THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

Report on the Comprehensive Market Conduct Examination of

The Paul Revere Life Insurance Company

Worcester, Massachusetts

For the Period January 1, 2008 through December 31, 2008

NAIC COMPANY CODE**: 67598**

EMPLOYER ID NUMBER: 04-1768571

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August 26, 2010

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

Dear Commissioner Murphy:

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

THE PAUL REVERE LIFE INSURANCE COMPANY

at their home offices located at:

2211 Congress Street
Portland, ME 04122

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the "Division") conducted a comprehensive market conduct examination of The Paul Revere Life Insurance Company ("PRLIC" or the "Company") for the period January 1, 2008 to December 31, 2008. The examination was called pursuant to authority in Massachusetts General Laws Chapter ("M.G.L. c.") 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA") were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

A tailored audit approach was developed to perform the examination of the Company using the guidance and standards of the *2008 NAIC Market Regulation Handbook*, ("the Handbook") the market conduct examination standards of the Division, the Commonwealth of Massachusetts' insurance laws, regulations and bulletins, and selected federal laws and regulations. All procedures were performed under the management, control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division's financial examination staff to the extent deemed necessary, appropriate and effective, to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

The comprehensive market conduct examination resulted in one required action as noted below. Examination results showed that the Company is in compliance with all tested Company policies, procedures and statutory requirements addressed in these sections. Further, the tested Company practices appear to meet industry best practices in these areas.

SECTION VII-CLAIMS

STANDARD VII-3

Findings: None.

Observations: RNA noted that the claims resolution for the eight tested claims was timely. RNA noted that the internal audit department routinely completes audits of the claims function and makes recommendations based upon the results of testing. Further, the internal audit department monitors all recommendations to ensure that corrective actions are properly resolved. The internal audit department noted that the claims quality assurance function exceptions were not always being addressed by the claims function. As a result, additional corrective actions were required by the internal audit department, including additional training and quarterly testing of quality assurance findings to ensure that the quality assurance exceptions are timely addressed. The internal audit department plans to monitor this issue until it is resolved. Other than the internal audit issue described, it generally appears that the Company timely resolves claims in compliance with its policies, procedures and statutory requirements.

Required Actions: Claims management shall monitor and implement the internal audit department recommendations. Further, the Company shall ensure that the internal audit department continues to monitor the claims function until any noted exceptions are fully resolved. Finally, the Company shall report the results of the internal audit department's monitoring of this issue to the Division by December 31, 2010 and thereafter as considered necessary by the Division.

COMPANY BACKGROUND

PRLIC is an indirect subsidiary of Unum Group ("Unum"). Unum is a publicly-traded insurance holding company whose shares are listed on the New York Stock Exchange. Unum is headquartered in Chattanooga, Tennessee. Unum's insurance and non-insurance subsidiaries operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries around the world. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America, Provident Life and Accident Insurance Company, PRLIC, and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. PRLIC also owns a Massachusetts-domiciled subsidiary, Paul Revere Variable Annuity Insurance Company ("PRVAIC"). Unum is the largest provider of disability insurance products in the United States and the United Kingdom, and also provides a complementary portfolio of other insurance products including long-term care insurance, life insurance, employer and employee paid group benefits, and other related services.

With the exception of a small amount of ordinary life products which PRLIC ceased selling in the first quarter of 2008, PRLIC does not market or underwrite any new business. As such, the Company operates as a run-off subsidiary of Unum and the vast majority of its 2008 earned premium revenue is from renewal business. The Company cedes a majority of its ordinary life insurance and fixed annuity business to unaffiliated reinsurers. In addition the Company cedes a large portion of its disability income business to Northwind Reinsurance Company, a Vermont-domiciled subsidiary of Unum. Thus, from a financial perspective, the net retained business is individual and group disability, and accident and health business which are in line with Unum's core business. PRVAIC is also in run-off, had no premium income for 2008 and only a small amount of life and annuity business in-force at December 31, 2008. A 2008 examination of PRVAIC was also conducted by the Division and RNA, and a separate examination report has been issued for that examination.

