandoned property and the retaining of such documentation supporting such attempts. Finally, the statutes specify payment requirements to the State Treasurer's Office for escheated property.

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

- The Company has processes to locate lost policyholders via company records, the internet, sales offices and social security databases. Efforts to locate policyholders for the recent demutualization were successful in locating many policyholders.
- Company policy requires that life policy funds are to be reported and escheated as required by state law when no owner can be found.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed documentation and exception reports to corroborate information received. RNA reviewed the Division's financial examination staff procedures performed during the Division's financial examination to address the Company's compliance with escheatment and reporting requirements.

Transaction Testing Results:

Findings: Our discussions with annuity processing personnel indicated that for annuity contracts, no reporting or escheatment is occurring for lost policy owners' funds.

Observations: The Company appears to have processes to locate lost policyholders via company records, the internet, sales offices and social security databases. It was noted that life policy funds are reported and are escheated as required by state law when no owner can be found.

Recommendation: The Company should ensure that applicable life and annuity funds are reported and/or escheated to the state in accordance with the applicable provisions of M.G.L. c. 200A.

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Standard V-8. The company provides each policy owner with an annual report of policy values in accordance with statute, rules and regulations and, upon request, an in-force illustration or contract policy summary. 211 CMR 95.13.

Objective: This Standard is concerned with the sufficiency of disclosure to the policyholder of certain required information. 211 CMR 95.13 requires that certain reports, with certain disclosures contained therein, be provided to variable life policyholders including (a) an annual report (including cash surrender value, cash value, death benefit, any partial withdrawal, partial surrender or policy loan, any interest charge, and any optional payments allowed), and (b) a summary financial statement of each separate account (including net investment return information, a listing of investments held, expenses charged to the account, and any change in investment objectives). The regulation further requires that the Company maintain specimen copies of reports distributed to policyholders. Illustration requirements are also addressed in Marketing and Sales Standard III-6. Contract summary requirements are addressed in Underwriting and Rating Standard VI-2.

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

- For life policies, the billing notice contains required annual statement disclosures. For those policyholders who elect monthly debit charges from bank accounts, annual statement notices are mailed separately.
- For annuity contracts, annual statements are sent to fixed annuity holders, and quarterly statements are mailed to variable annuity contract holders.
- Variable life and annuity statements disclose account balances, sub-account balances, cash surrender value, recent performance and the current death benefit in compliance with requirements in 211 CMR 95.13.
- The Company's policy is to provide illustrations and policy summaries to policyholders when requested.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and completed a transaction walkthrough supporting the processes to issue annual statement disclosures and to respond to policyholder inquiries for illustrations and policy summaries. No detail testing of annual statements was performed.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have reasonable procedures to provide policyholders with timely annual statements and to comply with annual statement requirements in 211 CMR 95.13. The Company also provides illustrations and policy summaries to policyholders when requested.

Recommendation: None.

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Standard V-9. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. M.G.L. c. 175, §§ 119B, 119C, 187C and 187D.

Objective: This Standard is concerned with the accuracy of calculated unearned premiums and the timeliness of their return to the policyholder. Pursuant to M.G.L. c. 175, § 119B, the proceeds payable under any life policy (except single-premium policies) shall include premiums paid for any period beyond the end of the policy month in which death occurred. M.G.L. c. 175, § 119C requires that interest be paid on all proceeds (including excess premiums paid, as noted in the previous sentence) beginning 30 days after the death of the insured. M.G.L. c. 175, § 187C provides that the full return premium payable on a policy, upon its cancellation, be tendered in accordance with its terms without any deductions. M.G.L. c. 175, § 187D precludes payment of unearned premiums if the insured has not actually paid the premium.

