



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, 2007 through December 31, 2007

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EMPLOYER'S ID NUMBER: 04-2708937



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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NONNIE S. BURNES
COMMISSIONER OF INSURANCE

July 23, 2009

Honorable Nonnie S. Burnes
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Dear Commissioner Burnes:

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

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, 2007 to December 31, 2007 (the “examination period”). 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 Eide Bailly, LLP (“Eide”) 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 Regulation 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, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

II. COMPLAINT HANDLING

STANDARDS II-1 AND II-2

Findings: One of the 8 complaints tested was mailed to the wrong individual, and was not logged into the Company’s complaint log. The consumer sent another copy of the same complaint approximately 2 months later, which the complaint department received, logged correctly and timely handled.

Observations: Except as noted above, 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: Eide recommends that the Company review its complaint handling procedures to ensure complaints are accurately logged and recorded by the correct department. Eide also recommends that staff outside the home office acknowledge receipt of complaints via email or facsimile to the appropriate department. For complaints received in error, procedures should be put in place to ensure the initial recipient notifies the home office of the error, to reroute the complaint as necessary.

STANDARD II-4

Findings: Eide noted that the Company did not timely respond to 2 of 8 complaints tested.

Observations: The Company's initial policyholder communication and final complaint resolution was timely in 6 of the 8 complaints tested. Complaint resolution times ranged from a few days up to several months, depending on the complexity of the complaint. Eide noted for one complaint recipients did not timely notify the correct department that a complaint had been received. Eide also noted that the final complaint resolution did not appear timely in one instance.

Recommendations: Eide recommends that the Company clearly communicate expectations for timely final complaint resolutions to Company personnel to ensure resolution timelines are within Company policy and in compliance with applicable statutes and standards. Refer to Standard II-1 for Eide's initial response recommendation for complaints.

FOR INFORMATIONAL PURPOSES ONLY

COMPANY BACKGROUND

New England Life Insurance Company (“NELIC” or “the Company”) is a stock life insurer based in Boston, and is licensed in all 50 states and the District of Columbia. The Company was originally chartered in 1980 in Delaware under the name New England Variable Life Insurance Company (“NEVL”), and was a stock subsidiary of New England Mutual Life Insurance Company (“NEML”). NEML was merged into Metropolitan Life Insurance Company (“MetLife”) in August 1996. As such, NEML policies became MetLife policies. At the same time, the Company became a subsidiary of MetLife, re-domiciled from Delaware to Massachusetts, and changed its name from NEVL to New England Life Insurance Company. Subsequent to the merger, all new business is written by NELIC. Policies previously sold by NEML are serviced by NELIC.

While NEVL had traditionally focused on variable products, after the merger NELIC expanded offerings to non-variable products with a key focus on the high income/high net worth market. The Company’s most popular products are variable life, variable universal life and variable annuities. Other products such as traditional life, universal life, corporate owned life insurance, fixed annuities and individual disability income products are also offered.

The Company’s functional and operational areas were consolidated with MetLife’s operations, and by 2001 all NELIC employees outside of the agency system became MetLife employees.

Distribution is primarily through an agency system, which consists of approximately 45 marketing firms and 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 MetLife affiliates and other carriers. In addition, NELIC has selling agreements with some banks and broker-dealers including the following MetLife subsidiaries: Walnut Street Securities, MetLife 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 regulated entity has an up-to-date, valid internal, or external, audit program.
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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 NELIC's Massachusetts field offices pursuant to regulatory requirements. The Field Compliance Review Unit's internal inspections are based on the company's regulatory requirement (specifically Financial Industry Regulatory Authority (FINRA) Rule 3010(c)) to conduct such internal inspections. Prior audit results, compliance activity and enforcement activity are taken into consideration when carrying out an internal inspection, but they are not the bases for the internal inspections. Audit topics cover many of the Handbook areas including:
 - o Complaint handling and recordkeeping
 - o Use of approved sales materials
 - o Communication of mandated disclosures
 - o New business procedures
 - o Suitability
 - o Compliance with replacement guidelines
 - o Licensing requirements
 - o Sales illustration requirements
 - o General supervision
- A formal report is issued at the end of each field office audit. Any findings are considered in planning for the next audit of that operational area.

SURVEILLANCE AND ENFORCEMENT

- The Compliance Department regularly monitors agent activities.
- Company management monitors monthly exception reports for any agent with high replacement activity exceeding established thresholds. Corrective action is to be taken when summary reports indicate a trend or pattern of activity indicating that the agent may be engaging in replacement sale in an inappropriate manner.
- Management reviews infractions and responds accordingly through implementation of monitoring programs, enforcement of corrective actions or enhanced supervision.

REPORTING TO THE BOARD

- NELIC's Chief Compliance Officer periodically 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

- During the examination period the Company was an Insurance Marketplace Standard Association ("IMSA") member. Thereafter, effective December 31, 2008, the Company resigned its IMSA membership.
- To maintain its status as an IMSA member during the exam period, the Company was required to undergo a self-assessment process every three years. This renewal process also included 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: Eide reviewed the Company's internal audit reports issued during 2007, 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.

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

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

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

18 United States Code (USC) § 1033; Division of Insurance Bulletins 1998-11 and 2001-14.

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

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

Controls Assessment: The following 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.
- Potentially fraudulent 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.
- The Company’s claims and underwriting personnel take part in ongoing continuing education focused on identification and proper treatment of suspected fraudulent activity.
- The Company has performed criminal background checks on all new employees since the effective date of 18 USC § 1033 in 1994.

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.

Standard I-4. The regulated entity 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.

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

Objective: This Standard is concerned with (a) whether entity contracts are in compliance with applicable rules and regulations, specifying the responsibilities of all entities related to record keeping, as well as responsibilities of the Company related 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 has arrangements where third parties other than producers assume a business function or act on behalf of the Company, which would impact the evaluation of market conduct activities. Processing and mailing of billing notices are examples of business functions performed by such third parties.
- The selling agreements between the Company 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

- o State licensing and FINRA registration requirements
- o Outside business activities
- o Training and continuing education
- o Client files and recordkeeping
- o Suitability
- o Replacement guidelines
- o Mandatory disclosures
- o Use of approved marketing materials
- o Sales illustration review guidelines
- o Complaint handling procedures
- o 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: Due to the nature of this standard, no transaction testing was performed.

Transaction Testing Results: Not applicable.

Recommendations: None.

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

Objective: Refer to Standard I-5.

Controls Assessment: Refer to Standard I-5.

Controls Reliance: Refer to Standard I-5.

Transaction Testing Procedure: Refer to Standard I-5.

Transaction Testing Results: Refer to Standard I-5.

Recommendations: Refer to Standard I-5.

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

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 for 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: Eide 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.

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

M.G.L. c. 175, §§ 32 and 47.

Objective: This Standard is concerned with whether the lines of business being written by a Company are in accordance with the authorized lines of business.

According to M.G.L. c. 175, § 32, a company must first obtain a certificate of authority from the Commissioner before any contracts or policies may be issued. A company may issue policies and contracts for lines of business allowed by M.G.L. c. 175, § 47.

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

- The Company's policy is to operate within the lines of business approved under its existing Certificate of Authority.

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: Eide reviewed the Company's Certificate of Authority, and compared it to the lines of business which the Company writes in the Commonwealth.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

Objective: This Standard is concerned with the Company's cooperation during the course of the examination.

M.G.L. c. 175, § 4 sets forth the Commissioner's authority to conduct examinations of an insurer.

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

Pursuant to M.G.L. c. 175I, §§ 1-22, the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated

third parties. Also, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that 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 related to privacy compliance 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 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 the privacy policy, and guide the staff in use and control of customer and health information. Company personnel stated that most staff have successfully completed this training. Remaining staff are required to complete this training within six months of being hired.
- 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of applicants and policyholders, and is disclosed to policyholders in accordance with their policies and procedures. The Company also appears to have proper documentation to support any adverse underwriting decisions it makes.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it properly manages insurance information.

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

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

- The Company has a policy for informing and training its employees regarding its practices in handling and maintaining personal information of applicants and policyholders.
- The Company's policy procedure is to provide written notice of its privacy policy to each applicant and policyholder at the time of application for or renewal of a policy.