PRLIC has $4.7 billion in assets and $340.3 million in surplus as of December 31, 2008 and is rated A- (Excellent) by A.M. Best.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's internal audit plan is annually approved by the audit committee of the board of directors ("Audit Committee"). Key business risks and mitigating controls are identified, and an annual audit plan is developed with high risk areas receiving the most attention.
- The Company's parent, Unum, has adopted a global compliance function which reports to Unum's Regulatory Compliance Committee ("RCC") quarterly. The members of the RCC are independent. Unum's vice-president functions as the chief compliance officer, who leads Unum's compliance efforts and reports to the RCC.
- The internal audit function reports to the Audit Committee. Internal audit reports are provided to the Audit Committee and senior management. The reports include recommendations and management's responses to those recommendations. The Audit Committee is updated throughout the year on the status of in-process audits. The internal audit department verifies that audit recommendations have been implemented by management.
- The Company has a claims internal audit function dedicated to evaluating disability income claims processing. A large sample of closed disability income claims is reviewed each month using criteria designed to target claims with potential adjudication problems. The selected claims are independently re-adjudicated and evaluated based on the Company's claim processing guidelines. The internal audit results are reported to claims management and to the Company's board of directors, through the internal audit and compliance reporting structure.

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

Transaction Testing Procedure: RNA reviewed internal audit plans, internal audit reports, RCC meeting presentations and minutes, and discussed reported matters with management. Issues noted in such reports were further investigated and reviewed. RNA also reviewed work performed by the Company's claims internal audit function for eight individual disability income claims.

Transaction Testing Results:

Findings: None.

Observations: The internal audit plans, internal audit reports and RCC meeting presentations and minutes reviewed by RNA provided detailed information on the audit plans, procedures performed, findings, actions taken and recommendations resulting from these oversight efforts. Issues generally appeared to be timely and fully addressed. The work of the claims internal audit function appeared to be a rigorous and independent challenge to the disability claims adjudication and payment process.

Recommendations: None.

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

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

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

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

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

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

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

- The Company has developed a special investigations unit ("SIU") which includes 25 investigators in the Company's four claim processing locations who review claims referrals from the claims processing units. The referrals result in an in-depth review of the claims based on a number of fraud indicators. The SIU also investigates any other claims of internal fraud.
- The Company completes criminal, financial and post-secondary education background checks for prospective employees. The Company's policy is to not hire a "prohibited person" as defined above.

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

Transaction Testing Procedure: RNA reviewed Company policies and procedures to address anti-fraud initiatives and employee hiring due diligence.

Transaction Testing Results:

Findings: None.

Observations: RNA confirmed that the Company's policy and procedures conducted through the SIU take reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud. RNA also confirmed that the Company completes criminal, financial and post-secondary background checks for new employees. Based upon RNA's review of the Company's policies and procedures, it appears that the Company has anti-fraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

Recommendations: None.

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

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

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

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

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

- The Company has reinsured its individual life and fixed annuity business with unaffiliated reinsurers which are licensed in Massachusetts. The reinsurers have outsourced the processing of policyholder service transactions for these products to third parties. The terms of these transactions are contained in administrative and reinsurance agreements which designate responsibilities and duties, restrictions, and general confidentiality and privacy requirements.
- Unum uses independent agents to sell its products. The Company does not utilize independent agents, since it is no longer selling insurance 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: RNA interviewed management about its use of third parties to perform Company functions, and reviewed the administrative and reinsurance agreements with regard to the Company's reinsured business.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

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

Transaction Testing Procedure: RNA interviewed management about its monitoring of third parties who perform Company functions.

Transaction Testing Results:

Findings: None.

Observations: The Company's reinsurers are responsible for oversight and monitoring of the third parties which process policyholder service transactions. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

Recommendations: None.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable.

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 written by a Company are in accordance with the authorized lines of business.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company has developed privacy policy and procedures to address statutory and regulatory privacy requirements.
- The Company provides an annual privacy notice to all customers.
- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with non-affiliates, and thus no opt-out right is necessary for such information sharing.
- The Company has summarized its privacy policies on its website.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.
- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located. Access is frequently and strictly monitored.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed eight disability claims reviewed by the claims internal audit department for evidence of the use of pretext interviews during disability claim investigation.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures adequately protect consumers' nonpublic personal information. RNA noted no instances where the Company improperly provided personal information to parties other than the policyholder.