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

- The Company's policy administration systems automatically calculate the amount of the Company's unearned premium remaining on a cancelled policy and process a payment to the policyholder in accordance with M.G.L. c. 175, § 187C.
- The Company's policy administration systems automatically calculate the amount of the Company's return premium after death of the insured in accordance with M.G.L. c. 175, § 119B.
- Company policy is to process nearly all death claims within five days. To the extent that a death claim is not paid within 30 days after the death of the insured and assuming all death claim documentation is received, interest is paid to the beneficiary in accordance with M.G.L. c. 175, § 119C. Further, the Company noted that the Company's policy is to pay interest on claims as of the date of death.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and completed a transaction walkthrough supporting the Company's policies and procedures regarding the return of premium to policyholders. The Division's financial examiners have tested the policy administration systems that calculate unearned premium amounts. RNA reviewed procedures and tested claims to corroborate Company procedures to pay interest on claims as of the date of death.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to calculate unearned premiums correctly and returns premium in a timely manner and in accordance with statutory guidelines. The Company appears to comply with M.G.L. c. 175, § 119C regarding interest on claims and its claims interest policy. The Division's financial examiners have determined that the Company's policy administration systems properly calculate unearned premium amounts.

Recommendations: None.

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Standard V-10. Whenever the company transfers the obligations of its contracts to another company pursuant to an assumption reinsurance agreement, the company has gained the prior approval of the insurance department and the company has sent the required notices to its affected policyholders.

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

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

No work performed. This Standard not covered in scope of examination because the Company does not offer accelerated benefits in Massachusetts.

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FOR INFORMATION PURPOSES ONLY

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. All rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan. M.G.L. c. 176D, § 3(7).

Objective: This Standard is concerned with the accuracy of the Company's policy premiums, i.e., whether proper premiums are being charged and proper rates being used. Pursuant to M.G.L. c. 176D, §3(7), it is deemed an unfair method of competition to unfairly discriminate between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance, or of life annuity, or to unfairly discriminate between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance.

Controls Assessment: The following key observations were noted in conjunction with 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, which are designed to reasonably assure consistency in classification and rating.
- There are 12 rating classes, and 95% of policies are issued at the three highest classes-standard, preferred or select, 4% are issued at the nine classes under standard, and 1% are denied.
- The Company has a process to log and document Division approval of all rates to comply with provisions contained in statutory underwriting and rating requirements.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 50 new business sales for the period January 1, 2002 through June 30, 2003 for testing of Company rate classifications as part of the underwriting processes. Such sales included products for which actuarial rate setting documentation were to be filed with the Division. For each of the selected sale transactions, RNA verified that the Company rate classifications complied with statutory requirements. Also, related product filings, including rate-setting processes, were reviewed for evidence that they were submitted to the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's rate classification process complies with statutory requirements. Also, related product filings, including rate-setting, processes were submitted to the Division, as required.

Recommendations: None.

* * * * *

Standard VI-2. All mandated disclosures for individual insurance are documented and in accordance with applicable statutes, rules and regulations. 211 CMR 31.05, and 211 CMR 95.11.

Objective: This Standard is concerned with whether all mandated disclosures for individual insurance policies are documented and in accordance with statutes, regulations and Company policy. Pursuant to 211 CMR 31.05, non-variable life insurance that is marketed through an insurance agent requires that the insurer provide the applicant with a Buyer's Guide and Preliminary Policy Summary before the application is signed and a signed Policy Summary before accepting any premium. This Policy Summary is similar to an illustration provided to buyers of variable life policies. Pursuant to 211 CMR 95.11, illustrations are to be provided for variable life sales. Refer to Marketing and Sales Standard III-6 for testing of this requirement.

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

- The Company's procedures are designed to ensure that new business submissions from producers are accurate and complete including use of all Company required forms and instructions.
- The Company has written policies and procedures for new business processing.
- Applications are closely reviewed to determine that all applicable questions are answered and that required information is filed and consistent.
- If information or forms are missing, requirements are updated, and a letter is sent to the producer requesting those forms and information.
- Outstanding information or open items are tracked for completion. A policy will not be issued until all outstanding information and open items are completed.
- The Company requires a policy delivery receipt to document the delivery of all individual insurance contracts and its receipt by the applicant/policyholder. The policy delivery receipt has a question asking the policyholders to acknowledge receipt of the Buyer's Guide for both non-variable and variable life insurance contracts.
- The Company requires that a Preliminary Policy Summary be delivered to the policyholder when the application is signed for non-variable life products.
- The Company has a review process over producers to monitor receipt to ensure policy delivery receipts are obtained.
- The Company is to obtain a signed Policy Summary for non-variable life products before accepting the applicant's premium.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting and new business processing. RNA selected new business sales of individual life insurance for the period January 1, 2002 through June 30, 2003. For each of the selected 18 non-

variable sale transactions, of which 14 were ultimately consummated, RNA verified the application submitted was signed and complete in compliance with 211 CMR 31.05. For 32 variable life policies, of which 25 were ultimately consummated, RNA verified the application submitted was in compliance with Company policy which requires obtaining a policy delivery receipt and evidence that a Buyer's Guide was provided.