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

Transaction Testing Procedure: Eide interviewed Company personnel with responsibility for securing personal information about applicants and policyholders, and reviewed its privacy notice. Insurance information management standards were tested in each section on this examination.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's information management procedures, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

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

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that 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 related to privacy compliance 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 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 the privacy policy, and guide the staff in use and control of customer and health information. Company personnel stated that most staff have successfully completed this training. Remaining staff are required to complete this training within six months of being hired.
- 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, it appears that the Company's privacy policy minimizes any improper intrusion into the privacy of customers, former customers and consumers that are not customers, and it is disclosed to policyholders in accordance with their policies and procedures.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it properly manages insurance information.

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

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

- The Company has a policy for informing and training its employees regarding its practices in handling and maintaining personal information of applicants and policyholders.
- The Company's policy procedure is to provide written notice of its privacy policy to each applicant and policyholder at the time of application for or renewal of a policy.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal information.

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: Eide interviewed Company personnel with responsibility for securing personal information about applicants and policyholders, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears the Company disclosed privacy information to policyholders in accordance with its policies and procedures.

Recommendations: None.

Standard I-14. If the regulated entity discloses information subject to an opt out right, the regulated entity has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the regulated entity provides opt out notices to its customers and other affected consumers.

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

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

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that 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 related to privacy compliance 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 stated that they have developed and implemented information technology security practices to safeguard customer, personal and health information.

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

Transaction Testing Procedure: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a consumer has opted out. Additionally, opt out notices appear to be properly communicated to customers and other affected consumers.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

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

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that 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 related to privacy compliance 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 stated that they have developed and implemented information technology security practices to safeguard customer, personal and health information.
- 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: The examiners interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review of the Company's privacy notice, and discussion with Company personnel, it appears that the Company's privacy policies and procedures are adequate to protect nonpublic personal financial information.

Recommendations: None.

Standard I-16. In states promulgating the health information provision of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.

M.G.L. c. 175I, §§ 1-22; Health Insurance Portability & Accountability Act of 1996 (HIPAA); Public Law 104-101; 45 CFR Parts 160 & 164.

Objective: This Standard is concerned with ensuring that the Company's policies and procedures regarding nonpublic personal health information are in compliance with applicable statutes.

M.G.L. c. 175I, §§ 1-22 sets forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. The Health Insurance Portability and Accountability Act of 1996 (HIPAA); Public Law 104-191; 45 CFR Parts 160 and 164 sets proper procedure for inquiry, release, disclosure and maintenance of nonpublic personal health information.

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders.
- Specific roles and responsibilities related to privacy compliance 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's internal audit function has conducted reviews of privacy policies and procedures.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal information.

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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company's privacy policies and procedures are adequate to protect nonpublic personal health information.

Recommendations: None.

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

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

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of consumer information.

M.G.L. c. 175I, §§ 1-22 sets forth requirements for proper notice to consumers and restrictions on a financial institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. The Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505, and 16 CFR Part 313, set forth requirements for proper notice to consumers and restrictions on a financial

institution's ability to disclose non-public personal consumer information to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt-out requirements, and the consumer has not elected to opt out of such discussion.

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

- Company policy allows for sharing customer and personal information with affiliates, but does not share such information with non-affiliates. Consumers are given the option to opt-out of sharing their personal information with the Company's affiliates at the time of application, or they can call a toll free number to do so at any time.
- Company policy requires that a consumer privacy notice be provided to policyholders at the time an application is taken. Annual disclosure notices also are provided to policyholders.
- Specific roles and responsibilities related to privacy compliance 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's internal audit function has conducted reviews of privacy policies and procedures.
- The Company stated that it has developed and implemented information technology security practices to safeguard nonpublic personal information.

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: Eide interviewed Company personnel with responsibility for policyholder services, and reviewed its privacy notice.

Transaction Testing Results:

Findings: None.

Observations: It appears from Eide's review of the Company's privacy notice, and discussion with Company personnel, that the Company's privacy policies and procedures are adequate to protect nonpublic policyholder information.

Recommendations: None.

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

211 CMR 28.11

Objective: This Standard is concerned with whether the Company files certifications with the Division, as required.

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: Eide 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.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

II. COMPLAINT HANDLING

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

Standard II-1: All complaints 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 definition.
- Company personnel regularly review the complaint log to ensure compliance with statutory 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: Eide reviewed 8 Massachusetts complaint files from the examination period to evaluate compliance with M.G.L. c. 176D, § 3(10). Eide reviewed the file for each complaint, noting the response date and the documentation supporting the resolution of the complaint. Eide also compared the Company's complaint register to the Division's complaint records to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: One of the 8 complaints tested was mailed to the wrong individual and was not logged into the Company's complaint log. The consumer sent another copy of the same complaint approximately 2 months later, which was received by the complaint department, logged correctly and timely handled.

Observations: Except as noted above, 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: Eide recommends that the Company review its complaint handling procedures to ensure complaints are accurately logged and recorded by the correct department. Eide also recommends that staff outside the home office acknowledge receipt of complaints via email or facsimile to the appropriate department. For complaints received in error, procedures should be put in place to ensure the initial recipient notifies the home office of the error by rerouting the complaint as necessary.

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

M.G.L. c. 176D, § 3(10).

Objective: This Standard addresses whether (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: Refer to Standard II-1.

Transaction Testing Procedure: Refer to Standard II-1.

Transaction Testing Results: Refer to Standard II-1.

Recommendations: Refer to Standard II-1.

Standard II-3. The regulated entity 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: Eide reviewed 8 Massachusetts complaint files from the examination period to evaluate this Standard. Eide also interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the 8 complaints tested appeared 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 regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Objective: This Standard is concerned with the time required for the Company to process each complaint.

Massachusetts does not have a specific complaint processing time standard in the statutes or regulations. The Division however, has established a practice of requiring that companies respond within 14 days of receiving a complaint from 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: Eide reviewed 8 Massachusetts complaint files from the examination period to evaluate complaint response times.

Transaction Testing Results:

Findings: Eide noted that the Company did not timely respond to 2 of the 8 complaints tested.

Observations: The Company's initial policyholder communication and final complaint resolution was timely in 6 of the 8 complaints tested. Complaint resolution times ranged from a few days up to several months, depending on the complexity of the complaint. Eide noted for one complaint, recipients did not timely notify the correct department that a

complaint had been received. Eide also noted that the final complaint resolution did not appear timely in one instance.

Recommendations: Eide recommends that the Company clearly communicate expectations for timely final complaint resolutions to Company personnel to ensure resolution timelines are within Company policy and in compliance with applicable statutes and standards. Refer to Standard II-1 for Eide's initial response recommendation for complaints.

FOR INFORMATIONAL 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; M.G.L. c. 175, §§ 18, 121 and 181; 211 CMR 42.09, 65.08 and 95.11; 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. M.G.L. c. 175, § 18 states the entity must conduct business in the corporate name. M.G.L. c. 175, § 121 requires insurers to limit offers to those as stated in the policy, while M.G.L. c. 175 §, 181 defines misrepresentations by insurers. 211 CMR 42.09, 65.08 and 95.11 define disclosure requirements for individual accident and sickness policies, long-term care insurance and variable life insurance, respectively. Pursuant to the Division's 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* and *Compliance Update* (Quarterly newsletter) parallel the statutory and/or regulatory requirements for advertising and sales material.
- All Company-wide advertising and producer generated material is subject to review and approval by a multi-disciplined team of insurance, tax, legal and compliance specialists.
- All advertising and sales materials are reviewed before final approval to ensure that any necessary changes identified during the initial review were made.
- Marketing materials are approved for use for a specific period, which is incorporated into the approval number on the material.
- The company's compliance department reviews producer correspondence and sales materials as part of its regular field audit process.
- The Company was an IMSA member during the examination period.

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: Eide reviewed ten pieces of advertising and sales material in use during the examination period for evidence of proper home office approval prior to use. Eide also reviewed the Company's website for appropriate disclosure of its name and address, and reviewed

correspondence with prospective policyholders in conjunction with tests of 109 selected life and annuity sales from the examination period. Eide also reviewed the most recent IMSA independent assessment, which substantially tests this standard.

Transaction Testing Results:

Findings: None.

Observations: The results of Eide's testing showed that the Company's process for approving advertising and sales material prior to use was functioning in accordance with Company policies and procedures, and statutory requirements. The Company's website disclosure complies with the requirements of the Division's Bulletin 2001-02. Review of the most recent independent IMSA assessor report noted no major exceptions. Finally, the results of Eide's testing of the 109 selected life and annuity sales appeared to show all advertising and sales materials were approved by the home office prior to use as required by Company policy.

Recommendations: None.