Recommendations: None.

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

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

Objective: This Standard addresses requirements to provide privacy notices.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for providing annual privacy notices to all policyholders.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have policies and procedures in place to annually provide all policyholders with the required privacy notice.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

Observations: It appears from RNA's review that the Company's policies and procedures provide reasonable assurance that the Company properly collects, uses and discloses nonpublic personal financial information.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought evidence that the Company improperly disclosed nonpublic personal health information, in conjunction with testing of the claims internal audit department's review of disability claims processing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of the claims internal audit department's review of disability claims processing.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

II. COMPLAINT HANDLING

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

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

M.G.L. c. 176D, § 3(10).

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

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

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

- Written Company policies and procedures govern the complaint handling process.
- The Company considers any written or oral grievance received from the Division or a customer as a complaint.
- The Company logs all complaints received in its complaint register in a consistent format.
- The complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence, the nature of the complaint and the complaint disposition.
- The Company's policy is to respond to Division complaints within 14 calendar days of receipt when possible, and in a timely manner once it receives and evaluates all required information.
- The Company provides a telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company monitors complaint handling activity through quarterly management reporting to senior management, and internal auditing of business units' complaint activity and trends.

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed two Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the adequacy of documentation supporting the resolution of each complaint. RNA 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: None.

Observations: RNA noted that the Company's format for recording complaints included all necessary information, and that complaint handling activity reports monitor use of the proper complaint format. Based upon the results of testing, it appears that the Company's processes for recording complaints in the required format are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed two Massachusetts complaint files from the examination period, to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date, and the adequacy of documentation supporting the resolution of each complaint. RNA also reviewed complaint trend reports prepared by management during the examination period, noting that activity is summarized and analyzed to identify root causes of complaints. In addition, RNA reviewed the Company's website, and various forms sent to policyholders, to determine whether the Company provides contact information for consumer inquiries as required.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses whether the Company's response to the complaint fully addresses the

issues raised, and whether policyholders with similar fact patterns are treated consistently and fairly.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed two Massachusetts complaint files from the examination period, to evaluate the Company's actions related to complaint disposition.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint, related correspondence and the Company's complaint register information. RNA is not aware of any complainants with similar fact patterns that were not 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 statute or regulation. The Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed two Massachusetts complaint files from the examination period, to evaluate the Company's complaint response times.

Transaction Testing Results:

Findings: None.

Observations: The Company addressed each of the complaints tested within 14 days. It appears that the Company's processes for responding to complaints in a timely manner are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

III. MARKETING AND SALES

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

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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.

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

Standard III-8. Pre-need funeral contracts or pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations.

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

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

No work performed. This Standard not covered in the scope of the examination because the Company did not offer new business with accelerated benefits in Massachusetts during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.
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Standard III-11. Insurer rules pertaining to producer requirements with regard to suitability in annuity transactions are in compliance with applicable statutes, rules and regulations.

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company does not offer fixed-indexed annuity products.

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

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

IV. PRODUCER LICENSING

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

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business through licensed and appointed producers during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business through licensed and appointed producers during the examination period.

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.

No work performed. This Standard is not covered in the scope of the examination because the Company has not terminated licensed and appointed producers during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not terminated licensed and appointed producers during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not terminated licensed and appointed producers during the examination period.

Standard IV-6. 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 the examination because the Company has not offered new business through licensed and appointed producers during the examination period.

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.

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

M.G.L. c. 175, § 108 requires that individual disability income policies provide a 31 day grace period on premium payments after the due date before lapse can occur. Pursuant to M.G.L. c. 175, § 110B, no life insurance policies may lapse for nonpayment of premium until after three months from the premium due date, unless, within 10 days prior to the due date, the Company has mailed a notice to the policyholder showing the premium due and the due date, with notice that the policy will lapse if no payment is made on or before the due date. M.G.L. c. 175, §§ 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium.