Transaction Testing Results:

Findings: The results of our testing showed the following.

- In 13 of the 14 non-variable sales ultimately consummated, there was no evidence that the policyholder acknowledged receipt of the Buyer's Guide as required by 211 CMR 31.05 by checking the appropriate box on the policy delivery receipt.

Observations: The results of our testing showed the following:

- In 27 of 32 variable life policies tested, there was no evidence that the policyholder acknowledged receipt of the Buyer's Guide, as required by Company policy.
- For 3 of the 25 variable life sales ultimately consummated, no signed policy delivery receipt was obtained, as required by Company policy.
- Each of the 18 non-variable life sales tested provided evidence of a signed Preliminary Policy Summary at application and a signed Policy Summary, before accepting the applicant's premium, as required by 211 CMR 31.05.

Recommendations: We recommend that the Company address the following:

- 211 CMR 31.05 requires that the agent provide the applicant a Buyer's Guide along with other policy costs/benefit disclosures for non-variable sales. The Company should enhance controls over the review of all applications to ensure that evidence exists that the Buyer's Guide, along with other policy costs/benefit disclosures, is timely provided to applicants.
- Company policy requires a policy delivery receipt to document the delivery of an individual insurance contract and its receipt by the applicant/policyholder. The Company should enhance controls over the review of all sales to ensure that the policy delivery receipt has been obtained.
- Company policy requires that agent provide the applicant a Buyer's Guide along with other policy costs/benefit disclosures for all variable sales. The Company should enhance controls over the review of all applications to ensure that evidence exists that the Buyer's Guide, along with other policy costs/benefit disclosures, is timely provided to applicants.

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Standard VI-3. All mandated disclosures for group insurance are documented and in accordance with applicable statutes, rules and regulations.
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No work performed. This Standard not covered in scope of examination because the Company offers minimal group products in Massachusetts.

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Standard VI-4. All mandated disclosures for credit insurance are documented and in accordance with applicable statutes, rules and regulations.

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

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Standard VI-5. The company does not permit illegal rebating, commission cutting or inducements. M.G.L. c. 175, §§ 182 , 183 and 184; M.G.L. c. 176D, § 3(8).

Objective: This Standard is concerned with whether (a) Company correspondence to producers and advertising/marketing materials have no indication of illegal rebating, commission cutting or inducements; (b) producer commissions adhere to the commission schedule; and (c) the Company makes required filings. Pursuant to M.G.L. c. 175, §§ 182, 183 and 184, the Company, or any agent thereof, cannot pay or allow, or offer to pay or allow any valuable consideration or inducement not specified in the policy or contract, or any special favor or advantage in the dividends or other benefits to accrue thereon. Similarly, under M.G.L. c. 176D, § 3(8), it is an unfair method of competition to make or offer to make an insurance contract for life insurance, life annuity or accident and health insurance other than as expressed in the insurance contract, or to pay, allow or give as inducement to such insurance or annuity any rebate of premiums or any special favor or advantage in the dividends or other benefits or any valuable consideration or inducement whatever not specified in the contract.

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

- The Company has procedures to pay producers' commissions in accordance with home office approved written contracts.
- The producer contracts and home office policies and procedures are designed to comply with provisions contained in statutory underwriting and rating requirements, which 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: RNA interviewed individuals with responsibility for commission processing and producer contracting. In connection with the review of producer contracts, new business materials, advertising materials, producer training materials and manuals, RNA inspected such materials for indications of rebating, commission cutting or inducements. RNA also completed a transaction walkthrough of commission processing.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to prohibit illegal acts including special inducements and rebating are functioning in

accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

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Standard VI-6. All forms including contracts, riders, endorsement forms and certificates are filed with the department of insurance, if applicable. M.G.L. c. 175, §§ 2B, 22, 132, 211 CMR 95.08, 95.12, and Division of Insurance Bulletin 2001-05.