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

211 CMR 65.08

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

Pursuant to 211 CMR 65.08 each carrier shall provide appropriate training to agents about its long-term care insurance products, maintain records regarding agents who have satisfactorily completed such training and file with the commissioner lists identifying those agents who have completed the carrier's long-term care insurance training program.

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

- The Company has extensive home office developed training programs for its producers, including approximately 200 hours of classroom time in each of the producer's first two years with the Company. Covered topics include new products, compliance with new laws or regulations and needs based selling techniques.
- Company sales representatives must annually certify that they abide by the Company's "Communications with the Public" policies and procedures.
- Agencies and the Compliance Department are responsible for ensuring that producers meet required FINRA training hour minimums. Producers must submit evidence of the previous years' training by January 15th, or face suspension of their license.
- The Company was an IMSA member during the examination period.

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: Eide interviewed individuals with responsibility for field support, training, monitoring and supervision of the Company's product distribution channels. Eide also obtained training materials and other documentation supporting the Company's training program. Lastly, Eide reviewed the most recent IMSA independent assessment, which substantially tests this standard

Transaction Testing Results:

Findings: None.

Observations: The Company's internal producer training materials appear adequate, and comply with the Company's training policy. Review of the most recent independent IMSA assessor report noted no major exceptions.

Recommendations: None.

Standard III-3. Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.
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Objective: This Standard is concerned with whether the written and electronic communication between the Company and its producers is in accordance with applicable statutes, rules and regulations.

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

- The Company maintains an extensive on-going training program.
- Written policies and procedures require that all communications to career and independent producers be 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 Eide's 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.

Standard III-4. Regulated entity rules pertaining to producer requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

211 CMR 34.04, 42.08 and 42.11

Objective: This Standard is 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.

Pursuant to 211 CMR 34.04, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant regarding whether the transaction involves the replacement of existing life insurance or annuities; and (b) a signed statement as to whether the agent or broker knows that the transaction involves or may involve a replacement. In sales involving external replacement, producers must provide a copy of the replacement notice to applicants at the time of application. 211 CMR 42.08 and 42.11 require the application to inquire whether the sale involves a replacement, and requires the replacing insurer or producer to furnish a proper replacement notice to the applicant.

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

- The Company's policy is to provide required disclosure notices to policyholders and replaced carriers in accordance with 211 CMR 34.04.
- 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 replacement 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 summary reports indicate a trend or pattern of activity indicating that the agent may be engaging in replacement sales in an inappropriate manner. Excessive agent replacement activity is referred to the Chief Compliance Officer.
- The Company requires mandatory monitoring of a producer's replacement activity when the net combined life and annuity replacement rate is 50% or higher when taken as a percentage of overall life and annuity business written.
- The Company requires that annuity sales involving replacements include the use of an annuity disclosure form signed by the policyholder and the general agency managing partner, who holds a Series 26 FINRA license.
- The Company has policies and procedures, which require that reduced commissions be paid on many, but not all, internal replacements. The policy is intended to discourage producers from replacing existing Company policies or contracts, as compensation on such sales will be reduced.
- The Company was an IMSA member during the examination period.

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: Eide reviewed a sample of 69 internal or external policy replacement sales from the examination period to evaluate compliance with replacement disclosure requirements, as well as Company policies and procedures. Specifically, Eide performed the following procedures:

- Determined compliance with replacement disclosure as required by 211 CMR 34.04 and compliance with Company policies and procedures.
- Determined compliance with the Company policies and procedures requiring the annuity disclosure form to be provided to and signed by the policyholder and the general agency managing partner for all annuity replacements.
- Determined whether producers' commissions were reduced in accordance with Company guidelines for internal replacement activity.
- Reviewed Company procedures to monitor significant replacement activity by producer and any follow up action taken by the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's review and testing of the Company's policies and procedures regarding the replacement process, the Company appears to be in compliance with applicable statutes and regulations.

Recommendations: None.

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

211 CMR 34.05-34.07, 42.08 and 42.11

Objective: This Standard is 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.

Pursuant to 211 CMR 34.05 and 34.06, insurers must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life and annuity applications include a signed form acknowledging replacement. 211 CMR 34.07 defines required insurer procedures surrounding replacements. 211 CMR 42.08 and 42.11 require that applications for accident and sickness insurance including long-term care insurance, ask whether the sale involves a replacement, and require the replacing insurer or producer to furnish a proper replacement notice to the applicant.

Controls Assessment: Refer to Standard III-4.

Controls Reliance: Refer to Standard III-4.

Transaction Testing Procedure: Refer to Standard III-4.

Transaction Testing Results: Refer to Standard III-4.

Recommendations: Refer to Standard III-4.

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

211 CMR 28.09, 31.05, 31.07, 42.09, 65.09, 95.11

Objective: This Standard is concerned with ensuring that illustrations contain all required information, are provided to policyholders, and maintained in Company records.

211 CMR 28.09 establishes requirements with regard to delivery of illustrations to applicants. Pursuant to 211 CMR 31.05, the insurer has the duty to provide life buyer's guides and policy summaries with certain required elements to applicants, and to meet other policy maintenance requirements. Pursuant to 211 CMR 31.07, producers must disclose to the applicant that he or she is acting as producer in the sale. 211 CMR 42.09 provides disclosure requirements for individual accident and sickness policies, while 211 CMR 65.09 requires individual and group long term care policies to adequately disclose all policy provisions. Pursuant to 211 CMR 95.11, the applicant for a variable life product must be given 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 the home office and be consistent with filed and approved policy forms.
- Company policy requires that variable annuity contracts be supported by a prospectus, including contract illustrations.
- The Company's policies and procedures require that home office approved illustrations be signed by the policyholder for replacement of existing annuities with a newly purchased annuity with a bonus feature.
- The Company was an IMSA member during the examination period.

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: Eide reviewed illustrations provided to prospective policyholders in conjunction with testing of 34 individual life policy sales (including variable life sales) from the examination period. Eide also reviewed the most recent IMSA independent assessment which substantially tests this standard.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing indicated that the Company follows the illustration delivery requirements of 211 CMR 28.09, ensures that life buyer's guides and policy summaries are provided in accordance with 211 CMR 31.05 and has procedures in place to ensure producers disclose to the applicant that they are acting as a producer in the sale. The Company requires the policyholder to sign a copy of approved illustrations when purchasing variable life policies as required by 211 CMR 95.11 and provides illustrations for variable annuities by supplying a contract prospectus to consumers. Additionally, review of the most recent independent IMSA assessor report noted no major exceptions.

Recommendations: None.

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

211 CMR 96.06

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

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

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.
- Variable life and annuity product sales must include a home office suitability review performed by a FINRA licensed Series 26 individual.
- The Company's procedures also require the general agency managing partner to review for suitability and approve all life and annuity sales involving replacements or transfers from mutual funds. Such approval for annuity sales must be documented on the Company's annuity disclosure form, which also must be provided to and signed by the policyholder.
- The Company utilizes the SmartApp new business system which contains various suitability flags specific to replacements and mutual fund transfers.
- Company policy requires a manager's signature for all life sales applications.

- The Company was an IMSA member during the examination period.

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: Eide reviewed the suitability requirements for 109 life and annuity replacement and non-replacement sales from the examination. Eide also reviewed the most recent IMSA independent assessment which substantially tests this standard.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that a home office suitability review was conducted by a FINRA licensed Series 26 individual for sales involving variable life and annuity products. Eide also noted that a general agency managing partner's approval for all variable annuity sales was documented on the Company's annuity disclosure form. Review of the most recent independent IMSA assessor report noted no major exceptions.

Recommendations: None.

<p>Standard III-8. Pre-need funeral contracts or pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations.</p> <p>211 CMR 31.06</p>

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

<p>Standard III-9. The regulated entity's policy forms provide required disclosure material regarding accelerated benefit provisions.</p>
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Objective: This Standard is concerned with whether the required disclosure material regarding accelerated benefits is provided to consumers when applicable.

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

- Policy forms, contract riders, endorsement forms and illustrations are developed by multi-disciplined teams from actuarial, marketing, legal, compliance and information technology.
- The Company has a process for logging and documenting Division approval of all such policy forms, contract riders, endorsement forms and illustrations, to comply with statutory underwriting and rating requirements.
- The company offers a rider providing accelerated death benefits.

- 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 sends a letter to the producer to request any information or forms missing from a new business application.
- Outstanding information or open items are tracked for completion. A policy will not be issued until all outstanding information and open items are completed.

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: Eide interviewed personnel charged with oversight of the policy application forms process, and reviewed applications for 109 policies issued or renewed during the examination period.