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

- Individual disability income policyholders may elect to pay premiums either monthly, quarterly, semi-annually or annually, by either electronic funds transfer or by check. For policies sold through employer worksite marketing arrangements, premiums are billed to the employer and paid by insureds via payroll deduction.
- The Company generates and mails billing notices for individual disability income policies 20 days prior to the due date, which provide the minimum required statutory notice.
- If individual disability income insurance premiums are not received by the due date, an overdue premium notice is mailed after 20 days stating that if payment of the overdue premium is not made, the policy will lapse for non-payment approximately 57 days after the original due date.
- Group life and long-term disability income billing options include monthly list bill to the policyholder and monthly self-accounting by the policyholder, which is provided to the Company.
- If long-term disability income or group life premiums are not paid within a 10 day grace period after the due date, the Company mails a lapse notice stating that the policy will terminate for non-payment approximately 20 days after the original due date.
- The Company has written service standards to ensure the timely processing of premium billing, reminder and lapse notices.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all billing and policyholder service processing for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate billing and policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company gave adequate notice prior to lapse for each individual disability income policy tested, in compliance with statutory requirements. Further, premium billing notices appeared to be mailed to the policyholders with adequate advance notice, and included required disclosure of potential lapse in the event of non-payment.

Recommendations: None.

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

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

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

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

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

- Upon request to cancel an individual disability income, long-term disability or group life policy, the Company sends the owner a form requiring his or her signature. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium due is sent to the policyholder.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested transactions.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all processing of insured-requested cancellations for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures

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

Transaction Testing Procedure: RNA discussed insured-requested cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected three individual disability

income and two long-term disability insured-requested cancellations from the examination period, to ensure that requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's individual disability income, long-term disability and group life products are serviced by call center departments which are staffed by employee representatives who process address and billing changes, send forms for other requests, and answer basic benefit questions about existing coverage.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder correspondence.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

- Company policy requires a written request and underwriting approval to process individual disability income, long-term disability, or group life coverage or contract changes. Cancellation of coverage must also be requested in writing. Less complex policy transactions, such as address changes, may be made by phone.
- Company policy provides for group life beneficiary change requests to be effective upon the signing and mailing of a properly completed form. Company policy requires a witness signature to process beneficiary and ownership changes.
- The Company gives written notice to individual disability income policyholders prior to maturity.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder service transactions.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA discussed policy change procedures with Company personnel, and obtained supporting documentation. RNA selected five individual disability income policy change requests from the examination period, to ensure that the Company processed transactions accurately and timely in accordance with statutory requirements and policy provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Company policy requires that unclaimed maturities, unclaimed premium refunds, and uncashed claim checks be reported and escheated when the owner cannot be found.
- The Company has implemented procedures for locating lost owners through searches of Company records and public databases. Once unclaimed checks have been outstanding for more than 120 days, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner. When a check is returned, a check stop payment is issued, and notice to the owner is given that the check payment was returned and/or not cashed, and subsequently voided. A new check is sent once a better address is located. If a new address is not found after nine months, the amounts are reported and escheated according to Massachusetts statutory requirements.
- The Company annually reports escheatable funds to the State Treasurer on May 1st as required by statute. Prior to escheatment of funds, a final attempt is made to locate the owner.
- The Company periodically compares its annuity in-force contract listing with the Social Security Death Index, to ensure that the Company is aware of deceased annuitants even if the beneficiaries have not reported deaths to the Company.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA discussed with Company personnel procedures for locating missing policyholders, contract holders and beneficiaries, and procedures for escheatment of funds, and

reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders, contract holders and beneficiaries, and appears to make reasonable efforts to locate such individuals. The Company appears to report unclaimed items and escheat them as required by statute, when the Company is made aware of such escheatable items.

Recommendations: None.

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

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

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

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

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

- The Company's contract administration systems automatically calculate the unearned premium on cancelled policies, and unearned premium after an insured's death. Such amounts are returned to owners or beneficiaries.
- Upon request to cancel an individual disability income, long-term disability, or group life policy, the Company sends the owner a form requiring his or her signature. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium due is sent to the policyholder.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested transactions.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA discussed return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected three individual disability income and two long-term disability insured-requested cancellations from the examination period, to ensure that

unearned premiums were properly calculated and timely returned.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, unearned premium appeared to be properly calculated and timely returned to the policyholder.