Objective: This Standard is concerned with the appropriate filing of all forms and endorsements. Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance shall be delivered or issued for delivery to more than 50 policyholders in the Commonwealth until a copy of the policy form has been on file with the Commissioner for 30 days, or the Commissioner approves the form within the 30 day time frame. Additionally, no life, endowment or annuity policy form may be delivered unless it complies with a variety of readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions. M.G.L. c. 175, § 132 sets forth a 30 day filing requirement and identifies certain mandated provisions that must be contained within life, endowment and annuity policy forms before they are delivered. 211 CMR 95.08 sets forth the policy form requirements for variable life products and 211 CMR 95.12 outlines the items that should be contained within an application for a variable life insurance policy. Finally, pursuant to Division of Insurance Bulletin 2001-05, all policy form filings for life and annuities must be accompanied by a fully-completed form-filing checklist.

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

- Forms, rates, contract riders, endorsement forms, and illustrations are developed by multi-disciplined teams from actuarial, marketing, legal, compliance and information technology.
- Written underwriting guidelines are designed to reasonably assure consistency in classification of risks.
- The Company has a process to log and document Division approval of all such forms, contract riders, endorsement forms and illustrations to comply with provisions contained in statutory underwriting and rating requirements.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for preparing forms, contracts, riders, endorsement forms, and illustrations. RNA selected 100 new business sales for the period January 1, 2002 through June 30, 2003. For each of the selected sale transactions, RNA verified the policy forms, contract riders, endorsement forms and illustrations were approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon the testing performed, the Company utilized policy forms, contract riders, endorsement forms and illustrations approved by the Division.

Recommendations: None.

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Standard VI-7. The company underwriting practices are not to be unfairly discriminatory. The company adheres to applicable statutes, rules and regulations, and company guidelines in selection of risks. M.G.L. c. 175, §§ 120, 120A-120E; M.G.L. c. 176D, § 3(7); 211 CMR 32.00.

Objective: This Standard is concerned with whether (a) the file documentation adequately supports decisions made; (b) the Company is following underwriting guidelines that both conform to state laws and have been filed where applicable; and (c) that no unfair discrimination is occurring according to the state's definition of unfair discrimination. Pursuant to M.G.L. c. 175, §120, no Company may discriminate in favor of individuals between insureds of the same class and equal expectation of life with regard to premiums or rates charged for life or endowment insurance, or annuities, or on the dividends or other benefits payable thereon. Additionally, the Commonwealth specifically prohibits discrimination in the issuance of policies to mentally retarded persons (M.G.L. c. 175, § 120A), blind persons (M.G.L. c. 175, § 120B), individuals with DES exposure (M.G.L. c. 175, § 120C), abuse victims (M.G.L. c. 175, § 120D), as well as on the basis of genetic tests (M.G.L. c. 175, § 120E).

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to engage in unfair discrimination, which is defined as: "(a) making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract; or (b) making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever." Additionally, mortality tables must conform to the requirements set forth in 211 CMR 32.00.

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

- Company policy prohibits the unfair discrimination in underwriting in accordance with M.G.L. c. 175, §§ 120, 120A-120E and M.G.L. c. 176D, § 3(7).
- The Company's policy is to utilize mortality tables that conform to the requirements set forth in 211 CMR 32.00.
- Written underwriting guidelines are designed to reasonably assure consistency in classification and rating of risks.
- The Company has a process to log and document Division approval of all such forms, contract riders, endorsement forms and illustrations to comply with provisions contained in statutory underwriting and rating requirements.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and classification of risks. RNA selected 50 new business sales for the period January 1, 2002 through June 30, 2003. For each of the selected sale transactions, RNA verified that the Company's underwriting practices are not unfairly discriminatory and that the Company adheres to the statutes, rules and regulations noted above.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard VI-8. Producers are properly licensed and appointed (if required) for the jurisdiction where the application was taken.