Transaction Testing Results:

Findings: None.

Observations: It appears from testing that the Company provides required disclosures regarding accelerated death benefits when applicable.

Recommendations: None.

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

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

Objective: This Standard is concerned with ensuring that policy application forms used by depository institutions provide required disclosures.

GLB Act and Rule 12 CFR Parts 14, 208, 343, and 536 require written disclosures to consumers. For notices unrelated to an extension of credit, the disclosure notice must inform the consumer that insurance and annuities are not deposits, other obligations of, or guaranteed by the bank or its affiliates; that insurance and annuities are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any agency of the United States, the bank, or its affiliates; and that there may be potential for investment risk, including the possible loss of value in certain cases.

For notices related to an extension of credit, the bank must inform the consumer that it cannot condition the extension of credit upon the consumer also purchasing an insurance policy or annuity from the bank or its affiliate. The bank must inform the consumer that it cannot condition the extension of credit upon the consumer not obtaining an insurance policy or annuity from an entity not affiliated with the bank. In addition, the disclosure notice must inform the consumer that insurance and annuities are not deposits, other obligations of, or guaranteed by the bank or its affiliates; that insurance and annuities are not insured by the FDIC or any agency of the United

States, the bank, or its affiliates; and that there may be potential for investment risk, including the possible loss of value in certain cases.

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

- The Company's policy is to provide required disclosure notices to applicants in accordance with the Gramm-Leach Bliley Act and Rule 12 CFR Parts 14, 208, 343 and 536.
- The Company was an IMSA member during the examination period.

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: Eide interviewed personnel charged with oversight of the policy application forms process, and reviewed applications for 109 new policies issued during the examination period. Eide also reviewed the most recent IMSA independent assessment, which substantially tests this standard.

Transaction Testing Results:

Findings: None.

Observations: It appears from testing that the Company provides required disclosures on application forms used by depository institutions.

Recommendations: None.

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

211 CMR 96.06

Objective: Refer to Standard III-7.

Controls Assessment: Refer to Standard III-7.

Controls Reliance: Refer to Standard III-7.

Transaction Testing Procedure: Refer to Standard III-7.

Transaction Testing Results: Refer to Standard III-7.

Recommendations: Refer to Standard III-7.

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

211 CMR 96.06

Objective: Refer to Standard III-7.

Controls Assessment: Refer to Standard III-7.

Controls Reliance: Refer to Standard III-7.

Transaction Testing Procedure: Refer to Standard III-7.

Transaction Testing Results: Refer to Standard III-7.

Recommendations: Refer to Standard III-7.

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

211 CMR 96.06

Objective: This Standard addresses the suitability standards related to producers.

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

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

- The Company maintains an extensive on-going producer training program.
- Written policies and procedures require that all communications to career and independent producers be 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: The Company's education and monitoring of producers, and its notification procedures to consumers regarding fixed-index annuity products, appear to be in compliance with Company policy and applicable statutes, rules and regulations.

Recommendations: None.

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

211 CMR 28.09

Objective: This Standard requires insurers to have producer monitoring and education procedures in place, as well as to ensure all disclosure are provided to consumers in compliance with applicable statutes, rules and regulations.

211 CMR 28.09 establishes requirements for delivery of illustrations to applicants.

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

- The Company maintains an extensive on-going producer training program.
- Written policies and procedures require that all communications to career and independent producers be 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: The Company's education and monitoring of producers, and its notification procedures to consumers, appear to comply with the Company policy and applicable statutes, rules and regulations.

Recommendations: None.

IV. PRODUCER LICENSING

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

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

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

Objective: The Standard is concerned with ensuring that the regulated entity's appointed producers are appropriately licensed by the Division.

Pursuant to M.G.L. c. 175, § 162I, all persons who solicit, sell or negotiate insurance in the Commonwealth are required to be licensed for that line of authority. Further, producers shall not act as an agent of the Company unless they have been appointed by them pursuant to M.G.L. c. 175, § 162S. Pursuant to 18 USC § 1033, the Violent Crime Control and Law Enforcement Act of 1994, it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with the Division's Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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

- The Company maintains an automated producer database that interfaces with its 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 criminal and financial background checks and other due diligence procedures on individuals prior to contracting with them. Such procedures include verifying 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, §§ 162I and 162S.
- The Company's corporate licensing and registration uses one common platform, Enterprise Registration and Licensing (ERL), on an entity-wide basis to track and update producer licensing.
- ERL data is regularly validated against the National Insurance Producer Registry.
- The Company's appointment procedures are designed to comply with statutory requirements, including that an agent must be appointed within 15 days from the date the agent's contract is executed or the first policy is issued.
- The Company's procedures also verify the producer is properly licensed by the FINRA, as appropriate.

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: Eide interviewed individuals with responsibility for producer contracting and processing of appointments, and selected 109 new business sales from the examination period for testing. Eide verified that the producer for each sale tested was licensed and appointed according to the Company's procedures prior to the date of the sale. Eide also reconciled the Company's producer listing with the Division's producer listing. Finally, Eide reviewed relevant internal audit reports related to producer licensing.

Transaction Testing Results:

Findings: None.

Observations: Eide noted several discrepancies between the producer's appointment dates on the Division's records compared to the appointment dates on the Company's records. Eide also noted several instances where the producer was licensed according to the Division's records, but was not appointed as an agent by the Company or its affiliates. All producers appeared to be licensed by the Division at the time of sale.

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 certain date, and to modify its appointment procedures to ensure accurate and timely maintenance of its licensing and appointment records.

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

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

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.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: This Standard is concerned with whether the regulated entity's termination of producers complies with applicable statutes requiring notification to the state and the producer.

Under M.G.L. c. 175, §§ 162R and 162T, the regulated entity 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 FINRA Series 24 license.
- The Company's 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.
- The Company has procedures for notifying producers and the Division of producer terminations.
- Company policy is to regularly validate license and appointment records against the National Insurance Producer Registry and update Company records accordingly.

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: Eide reviewed documentation from the Company and the Division related to the termination of 25 agents during the examination period. These terminations included broker license terminations, agent appointment terminations and broker license conversions. Eide also 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 that 12 of the 25 producer terminations tested were agent appointment terminations, while the remaining were producer terminations or broker's license conversions. Only two of the twelve agent appointment terminations had a consistent termination date in both the Company's and the Division's databases. The Company presented evidence to Eide 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 certain date, and to modify its

communication procedures to ensure accurate and timely maintenance of terminated agents lists as required by law.

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

Objective: The Standard is concerned that the Regulated entity 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: Eide verified that the producer for each of 109 new business sales from the examination period was licensed, and that any agent was appointed according to the Company's records prior to the date of the sale. Eide reviewed related documentation for any evidence of unfair discrimination against policyholders as a result of producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Eide's testing noted no evidence of unfair discrimination against policyholders resulting from Company policies on producer appointments and terminations.

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 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 a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent.

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: Eide obtained the Company's list of agents terminated during the examination period, and selected a sample of 25 to reviews the reasons for each termination.

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.

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

No work performed. This Standard is not covered in the scope of examination because the Company direct bills most premium, thus excessive debit account balances are not a significant issue. If material debit account balances existed, they would be evaluated in the scope of the statutory financial examination of the Company.

V. POLICYHOLDER SERVICE

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

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

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

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due and disclosure of the risk of lapse risk due to nonpayment.

M.G.L. c. 175, § 108 requires filing of rates and forms for IDI and individual health coverage; further addresses contestability for fraudulent misstatements; premium grace periods; reinstatement; claimant notice of ongoing disability and prompt filing of claim forms. 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. M.G.L. c. 175, §§ 187C and 187D require the Company to provide written notice to policyholder for cancellations. Pursuant to 211 CMR 65.10, long-term care policyholders must be given 30 days notice prior to policy lapse or termination for nonpayment of premium.

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.
- Billing notices are directly mailed to the policyholder 25-30 days prior to the due date.
- A notice of premium due is also sent to the agent for annual billing notices on traditional products.
- The Company generates daily exception reports which note bills that were not processed properly. Those bills are manually corrected and 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.
- Contributions for universal life policies 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, semi-annual, or annual basis.
- The Company does not offer long-term care 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: Eide reviewed examples of billing notices and exception reports from the examination period, but performed no detail testing due to the nature of this standard.

Transaction Testing Results:

Findings: None.