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.

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

M.G.L. c. 175, §§ 108 and 132(11) state that individual disability income and life policies must allow for reinstatement. M.G.L. c. 175, § 187G states that the insured under a life policy which lapse during a strike by producers, in the case where the premiums are collected by the producers, is entitled to reinstatement without evidence of insurability within thirty-one days of the authorized termination of the strike.

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

- A reinstatement application is attached to all lapse notices sent to the policyholder.
- Individual disability income, long-term disability and group life policyholders must undergo various levels of underwriting prior to reinstatement, depending upon when the policy lapsed. Unpaid premiums must be paid to reinstate the policy.
- The Company has written service standards to ensure the timely processing of reinstatement requests.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 134A, 143, 144, 144A ½, 146 and 146A.

Objective: This Standard evaluates notification to life policyholders regarding non-forfeiture options, and requires application of these options in accordance with the contract. The selection of life dividend and non-forfeiture options is addressed in Standard VI-10.

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

M.G.L. c. 175, § 144 allows life insurance policyholders to elect to receive cash value upon policy surrender, to take a specified paid-up non-forfeiture benefit or to receive an actuarially equivalent benefit in the event of default. Also, deferred annuities, other than single premium contracts, shall provide that, in the event of nonpayment of premium after three years' premiums have been paid, the annuity shall be converted into a paid-up annuity for such proportion of the original annuity as the number of years' premiums paid bears to the premiums required under the contract. M.G.L. c. 175, § 144A ½ defines required provisions in annuity contracts. M.G.L. c. 175, § 146 applies the provisions of M.G.L. c. 175, § 144 to industrial life insurers, with the provisions related to cash surrender values applicable after premiums have been paid for five years. Under M.G.L. c. 175, § 146A, a lapse for nonpayment after three years of an insured making premium payments requires that the insurer send a notice within six months of lapse, setting forth any non-forfeiture benefit other than one elected by the insured.

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

- The Company uses policy forms designed to meet statutory and regulatory requirements, and has filed these with the Division for approval prior to use.
- The Company's in-force life policies provide several dividend or non-forfeiture options, which are listed on the application for insurance used at the point of sale. Upon lapse, the selected non-forfeiture option is applied to any cash value remaining in the policy.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA discussed non-forfeiture procedures with Company personnel, and reviewed supporting documentation.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to communicate non-forfeiture options to policyholders. RNA found no evidence of inappropriate application of non-forfeiture options.

Recommendations: None.

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

211 CMR 28.10.

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

211 CMR 28.10 requires that the company provide an annual report of policy values for non-variable life policies.

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

- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all post-issue policyholder service functions for the reinsured business.
- The reinsurance contracts contain performance standards requiring timely and accurate policyholder service processing, and compliance with all applicable laws and regulations.
- The Company monitors the reinsurers to ensure compliance with Company policies and procedures.

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

Transaction Testing Procedure: RNA discussed annual report disclosure procedures with Company personnel.

Transaction Testing Results:

Findings: None.

Observations: Based upon review, the Company appears to have adequate procedures for providing life policyholders and annuity contract holders with timely annual reports, in compliance with Company policies and regulatory requirements.

Recommendations: None.

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

No work performed. This Standard not covered in the scope of the examination because the Company did not offer new business with accelerated benefits in Massachusetts during the examination period and because the number of requests for accelerated benefits from group life certificate holders was not considered significant.

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.

No work performed. This Standard is not covered in the scope of the examination because the Company has written only renewal business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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.

No work performed. This Standard is not covered in the scope of the examination because the Company has not underwritten new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has written only renewal business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has written only renewal business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company had no rescissions during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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

No work performed. This Standard is not covered in the scope of the examination because the Company has not offered new business during the examination period.

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 addresses the timeliness of the Company's initial contact with the claimant.