Refer to Standards IV-1 and IV-2 in the Producer Licensing Section.

* * * * *

Standard VI-9. Policies and riders are issued or renewed accurately, timely and completely. M.G.L. c. 175, §§ 123, 130, 131.

Objective: This Standard is concerned with whether the Company issues life policies and annuities timely and accurately. Pursuant to M.G.L. c. 175, § 123, a written application is required for issuance of life policies. M.G.L. c. 175, § 130 provides that no life policy or annuity issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the life policy or annuity contract.

Controls Assessment: The following key observations were noted in conjunction with the review of the issuance of policies and contracts under this Standard:

- The Company has written underwriting guidelines and procedures that require compliance with M.G.L. c. 175, §§ 123, 130 and 131.
- Supervisors review all applications to ensure that they are complete and internally consistent.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting, policy issuance, rejections, declinations and reinstatements. RNA selected 100 new business sales for the period January 1, 2002 through June 30, 2003. For each sale transaction selected, RNA's

procedures included verifying that the contract was approved by underwriting and issued in compliance with M.G.L. c. 175, §§ 123, 130 and 131.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to comply with M.G.L. c. 175, §§ 123, 130 and 131 are functioning in accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

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Standard VI-10. Rejections and declinations are not unfairly discriminatory. M.G.L. c. 175, §§ 120-120E; M.G.L. c. 175I, § 12; M.G.L. c. 176D, § 3(7).

Objective: This Standard is concerned with the fairness of application rejection/declination as relates to the reasoning and communication of such to the policyholder where required. Pursuant to M.G.L. c. 175, §120, no Company may discriminate in favor of individuals between insureds of the same class and equal expectation of life with regard to premiums or rates charged for life or endowment insurance, or annuities, or on the dividends or other benefits payable thereon. Additionally, the Commonwealth specifically prohibits discrimination in the issuance of policies to mentally retarded persons (M.G.L. c. 175, § 120A), blind persons (M.G.L. c. 175, § 120B), individuals with DES exposure (M.G.L. c. 175, § 120C), abuse victims (M.G.L. c. 175, § 120D), as well as on the basis of genetic tests (M.G.L. c. 175, § 120E).

M.G.L. c. 175I, § 12 states that an adverse underwriting decision may not be based, in whole or in part on a previous adverse underwriting decision, personal information received from certain insurance-support organizations and sexual orientation.

Pursuant to M.G.L. c. 176D, §3(7), it is an unfair method of competition to engage in unfair discrimination, which is defined as: "(a) making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract; or (b) making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever."

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

- The Company has written underwriting guidelines and policies that prohibit discrimination and comply with statutory underwriting and rating requirements, which prohibit discrimination as set forth in M.G.L. c. 175, §§ 120-120E, M.G.L. c. 175I, § 12 and M.G.L. c. 176D, § 3(7).

- The home office underwriting approval processes and procedures, training of home office underwriters, and communication with producers are designed to prohibit unfair discrimination.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting, policy issuance, rejections, declinations and reinstatements. RNA selected 50 new business sales for the period January 1, 2002 through June 30, 2003. For each file reviewed, RNA's procedures included verifying that the contract was approved by underwriting with no evidence of discriminatory rates or contract provisions.

In addition, RNA selected 20 declined or incomplete applications, or applications approved by underwriting, but not accepted by the applicant. RNA's procedures included verifying that the reason for the declination or non-issuance was in accordance with the Company's written underwriting guidelines. Further, for rejected or declined applications, RNA's procedures verified that written notice of reasons for an adverse decision was provided to the applicant in accordance with statutory underwriting and rating requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to prohibit unfair discrimination in underwriting and selection of risks are functioning in accordance with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

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<p>Standard VI-11. Cancellation/non-renewal reasons comply with policy provisions and state laws and company guidelines. M.G.L. c. 175, § 132(2).</p>
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Objective: This Standard is concerned with whether (a) the reasons for a cancellation or non-renewal are valid according to policy provisions and state laws; (b) the procedures for cancellation and non-renewal follow appropriate guidelines; and (c) policy procedures do not incorporate any unfairly discriminatory practices. Refer to Standard V-2 for discussion of Company cancellations and Standard VI-12 for rescissions.