Observations: Life policy premium and billing notices are mailed with adequate advance notice, and generally appear to be clear, including disclosure of potential lapse in the event of non-payment. The billing notice for universal life policies however, does not clearly state that the payment may not be required to maintain the policy's in-force status.

Recommendations: Eide recommends that the Company modify its universal life policy premium notices to state that, while payment may not be required to maintain in-force status, paying other than the stated amount may alter the intended future performance of this policy.

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

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

Objective: This Standard is concerned with whether the Company has cancellation and withdrawal procedures to ensure that such policyholder requests are processed timely.

Company processes must comply with M.G.L. c. 175, § 187H regarding 10 day free looks on new policies. Pursuant to 211 CMR 34.06, there must be a 20 day free look period for life and annuity replacements. M.G.L. c. 175, § 187C requires written notice to policyholders for Company cancellations. Pursuant to 211 CMR 42.05, a 10 day free look is required on disability & long-term care policies.

Policy issuance review is included in Underwriting and Rating Standard VI-6. Lapse notice requirements are included in Policyholder Service Standards V-1 and V-9.

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

- Life policy owners must provide written and signed authorization for policy cancellations. The cancellation is effective on the date the company receives the request, and a check for the value of the policy on the cancellation date is then sent within five days.
- The Company's goal is to process 95% of paid up policy withdrawals and insured requested cancellations, including variable product cancellations, within five days. The Company generates exception reports for these benchmarks, and monitors them quarterly.
- The Company's policy is to provide the 10 day free look period for life policies required by statute, while life policy and annuity replacement 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.
- Annuity contract owners must provide written signed authorization to process a policy cancellation or withdrawal. Agents are given the opportunity to conserve the business, and surrender charges may apply depending on the type of contract when a 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: Eide discussed policy issuance and cancellation procedures with Company personnel, and reviewed related documentation and exception reports. Eide also conducted a transaction walkthrough to corroborate information received regarding the Company's policies and procedures for free looks, insured requested cancellations and Company cancellations.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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 agents' questions.
- Call center representatives have access to Company systems to view policy history and values, and can process requests for address changes, loans, dividend accumulation withdrawals and variable life fund transfers. Certain representatives have a FINRA Series 6 license, and only these licensed individuals handle fund transfers. Service results are benchmarked and tracked quarterly.
- The Company has approximately 13 call center representatives who handle calls related to annuity contracts. These representatives have their FINRA Series 6 license, and have access to various Company systems to handle post issue 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 via telephone and written surveys regarding their understanding of newly purchased life policies and annuity contracts.

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: Eide discussed correspondence procedures with Company personnel, and reviewed related documentation and exception reports to corroborate information received.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate resources and procedures to handle written and telephone customer inquiries.

Recommendations: None.

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

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

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

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

Objective: This Standard addresses Company procedures for accurately and completely processing transactions including beneficiary and ownership changes, conversions and policy loans in compliance with statutory requirements.

M.G.L. c. 175, § 123 requires a disinterested witness for life insurance beneficiary changes; M.G.L. c. 175, § 126 limits life insurance beneficiary changes once a married woman is named as beneficiary; M.G.L. c. 175, § 139 limits face amounts of conversions for rewritten life insurance policies or annuity contracts with an effective date prior to the exchange application date; M.G.L. c. 175, § 142 addresses loan interest rates for non-variable whole life policies. M.G.L. c. 175, § 187B requires insurers to return premium they cancel any insurance policy. 211 CMR 95.08 governs policy loans on variable life policies including transactions after the initial sale.

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

- The Company's goal is to accurately process 95% of beneficiary and ownership changes within five business days. These benchmarks are tracked quarterly.
- Company policy is to process beneficiary changes upon receipt of a signed authorization including a witness signature, as required under M.G.L. c. 175, § 123.
- The Company sends a confirmation letter to the policy owner for beneficiary changes, and to the previous and new owners for ownership changes.

- 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 \$10,000 for individuals can be processed by a representative in the customer service call center over the phone. Loan amounts over \$10,000 require written authorization from the owners. Policy loans generally are processed within five days, and this benchmark is monitored quarterly.
- The Company's practices for interest rates on non-variable life policy loans are designed to comply with M.G.L. c. 175, § 142.
- The Company's practices for policy loans on variable life policies are designed to comply with the requirements in 211 CMR 95.08.

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: Eide discussed policy transaction procedures with Company personnel, and completed a transaction walkthrough including review of supporting documentation and summary reports to corroborate beneficiary changes or loan interest rates. Eide also reviewed the Company's variable life prospectuses for proper disclosure of variable life policy loan provisions

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, the Company appears to accurately and completely process transactions including beneficiary and ownership changes and policy loan interest rates, and to properly disclose variable life policy loan provisions, in accordance with statutory requirements.

Recommendations: None.

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

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

Objective: This Standard is concerned with the adequacy of the Company's processes for locating missing policyholders and beneficiaries, and for complying with escheatment and reporting requirements.

M.G.L. c. 200A, §§ 5A, 5B, 6D, 7-7B, 8A and 9 state that a matured life policy or annuity contract is presumed abandoned if unclaimed and unpaid for more than three years after the funds became due and payable. Annual reporting to the State Treasurer's Office regarding documented efforts to locate owners is required. Finally, the statutes require payment 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 formal procedures for the treatment of matured life and annuity contracts when the policy owner cannot be located.
- The Company has formal processes for locating lost policyholders via company records, the internet, sales offices and social security databases.
- When attempts to contact policyholders or beneficiaries are unsuccessful, the Company's Abandoned Property Unit formally investigates unclaimed checks and attempts to locate the missing policyholder or beneficiaries prior to escheatment.
- Periodic searches of the Social Security Death Index (SSDI) and other databases are performed to search for unreported deaths.
- Company policy requires that life policy funds 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: Eide discussed the Company's procedures for locating missing policyholders and escheatment of funds with Company personnel, and reviewed documentation and exception reports to corroborate information received. Eide also reviewed applicable documentation in the files for the 109 claims selected for testing, to ensure the Company made proper attempts to locate missing beneficiaries. Eide reviewed the Company's compliance with search, escheatment and reporting requirements during detailed testing of the claims standards.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company does not perform a search on the SSDI when policies lapse after the application of the policyholder's pre-selected non-forfeiture option. Other than the observation noted, the Company appears to have adequate formal processes for locating missing policyholders via company records, the internet, sales offices and social security databases. The Company reports and escheats policy funds as required by state law when no owner can be found.

Recommendation: Eide recommends that the Company check in-force policies against the SSDI during the pending lapse period as well as after notice of the pending lapse has been made to the policyholder.

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

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

Objective: This Standard 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 beginning 30 days after the death of the insured. M.G.L. c. 175, § 187C provides that the full return premium payable upon a policy cancellation be tendered in accordance with its terms with no 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 unearned premium remaining on a cancelled policy, and processes 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 completed death claims within five days. Company policy is to pay interest on death claims not paid within 30 days after receipt of all death claim documentation.

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: Eide discussed procedures for timely calculating and returning unearned premium with Company personnel, and completed a transaction walkthrough to test the Company's policies and procedures regarding the return of premium to policyholders. Eide also reviewed procedures and tested claims to corroborate Company procedures for paying interest on claims as of the date of death.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to correctly calculate and timely return unearned premiums, and to pay interest on life policy proceeds, in accordance with statutory guidelines.

Recommendations: None.

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

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

Objective: This Standard is concerned with whether the Company consistently processes reinstatements that comply with policy provisions.

M.G.L. c. 175, § 108, requires filing of rates and forms for disability income insurance and individual health coverage; further addresses contestability for fraudulent misstatements; premium grace periods; reinstatement; claimant notice of ongoing disability and prompt filing of claim forms. Pursuant to M.G.L. C. 175, § 132(11), life policies must provide for reinstatement, with certain limitations. M.G.L. C. 175, § 187G addresses lapse of certain life policies during agents strikes, while 211 CMR 65.10 addresses unintentional lapse of LTC policies.

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

- MetLife has standardized guidelines regarding life policy reinstatements among all enterprise companies.
- The Company automatically reinstates all life policies with a face value of less than one million dollars, if the reinstatement request includes cash for the lapsed premium made within ten days of lapse.
- Reinstatement requests for larger face value policies require completion of forms and some level of re-underwriting.
- All policies between 11 and 62 days after lapse with less than \$500,000 face value are automatically reinstated if there is no confirmed change in health status.
- Reinstatement requests on policies at least 63 days after lapse require re-underwriting. These reinstatement requests are either reviewed and the policy is reinstated, or they are denied after underwriting review and remain in lapsed status.
- The Company's general written policy is to allow annuity 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 is 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.
- The vast majority of reinstatement requests are processed with little or no underwriting. According to Company underwriting records, a minimal number of reinstatements require full underwriting, and are subject to underwriting processes and controls noted in the Underwriting and Rating 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: Eide discussed policy reinstatement procedures with Company personnel, and reviewed documentation and detailed summary reports to corroborate related Company policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: Eide noted no evidence of life reinstatement requests being denied in violation of Company policy, contractual obligations or statutory requirements. Guidelines for annuity reinstatements appear reasonable.