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

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

- Written policies and procedures govern the Company's claims handling processes.
- When a disability income claim is reported through an agent or the company's 800 phone number, the claim is registered in the Company's claim system. A claim form is sent to the claimant, and includes a HIPAA authorization to communicate with the attending physician and obtain the attending physician's statement. Follow up letters are sent to the claimant after 30 days if the claim form is not received. The Company's databases are researched to determine if multiple polices exist.
- Once the disability income claim form is received, a claims intake unit sets up a claim file, orders medical records, and the claim is assigned to a claims examiner. Contact with the claimant is made within 10 days. Claims are investigated and evaluated using the definitions of disability in the policy, which can vary based upon when the policy was written and the coverages selected. Claim documentation and history notes are maintained. If additional information is needed from the claimant, follow-up letters are sent every 30 days. The claims examiners evaluate and analyze the claims information submitted, and prepare an action plan related to each specific claim. Once all information is received and evaluated, a benefit eligibility decision is generally made within 10 days. All claim denials are made in writing after required approval by a benefits department director.
- Disability income claims in payment status require a monthly statement from the claimant for continuation of benefits, unless the medical condition is deemed a permanent disability.
- Any cases of suspected fraud are concurrently sent to the SIU and/or legal department. The SIU and claim investigation take place concurrently. While the contestability period is two years for a material misrepresentation from the coverage date, the Company's in-force run-off business is beyond the two year period.
- The Company has an appeals process for reconsideration of denied disability income claims. If after review of additional information the reconsideration decision is unchanged, the claim is referred to the appeals unit. The appeals unit is an independent review process conducted by an appeals specialist. If the reconsideration decision is overturned, the claim is re-opened and processed. If the reconsideration decision is upheld, an adverse decision letter is sent to the claimant with an explanation. Management maintains statistics on re-opened and overturned decisions to track the activity and monitor trends.
- The Company's billing department processes waivers of premium benefits after the claims examiner notifies them such benefits are due.

- Claims management uses exception reports to measure operational effectiveness and claim processing time. Monthly reports are prepared for claims management who track key metrics and performance standards.
- The Company has a claims quality assurance process in which a dedicated unit reviews a random sample of disability income claims activity for each claims examiner twice a year. The quality assurance results are reported monthly to claims management and tracked for trends.
- In addition to the quality assurance process, the Company has a full-time claims internal audit function dedicated to evaluating disability income claims processing. The claims internal audit function selects a large sample of closed disability income claims each month, using criteria designed to target claims with potential adjudication problems. The selected claims are independently re-adjudicated and evaluated based on the Company's claim processing guidelines. The claims internal audit results are reported to claims management, and to the Company's board of directors, through the internal audit and compliance reporting structure.
- An outside consultant is utilized to randomly survey disability income claimants to measure customer satisfaction with claims handling.
- Payees for all claim disbursements are checked against the Office of Foreign Asset Control list as required by Law.
- The Company reinsured 100% of its in-force individual life and fixed annuity business with reinsurers that are licensed in Massachusetts. The reinsurers are contractually responsible for all claims processing for the reinsured business. The reinsurance contracts contain performance standards requiring timely and accurate claims processing, and compliance with all applicable laws and regulations. The Company monitors the reinsurers to ensure compliance with Company policies and procedures.
- Group life death claims are processed by the Company's group benefit claims department. The Company has written policies and procedures designed to ensure timely and accurate processing of group life death claims. The group benefit claims department has quality assurance processes, and it is subject to periodic reviews by the internal audit department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, and that the initial contact with the claimant was timely.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the initial contact with the claimant for the tested claims was timely. Based upon the results of testing, it appears that the Company timely contacts claimants in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-2. Timely investigations are conducted.

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, and that the claim was timely investigated.

Transaction Testing Results:

> *Findings:* None.
>
> *Observations:* RNA noted that the claims investigation for the tested claims was timely. Based upon the results of testing, it appears that the Company timely investigates claims in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No

further testing of life and annuity claims was considered necessary due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, and that the claim was timely resolved. RNA also reviewed internal audit reports related to the claims function and discussed reported matters with management. Issues noted in such reports were further investigated and reviewed.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the claims resolution for the eight tested claims was timely. RNA noted that the internal audit department routinely completes audits of the claims function and makes recommendations based upon the results of testing. Further, the internal audit department monitors all recommendations to ensure that corrective actions are properly resolved. The internal audit department noted that the claims quality assurance function exceptions were not always being addressed by the claims function. As a result, additional corrective actions were required by the internal audit department, including additional training and quarterly testing of quality assurance findings to ensure that the quality assurance exceptions are timely addressed. The internal audit department plans to monitor this issue until it is resolved. Other than the internal audit issue described, it generally appears that the Company timely resolves claims in compliance with its policies, procedures and statutory requirements.