M.G.L. c. 175, § 132(2) requires that a policy will be incontestable after being in force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the company adds such language) the policy is being contested for the purpose of disability benefits or accidental death benefits. In addition, there is no exception for fraud in the Commonwealth.

Controls Assessment: Not applicable. The Company does not have a contractual right to cancel absent the conditions set forth above. In such cases, the policy may be rescinded. Refer to Standard VI-12.

Controls Reliance: Not applicable.

Transaction Testing Procedure: Not applicable.

Transaction Testing Results: Not applicable.

Recommendations: None.

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Standard VI-12. Rescissions are not made for non-material misrepresentation. M.G.L. c. 175, § 132(2).
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Objective: This Standard is concerned with whether (a) rescinded policies indicate a trend toward post-claim underwriting practices; (b) decisions to rescind are made in accordance with applicable statutes, rules and regulations; and (c) Company underwriting procedures meet incontestability standards. Refer to Standard V-2 for discussion of Company cancellations. Pursuant to M.G.L. c. 175, § 175, § 132(2), the Company does not have a contractual right to cancel unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the company adds such language) the policy is being contested for the purpose of disability benefits or accidental death benefits. In addition, there is no exception for fraud in the Commonwealth.

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

- The Company's underwriting process considers the risk of material misrepresentation by consumers and attempts to corroborate information received from consumers such as health status.
- Cases considered for rescission are reviewed by at least two individuals in underwriting.
- All decisions to rescind are reviewed by the legal staff.
- Rescissions are based on material misrepresentations and apply only to policies within the first two years after the sale.

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

Transaction Testing Procedure: Because grounds for rescission in Massachusetts are limited and such incidents are rare, RNA did not directly test this control.

Transaction Testing Results:

Findings: None.

Observations: In the performance of other examination procedures, RNA noted no instances of rescission in violation of M.G.L. c. 175, § 132(2).

Recommendations: None.

* * * * *

Standard VI-13. Pertinent information on applications that forms a part of the policy is complete and accurate.

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

Controls Assessment: Refer to Standard VI-2 and Standard VI-9.

Controls Reliance: Refer to Standard VI-2 and Standard VI-9.

Transaction Testing Procedure: Refer to Standard VI-2 and Standard VI-9.

Transaction Testing Results: Refer to Standard VI-2 and Standard VI-9.

Recommendations: Refer to Standard VI-2 and Standard VI-9.

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Standard VI-14. The company complies with the specific requirements for AIDS-related concerns in accordance with statutes, rules and regulations. 211 CMR 36.04-36.06.

Objective: This Standard is concerned with ensuring that the Company does not use medical records indicating AIDS-related concerns to discriminate against applicants without medical evidence of disease. Additionally, no forms used by the Company should require sexual orientation disclosure. Pursuant to 211 CMR 36.05, an applicant must give prior written informed consent in order for an insurer to conduct an AIDS-related test. 211 CMR 36.06 specifies that the insurer notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. Additionally, 211 CMR 36.04 sets forth prohibited practices with respect to AIDS-related testing and AIDS-related information.

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

- The Company's new business submission requirements include specific requirements to comply with 211 CMR 36.04-36.06 in life insurance underwriting.
- The Company has a specific form designed for Massachusetts sales which is provided at the time an application for insurance is taken which includes required Massachusetts disclosures in 211 CMR 36.05.
- The Company's procedures require the applicant to acknowledge in writing that he or she understands his or her rights regarding tests for HIV status required as part of policy underwriting.

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 a part of our testing of 50 new business sales, RNA verified a signed copy of the Massachusetts AIDS testing disclosure notice was obtained from the applicant as required by 211 CMR 36.05.

Transaction Testing Results:

Findings: RNA noted that a signed copy of the Massachusetts AIDS testing disclosure notice was not obtained from the applicant for 4 of the 50 sales tested.

Observations: None.

Recommendations: The Company should enhance controls over the review of all applications to ensure that the Massachusetts AIDS testing disclosure as required by 211 CMR 36.05 and Company policy is obtained as part of all insurance applications.