Recommendations: None.

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

M.G.L. c. 175, §§ 134A, 143, 144, 144A½, 146, and 146A; Division of Insurance Bulletin 2000-02.

Objective: This Standard is concerned with the Company's notification to life policyholders and annuity contract holders regarding non-forfeiture options and that such options are applied in accordance with the policy contract.

M.G.L. c. 175, § 134A outlines notice requirements for conversion-eligible group life policies. M.G.L. c. 175, § 143 limits forfeiture at time of issue for life and annuity contracts. 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 ½ provides similar options for annuity contracts. M.G.L. c. 175, §§ 146 and 146A applies M.G.L. c. 175, § 144 to all industrial life policies and cash surrender value provisions where premium has been paid for 5 years. Finally, no-lapse guarantees on variable whole life and variable universal life policies are addressed by the Division's 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. The Company however, does not process the lapse until between 40 and 100 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 of the APL or dividend transaction to the insured. 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 comply with M.G.L. c. 175, § 144A½, which requires payment of minimum cash surrender values. The contracts state that surrender charges are based upon accumulated premium, and exclude any gain. When 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 comply with the Division's 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: Eide discussed non-forfeiture procedures with Company personnel, and completed a transaction walkthrough supporting the application of the non-forfeiture benefit. Eide 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 Eide's review, the Company appears to communicate non-forfeiture options to policyholders and 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 statutory requirements. Finally, no-lapse option guarantees on variable universal life contracts are communicated in compliance with the Division's Bulletin 2000-02.

Recommendations: None.

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

211 CMR 28.10 and 95.13.

Objective: This Standard is concerned with the sufficiency of disclosure to the policyholder of policy contract information.

211 CMR 28.10 requires insurers to issue annual reports of policy values for non-variable life policies. 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).

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

- The Company's billing notice for life policies contains the required annual statement disclosures. The Company separately mails annual statement notices to those policyholders who pay premium by monthly debit charges from bank accounts.
- The Company mails quarterly statements 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 to comply with 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: Eide discussed the Company's procedures for providing policy contract information with Company personnel, and completed a transaction walkthrough to test the processes for issuing annual statement disclosures and responding to policyholder requests 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 for providing policyholders with timely annual statements that comply with 211 CMR 28.10 and 95.13. The Company also provides illustrations and policy summaries to policyholders when requested.

Recommendation: None.

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

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

Objective: Refer to Standard VII-12.

Controls Assessment: Refer to Standard VII-12.

Controls Reliance: Refer to Standard VII-12.

Transaction Testing Procedure: Refer to Standard VII-12.

Transaction Testing Results: Refer to Standard VII-12.

Recommendations: Refer to Standard VII-12.

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 175 §§ 108 and 190B; M.G.L. c. 176D, § 3(7); 211 CMR 42.06 and 65.07.

Objective: This Standard is concerned with whether the Company proper premium rates.

M.G.L. c. 175 § 108 requires filing of rates and forms for IDI and individual health coverage; further addresses contestability for fraudulent misstatements; premium grace periods; reinstatement; claimant notice of ongoing disability and prompt filing of claim forms. M.G.L. c. 175 § 190B requires that insurance costs for mass market products be reasonable. 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 life expectancy in the rates charged for any life or annuity contract, or to unfairly discriminate between individuals of the same class and of the same risk in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance. 211 CMR 42.06 and 65.07 provide requirements and procedures for form and rate filing for accident & health and long-term care insurance.

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

- The Company automatically computes rates 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.
- The Company uses 18 rating classes (14 substandard tables) and 71% of policies are issued in the Standard through Preferred classifications, and 4% are issued in the substandard table ratings. The Company denies 5% of applications due to medical underwriting. The remaining 20% of applications are not fully processed at the request of the insured or when required information is not received.
- The Company has a process for logging and documenting approval of all rates to comply with 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: Eide interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. Eide selected 109 new business sales for the examination period to test Company rate classifications as part of the underwriting process. Such sales included products for which actuarial rate setting documentation was to be filed with the Division. Eide verified that the Company rate classifications for each sale complied with statutory

requirements. Eide also reviewed related product filings and rate-setting documentation for evidence that they were submitted to the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 31.05, 42.09, 65.09, 95.11, 143.00.

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 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 with a signed Policy Summary before accepting any premium. This Policy Summary is similar to an illustration provided to buyers of variable life policies. 211 CMR 42.09 outlines disclosure requirements for individual accident & sickness policies. Individual and group long term care policy disclosure requirements are addressed by 211 CMR 65.09. 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. 211 CMR 143.00 states disclosure requirements for credit insurance policies.

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.
- The Company closely reviews applications to determine that all applicable questions are answered, and that required information is filed and consistent.
- The Company sends internal messages within its online underwriting Client Acquisition System to the producer to request any missing application information or mandatory forms.
- The Company tracks outstanding information or open items for completion and will not issue a policy until all mandatory outstanding information and open items are completed or received.

- The Company's applications includes an Agreement and Disclosure section acknowledging receipt of the Consumer Privacy Notice and Buyers Guide with signature of the proposed insured and owner.
- The Company requires that a complete and signed Sales Illustration be submitted with an application for life insurance for all plans of coverage except guaranteed term policies. However, the Company's authorized practice is to accept the initial premium (if applicable) with the following:
 - Illustration signed and matching the policy applied for and included the application.
 - Illustration (signed or unsigned) that was provided but is different from the policy applied for. An illustration conforming to the policy issued must be provided no later than at the time of policy delivery.
 - Illustration shown on a computer screen (as indicated on the application for life insurance). An illustration conforming to the policy issued must be provided no later than at the time of policy delivery.
 - No illustration is provided prior to or at the time of application conforming to the policy applied for. An illustration conforming to the policy issued must be provided no later than at the time of policy delivery.
- The Company monitors whether its producers obtain policy delivery receipts.
- The Company's policy is to obtain a signed Policy Summary for non-variable life products before accepting the applicant's premium.
- The Company does not offer long-term care or individual accident & sickness 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: Eide interviewed Company personnel with responsibility for underwriting and new business processing, and selected new business sales of individual life insurance for the examination for testing. Eide verified that the application submitted for each of 22 non-variable transactions tested was signed and complete in compliance with 211 CMR 31.05. Eide verified whether the application submitted for each of 12 variable life policies complied with the Company requirement that the producer obtain a signed policy delivery receipt and provide a Buyer's Guide.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, variable life policies contained evidence that the policyholder acknowledged receipt of the Buyer's Guide as required by Company policy. For all variable life sales ultimately consummated, a signed policy delivery receipt was obtained as required by Company policy. Each of the 22 non-variable life sales tested showed evidence that the producer obtained 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: None.

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

M.G.L. c. 175, §§ 177 and 182-184; 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, § 177, insurers and producers may not pay compensation to unlicensed entities, but may pay referral fees to unlicensed employees of licensed producers. 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, 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 for paying producers' commissions in accordance with its home office approved written contracts.
- The Company's producer contracts, and its home office policies and procedures, are designed to comply with 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: Eide interviewed individuals with responsibility for commission processing and producer contracting. Eide also inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. Eide also completed a transaction walkthrough of commission processing.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company's processes for prohibiting illegal acts including special inducements and rebates are

functioning in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

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

M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120, 120A-120E, 122, 128 and 193T; M.G.L. c. 176D, § 3(7) and 3(8); 211 CMR 32.00.

Objective: This Standard addresses unfair discrimination in underwriting.

Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between insureds of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 24A, 108A, 108C, 108G, 108H, 120, and 120A-120E prohibit discrimination in the issuance of life insurance based on gender, and against those with mental retardation. For individual disability income and long-term care insurance discrimination is prohibited against blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests. Pursuant to M.G.L. c. 175, § 193T discrimination based on blindness, mental retardation or physical impairment is prohibited, unless based on sound actuarial principles or related to actual experience. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy. 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, 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. Finally, 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 unfair discrimination in underwriting in accordance with statutory requirements.
- 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 for logging and documenting Division approval of policy forms, contract riders, endorsement forms and illustrations to comply with 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: Eide interviewed individuals with responsibility for underwriting and classification of risks, and selected 109 new business sales for the examination period for testing. Eide verified that the Company's underwriting practices for each tested sale were not unfairly discriminatory, and that the Company adheres to the statutes, rules and regulations noted above.