FOR INFORMATION PURPOSES ONLY

VII. CLAIMS

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

Standard VII-1. The initial contact by the company with the claimant is within the required time frame. M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard is concerned with the timeliness of the Company's contact with the claimant. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms within five business days after notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Claims walkthrough transactions were completed to confirm such processes. Since the Company's life policies have only been issued since 1996, a small number of death claims from Massachusetts policyholders has been reported. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that the initial contact by the Company was reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that they were processed according to the Company's policies and procedures and that the initial contact by the Company was reasonably timely. Based on the results of our testing, it appears that the Company's processes to handle death claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

* * * * *

Standard VII-2. Investigations are conducted in a timely manner. M.G.L. c. 176D, § 3(9)(c), Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. Division of Insurance Bulletin 2001-07 requires that, upon receipt of a single claim and proof of the insured's death, the Company is required to search with due diligence its records, as well as the records of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

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

- Company policy is to investigate and settle nearly all claims within five business days of receipt of required paperwork/support for the claim.
- Company procedures also include multi-policy search processes in which all MetLife franchise entities' databases are inquired using social security number, name and policy number in compliance with Division of Insurance Bulletin 2001-07.
- All claims are matched against the Office of Foreign Asset Control list to determine if the death benefit recipient appears on the list.
- All claims investigations involve a number of supervisory reviews and referral to the legal department before any adverse action is taken.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims investigation and multi-policy search processes and obtained documentation supporting these processes. Since the Company's life policies have only been issued since 1996, only 45 death claims were reported from January 1, 2002 through June 30, 2003. None of the claim files selected for testing included a claim investigation.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our review, it appears that the Company's processes to investigate claims and perform multi-policy searches are functioning in accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

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Standard VII-3. Claims are settled in a timely manner. M.G.L. c. 176D, § 3(9)(f).

Objective: The Standard is concerned with the timeliness of the Company's claims settlements. Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms within five business days after notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Company policy is to investigate and settle nearly all claims within five business days of receipt of required paperwork/support for the claim.
- Claims management uses exception reports to measure operational effectiveness and processing time.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Claims walkthrough transactions were completed to confirm such processes. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that claims settlement was reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that they were processed according to the Company's policies and procedures and that the claims were processed reasonably timely. Based on the results of our testing, it appears that the Company's processes to handle death claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

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Standard VII-4. The company responds to claim correspondence in a timely manner. M.G.L. c. 176D, §§ 3(9)(b) and 3(9)(e).

Objective: The Standard is concerned with the timeliness of the Company's response to all claim correspondence. Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 176D, § 3(9)(e) considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed an unfair trade practice.

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

- Company policy is to respond to questions about claims in a timely manner.
- Company policy is to investigate and settle nearly all claims within five business days of receipt of required paperwork/support for the claim.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Claims walkthrough transactions were completed to confirm such processes. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that correspondence initiated by the policyholder about a claim was answered reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that correspondence about the claim was answered reasonably timely according to the Company's policies and procedures. Based on the results of our testing, it appears that the Company's processes to handle death claim correspondence are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

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<u>Standard VII-5. Claim files are adequately documented.</u>
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Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

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

- Death claim processing guidelines require that key information be completed, signed, and included in the file, including:
 - o Certified copy of the insured's death certificate

- o Other relevant proof of loss
- o Applicable clinical /other investigative correspondence
- o Other pertinent written communication
- o Documented or recorded telephone communication
- o Proof of payment to claimant or beneficiary
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. Claims walkthrough transactions were completed to confirm such processes. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that that claim files were adequately documented according to the Company's policies and procedures. Based on the results of our testing, it appears that the Company's processes to document claim files are functioning in accordance with their policies and procedures.

Recommendations: None.