Transaction Testing Results:

Findings: None.

Observations: Based upon Eide's 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.

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

M.G.L. c. 175, §§ 2B, 22, 24, 108, 129, 132, 132B, 132G, 134, 139, 144A½, 192A, 193F, 193G and 193H; 211 CMR 42.06, 65.07 and 95.06, 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, § 24 permits insurers to provide accidental death & disability benefits. M.G.L. c. 175 § 108 requires filing of rates and forms for IDI and individual health coverage; further addresses contestability for fraudulent misstatements; premium grace periods; reinstatement; claimant notice of ongoing disability and prompt filing of claim forms. M.G.L. c. 175, § 129 requires bold letters on policy face page describing policy. 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. Pursuant to M.G.L. c. 175, § 132B, group annuity contracts must be filed 30 days prior to use. M.G.L. c. 175, § 132G defines variable annuity contracts and requires filing of forms and applications 30 days prior to use. M.G.L. c. 175, § 134 defines group life policies, and requires filing of forms and applications 30 days prior to use. M.G.L. c. 175, § 139 defines conditions in which life, endowment or annuity contracts may be altered and M.G.L. c. 175, § 144A ½ defines required provisions in annuity contracts issued after 1981. M.G.L. c. 175, § 192A addresses acceptability of loose leaf policies. M.G.L. c. 175, §§ 193F, 193G and 193H permit the 30 day filing requirements to be

extended, describe resubmission procedures for disapproved forms, and provide for an appeal procedure in the event that the company wishes to contest the Division's decisions.

211 CMR 42.06 provides requirements for policy form and rate filings for individual accident & health insurance, 211 CMR 65.07 outlines filing procedures for individual long term care insurance, and 211 CMR 95.06 contains filing and approval procedures for variable life policies. 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 the Division's 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:

- The Company's policy forms, contract riders, endorsement forms and illustrations are developed by multi-disciplined teams from actuarial, marketing, legal, compliance and information technology.
- The Company's written underwriting guidelines are designed to reasonably assure consistency in classification of risks.
- The Company has a process for logging and documenting Division approval of all policy forms, contract riders, endorsement forms and illustrations to comply with 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: Eide interviewed individuals with responsibility for preparing policy forms, contracts, riders, endorsement forms, and illustrations, and selected 109 new business sales for the examination period for testing. Eide verified that the policy forms, contract riders, endorsement forms and illustrations for each sale tested were approved by the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 108, 123, 130, 131.

Objective: This Standard is concerned with whether the Company issues life policies and annuities timely and accurately.

M.G.L. c. 175, § 108 requires filing of rates and forms for IDI and individual health coverage; further addresses contestability for fraudulent misstatements; premium grace periods; reinstatement; claimant notice of ongoing disability and prompt filing of claim forms. 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 application must be attached at time of policy issuance to be considered part of policy.

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 statutory requirements.
- 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: Eide interviewed individuals with responsibility for underwriting, policy issuance, rejections, declinations and reinstatements, and selected 109 new business sales from the examination period for testing. Eide verified that the contract for each sale tested was approved by underwriting and issued in compliance with statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company issues policies timely, accurately and completely in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

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

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

Objective: This Standard is concerned with the fairness of application rejections and declinations.

Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between applicants of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance, annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 108A, 108C, 108G, 108H, 120, and 120A-120E prohibit discrimination in the issuance of life, individual disability income and long-term care insurance against those with mental retardation (life only), blind persons, individuals with DES exposure, domestic abuse victims, as well as on the basis of genetic tests.

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 or sexual orientation.

Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or between individuals of the same class and of the same risk in the amount of premium, fees, or rates charged for any accident or health insurance policy.

Controls Assessment: The following 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 in accordance with statutory requirements.
- The Company's 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: Eide interviewed individuals with responsibility for underwriting, policy issuance, rejections, declinations and reinstatements, and selected 109 new business sales from the examination period for testing. Eide verified that the contract for each sale reviewed was approved by underwriting with no evidence of discriminatory rates or contract provisions.

Eide also reviewed 25 declined, canceled, or incomplete applications, or applications that were approved by underwriting but not accepted by the applicant. Eide verified that the reason for the declination or non-issuance was in accordance with the Company's written underwriting guidelines. Eide verified that the written notice of an adverse decision for rejected or declined applications was provided to the applicant in accordance with statutory underwriting and rating requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard 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-9 for rescissions.

Pursuant to M.G.L. c. 175, § 108(3)(a)(2), policy applications misstatements, except for fraud, may not be used to void a policy after 2 years in force. Pursuant to M.G.L. c. 175, § 108A, insurers authorized for accident & sickness insurance may not refuse to issue individual policies providing for hospital and surgical services to blind or deaf persons. M.G.L. c. 175, § 108C states that insurers may not discriminate against individuals with suspected or confirmed DES exposure in issuing, renewing or setting rates for individual or group blanket policies of accident and sickness insurance. M.G.L. c. 175, § 108G prohibits discrimination against abuse victims, while M.G.L. c. 175, § 108H prohibits the use of genetic information for issuing or renewing insurance policies. 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.. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists. M.G.L. c. 175I, § 10 provides guidance on adverse underwriting decision notices.

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 in accordance with statutory requirements.
- The Company's 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: Eide also reviewed 25 declined, canceled, or incomplete applications, or applications that were approved by underwriting but not accepted by the applicant. Eide verified that the reason for the declination or non-issuance was in accordance with the Company's written underwriting guidelines. Eide verified that the written notice of an adverse decision for rejected or declined applications was provided to the applicant in accordance with statutory underwriting and rating requirements.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company's processes for cancellation/nonrenewal discontinuance and declination notices comply with Company policies and procedures and statutory underwriting and rating requirements.

Recommendations: None.

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

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

Objective: 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, § 108(3)(a)(2), policy applications misstatements, except for fraud, may not be used to void a policy after 2 years in force. Pursuant to M.G.L. c. 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.

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: Eide did not directly test this control because grounds for rescission in Massachusetts are limited and such incidents are rare.

Transaction Testing Results:

Findings: None.

Observations: Eide noted no evidence of improper rescission during testing of complaints, cancellations, underwriting declinations and claims.

Recommendations: None.

Standard VI-10. 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 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-6.

Controls Reliance: Refer to Standard VI-2 and Standard VI-6.

Transaction Testing Procedure: Refer to Standard VI-2 and Standard VI-6.

Transaction Testing Results: Refer to Standard VI-2 and Standard VI-6.

Recommendations: Refer to Standard VI-2 and Standard VI-6.

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

211 CMR 36.04-36.08.

Objective: This Standard 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.

211 CMR 36.04 sets forth prohibited practices with respect to AIDS-related testing and AIDS-related information. 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 while 211 CMR 36.06 specifies that the insurer notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. 211 CMR 36.07 sets forth confidentiality requirements for

AIDS related information, and 211 CMR 36.08 provides permitted and impermissible AIDS related questions on policy applications.

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

- The Company's new business submission requirements comply with 211 CMR 36.04-36.08.
- The Company has a specific form which includes required Massachusetts AIDS related test disclosures which is provided at the time an application for insurance is taken.
- 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: Eide verified when testing 34 new life business sales from the examination period that a signed copy of the Massachusetts AIDS testing disclosure notice was obtained from the applicant.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's testing, it appears that the Company obtains the AIDS testing disclosure notices in accordance with Company policies and procedures, and statutory underwriting and rating requirements.

Recommendations: None.

VII. CLAIMS

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

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

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

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

Pursuant to M.G.L. c. 176D, § 3(9)(b), unfair claims settlement practices include failure to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies. M.G.L. c. 175, § 108, requires disability income claim forms to be sent to a claimant within 15 days of receiving notice of the claim.

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 claim 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: Eide interviewed Company personnel to understand its claims handling processes, obtained documentation supporting such processes, and completed claims walkthrough transactions to confirm such processes. Eide selected 109 life claims, annuity claims and surrenders from the examination to verify that the initial contact by the Company was reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the initial contact for the claims and surrenders tested appeared timely, and were processed according to the Company's policies and procedures. Based on the results of our testing, it appears that the Company's processes for handling

life claims are functioning in accordance with their policies and procedures, and with statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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. The Division's 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, and those 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 all claims within five business days of receipt of required paperwork to support the claim.
- The Company conducts multi-policy searches of all MetLife franchise entities' databases using social security number, name and policy number, to comply with the Division's Bulletin 2001-07.
- The Company matches all claims 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: Eide interviewed Company personnel to understand the claims investigation and multi-policy search processes, and obtained documentation supporting these processes. Eide selected 109 life claims, annuity claims and policy surrenders from the examination period to verify that timely investigations were conducted.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of Eide's review, it appears that the Company's processes for investigating claims and performing multi-policy searches are functioning in

accordance with their policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

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

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

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

Pursuant to M.G.L. c. 176D, § 3(9)(f), unfair claims settlement practices include failing to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear. Pursuant to M.G.L. c. 175, § 108, completed claims must be settled within 45 days of submission or a notice must be sent to the claimant noting reasons for non-payment.

Controls Assessment: 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 to support the claim.
- Claims management uses exception reports to measure operational effectiveness and claim 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: Eide interviewed Company personnel to understand its claims handling processes, obtained documentation supporting such processes and completed claims walkthrough transactions to confirm such processes. Eide selected 109 life claims, annuity claims and policy surrenders from the examination period, to verify that claim settlements were reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that all but one of 109 claims tested were timely processed according to the Company's policies and procedures. Eide further noted one surrender tested involved a 1035 surrender and exchange which was not timely processed. Other than

as noted above, it appears that the Company's processes for handling claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: The Company should review internal transfer procedures to ensure that agency data collection procedures adhere to Company policy.

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

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

Objective: The Standard 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 timely respond to questions about claims.
- Company policy is to investigate and settle nearly all claims within five business days of receipt of required paperwork to support 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: Eide interviewed Company personnel to understand its claims handling processes, obtained documentation supporting such processes and completed claims walkthrough transactions to confirm such processes. Eide selected 109 life claims, annuity claims, and policy surrenders from the examination period, to verify that claim correspondence initiated by the policyholder was timely answered.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the Company timely answered correspondence for the 109 claims tested according to its policies and procedures. Based on the results of Eide's testing, it appears that the Company's processes for handling claim correspondence are functioning in accordance with their policies and procedures, and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: This standard is concerned that the Company adequately documents its claim decisions.

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 Completed claim form
 - 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 claim processing times.

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: Eide interviewed Company personnel to understand its claims handling processes, obtained documentation supporting such processes and completed claims walkthrough transactions to confirm such processes. Eide selected 109 life claims, annuity claims, and policy surrenders from the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: For one annuity death claim, Eide could not tell from file documentation whether the claim was handled timely. Refer to Standard VII-6 where Eide noted that 3 life claim files with multiple beneficiaries did not contain documentation that all beneficiaries were searched for past due child support payments. Eide noted that the files for the remaining 105 claims tested were adequately documented according to the Company's policies and procedures.

Recommendations: Eide recommends that the Company communicate its file documentation requirements to all applicable staff and agents on a regular basis, to improve consistency of file documentation. Such requirements will include maintaining the Division's lookup receipt. Eide also recommends regular review by management to ensure file documentation standards are being upheld.

Standard VII-6. Claim files are handled in accordance with policy provisions and applicable statutes (including HIPAA), rules and regulations.

M.G.L. c. 175, §§ 22I, 24D, 24F, 119B, 119C, 125, 132C, 135; M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f)

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. 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, § 119B requires the refund of prepaid premiums upon death of insured, unless such refund is due some other person pursuant to contract provisions. 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; M.G.L. c. 175, § 24F requires insurers to check with the Department of Revenue for unpaid taxes owed by claimants before issuing any claim payments in excess of \$500. Pursuant to M.G.L. c. 175, § 22I, the Company is allowed to retain unpaid premiums due to the insurer from claim settlements. M.G.L. c. 175, § 125 defines situations where beneficiaries' creditors have claims to policy proceeds or paid premiums, along with M.G.L. c. 175, §§ 132C and 135 which defines situations where annuitants' creditors have claims to policy proceeds or paid premiums.

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 to support the claim.
- Claims management uses exception reports to measure operational effectiveness and claim processing time.
- The Company has procedures for complying with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for life policy distributions.
- The Company conducts multi-policy searches of all MetLife franchise entities' databases using social security number, name and policy to comply with M.G.L. c. 175, § 24F.

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 Eide interviewed Company personnel to understand the claims handling and intercept program processes, and obtained documentation supporting these processes. Eide also completed claims walkthrough transactions to confirm such processes. Eide selected 109 life claims, annuity claims and policy surrenders from the examination period, to verify that claim files were adequately handled.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that 3 life claim files with multiple beneficiaries did not contain documentation that all beneficiaries were searched for past due child support payments as required by M.G.L. c. 175, § 24D.

Recommendations: Refer to recommendation noted in Standard VII-5.

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

- The Company has developed unique claim forms tailored to each type of life or annuity claim.
- The Company will not process claims unless submitted on 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: Eide interviewed Company personnel to understand the claims handling process, and obtained documentation supporting this process. Eide also conducted claims walkthrough transactions to confirm this process and reviewed claim forms. Eide also selected 109 life claims, annuity claims and policy surrenders from the examination period to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that claim forms for the tested claims were appropriate, and were processed according to the Company's policies and procedures.

Recommendations: None.

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.

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 claim denials must state the 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.

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: Eide interviewed Company personnel to understand the claims handling process for denied and closed-without-payment claims, and obtained documentation supporting these processes. Eide also completed claims walkthrough transactions to confirm these processes. Eide selected 109 life claims, annuity claims, and policy surrenders from the examination period for claims testing. Seven of the 109 claims selected were denied or closed without payment.

Transaction Testing Results:

Findings: None.

Observations: Based on Eide's review, denied and closed without payment claims have adequate supporting documentation and appear to be appropriately handled in accordance with the Company's policies and procedures.

Recommendations: None.

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.

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).

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:

- Company claims handling guidelines require the uniform and consistent handling of claim settlements and payments.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and claim processing times to monitor claim handling 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: Eide interviewed Company personnel to understand the claims handling process, obtained documentation supporting this process and completed claims walkthrough transactions to confirm this process. Eide selected 109 life claims and annuity death claims from the examination period to verify the Company's claims handling process.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that that none of the claims tested appeared to reflect that the policyholders were compelled to institute litigation to receive claim payments.

Recommendations: None.

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

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

Objective: The Standard is concerned with whether the Company provides the required disclosure material to policyholders who request accelerated benefit payments on applicable policies.

Pursuant to 211 CMR 55.06 (1)(b), insurers must issue disclosure statements upon receiving requests for accelerated benefits, or requests for early withdrawal of annuity proceeds. 211 CMR 55.11 specifies required elements of disclosure statements for accelerated benefit requests.

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

- Company claim handling guidelines require the uniform and consistent handling of claims settlements and payments.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and claim processing times to monitor claim handling 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: Eide interviewed Company personnel to understand the claims handling process. None of the 109 selected life claims, annuity death claims and surrenders from the examination period included requests for accelerated benefit payments. Eide therefore obtained documentation of standard disclosure material sent at the time accelerated benefit payments are requested.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that the standard disclosure material sent to consumers at the time accelerated benefits are requested appears to contain all disclosures required by 211 CMR 55.06 (1)(b) and 55.11.

Recommendations: None.

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

M.G.L. c. 176D, § 3(7)

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

M.G.L. c. 176D, § 3(7) defines broad authority and standards related to unfair methods of competition and unfair or deceptive acts or practices.

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 claim settlements and payments.
- Claims management performs periodic claims audits to examine compliance with Company claims policies.
- Claims management uses reports measuring operational effectiveness and claim processing times to monitor claims handling 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: Eide interviewed Company personnel to understand the claims handling process. Eide also selected 109 life claims, annuity death claims, and policy surrenders from the examination period, to verify that the Company is not unfairly discriminating against claimants.

Transaction Testing Results:

Findings: None.

Observations: Eide noted that none of the claims tested 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 Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. Eide has made recommendations to address various concerns related to Complaint Handling.

FOR INFORMATIONAL PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Eide Bailly LLP, 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 Regulation Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. In addition to the undersigned, Dorothy K. Raymond of the Division’s Market Conduct Section participated in this examination, and in the preparation of the report.

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

Matthew C. Regan III
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Examiner-In-Charge
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