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Standard VII-6. Claim files are handled in accordance with policy provisions and state law. M.G.L. c. 175, §§ 24D, 119C; M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount, to the appropriate beneficiary/payee, and with appropriate interest, if applicable. Pursuant to M.G.L. c. 176D, §§ 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice. M.G.L. c. 175, § 119C requires that if the proof of death has been received, the Company must pay interest on claims beginning 30 days after the death of the insured. Also, payments must comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Division of Insurance Bulletin 2001-07 requires that, upon receipt of a single claim and proof of the insured's death, the Company is required to search with due diligence its records, as well as the

records of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms within five business days after notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- Claims management can access the claims system to monitor open claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Company policy is to investigate and settle nearly all claims within five business days of receipt of required paperwork/support for the claim.
- Claims management uses exception reports to measure operational effectiveness and processing time.
- The Company has procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for life policy distributions.
- Company procedures also include multi-policy search processes in which all MetLife franchise entities' databases are inquired using social security number, name and policy number in compliance with Division of Insurance Bulletin 2001-07.

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

Transaction Testing Procedure RNA interviewed Company personnel to understand the claims handling and intercept program processes and obtained documentation supporting these processes. Claims walkthrough transactions were completed to confirm such processes. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that claim files were adequately handled.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that that claim files were adequately handled according to the Company's policies and procedures, as well as statutory and regulatory requirements. None of the claims were subject to intercept procedures to comply with requirements in M.G.L. c. 175, § 24D.

Recommendations: None.

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

Objective: The Standard is concerned with the Company's usage of claim forms that are proper for the type of product.

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

- Unique claim forms have been developed, which are tailored to the type of life or annuity claim.
- Claims will not be processed without the submission of the appropriate claim form.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained documentation supporting this process. Claims walkthrough transactions were completed to confirm this process and review claim forms. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that that claim forms were appropriate and in accordance with the Company's policies and procedures.

Recommendations: None.

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

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

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Standard VII-9. Denied and closed-without-payment claims are handled in accordance with policy provisions and state law. M.G.L. c. 176D, §§ 3(9)(d), 3(9)(h) and 3(9)(n).

Objective: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, §

3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

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

- Company policy requires that denials must include contractual basis for non-payment and inform the claimant of their right to appeal.
- All claims investigations and denied claims involve a number of supervisory reviews and referral to the legal department before any adverse action is taken.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Denied and closed-without-payment claims are rare occurrences.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process for denied and closed-without-payment claims. We obtained documentation supporting these processes. Claims walkthrough transactions were completed to confirm this process.

Transaction Testing Results:

Findings: None.

Observations: Based upon our procedures performed, denied and closed-without-payment claims appear to be appropriately handled in accordance with the Company's policies and procedures.

Recommendations: None.

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

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

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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. M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h).
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Objective: The Standard is concerned with whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than what the policy contract provides for. Pursuant to M.G.L. c. 176D, §§

3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was entitled by reference to written or printed advertising material accompanying or made part of an application.

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

- Claims handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process. We obtained documentation supporting this process. Claims walkthrough transactions were completed to confirm this process. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify the Company's claims handling process.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that that none of the claims appeared to reflect that the policyholders were compelled to institute litigation to receive claim payments.

Recommendations: None.

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

No work performed. This Standard not covered in scope of examination because the Company does not offer accelerated benefits in Massachusetts.

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Standard VII-13. The company does not discriminate among insured with differing qualifying events covered under the policy or among insured with similar qualifying events covered under the policy.

Objective: The Standard is concerned with whether the Company's claim handling practices discriminate against (a) insureds with differing qualifying events covered under the policy, or (b) insureds with similar qualifying events covered under the policy.

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

- Claim handling guidelines require the uniform and consistent handling of claims settlement and payment of claims.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and processing times to monitor claims processing activities.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process. We obtained documentation supporting this process, claims walkthrough transactions were completed to confirm this process. RNA selected ten death claims from the period January 1, 2002 through June 30, 2003 to verify that the Company is not unfairly discriminating against claimants.

Transaction Testing Results:

Findings: None.

Observations: For the ten death claims selected, RNA noted that that none of the claims appeared to reflect that the Company is unfairly discriminating against claimants.

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, we have reviewed and tested Company operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, underwriting and rating, and claims as set forth in the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. We have made recommendations to address various concerns related to company operations and management, marketing and sales, producer licensing, policyholder service, and underwriting and rating.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

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

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

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

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