Required Actions: Claims management shall monitor and implement the internal audit department recommendations. Further, the Company shall ensure that the internal audit department continues to monitor the claims function until any noted exceptions are fully resolved. Finally, the Company shall report the results of the internal audit department's monitoring of this issue to the Division by December 31, 2010 and thereafter as considered necessary by the Division.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling

for each of the selected claims was documented, and the timeliness of the Company's response to claim correspondence.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that correspondence for the tested claims was answered timely. Based upon the results of testing, it appears that the Company timely responds to claim correspondence in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy of information maintained in the Company's claim records.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, and noted the adequacy of information maintained in the Company's claim records.

Transaction Testing Results:

Findings: None.

Observations: RNA determined that based upon the Company's claim documentation standards, six of the eight files for the tested claims were adequately documented. Two of the eight tested files did not meet the Company's claim documentation standards, and the claims internal audit finding was corrected by the claims department. Based on the results of testing, it appears that the Company's claim documentation and records processing, including its claims internal audit function, are generally functioning in accordance with their policies and procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, noted whether the claim was properly adjudicated and whether appropriate claim amounts were paid to the correct beneficiary/payee.

Transaction Testing Results:

> *Findings:* None.
>
> *Observations:* RNA determined that based on the Company's claim handling standards, six of the eight tested claim files were handled appropriately. Two of the eight tested files did not meet the Company's claim handling standards, and required additional claim payments as a result of the claim internal audit findings. Based on the results of testing, it appears that the Company's claim handling processes, including its claims internal audit function, are generally functioning in accordance with their policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the use of claim forms that are appropriate for the policy.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims was documented, and noted whether claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that that the Company used appropriate claim forms for the tested claims in accordance with the Company's policies and procedures.

Recommendations: None.

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

Objective: The Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims were documented. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the claims internal audit function reviewed the reserves for the tested claims to ensure that they were evaluated, established and adjusted according to the Company's policies and procedures. Based upon the results of testing, it appears that the Company's processes for establishing reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures for testing. Two of the eight claims selected were denied claims that were appealed by the claimants, and one of the eight claims was denied by the Company but not appealed by the claimant. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims were documented. RNA reviewed the denied and appealed claims, and noted whether the Company handled the claims and appeals timely and properly before denying them.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the one denied claim that was not appealed and the two appealed claims appeared to be properly handled in accordance with policy provisions, statutory requirements and Company policies. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims or appeals.

Recommendations: None.

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

Objective: The Standard addresses the Company's procedures for issuing claim checks.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling

processes, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures ensured that claims payment processes were appropriate, and that there was no evidence that the Company's cancelled benefit checks and drafts reflected inappropriate claims handling procedures.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that five of the eight tested claims were paid by the Company. Based upon the results of testing, it appears that the claims internal audit procedures ensured that claims payment processes were appropriate and that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures. RNA noted no evidence that cancelled benefit checks and drafts reflected inappropriate claims handling procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. Two of the eight claims selected were denied claims that were appealed by the claimants, and one of the eight claims was denied by the Company but not appealed by the claimant. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims were documented. RNA reviewed claims internal audit conclusions about whether the claims were handled properly and timely, and whether there were any instances of claim handling practices compelling claimants to initiate litigation to recover amounts clearly due under the policies, or any instances of unreasonably low settlement offers.

Transaction Testing Results:

Findings: None.

Observations: Based upon the results of testing, it appears that the claims internal audit function made conclusions about whether the claims were handled properly and timely, and whether there were any instances of claim handling practices compelling claimants to initiate litigation to recover amounts clearly due under the policies, or any instances of unreasonably low settlement offers. RNA noted no such instances.

Recommendations: None.

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

No work performed. This Standard not covered in the scope of the examination because the Company did not offer new business with accelerated benefits in Massachusetts during the examination period and because the number of requests for accelerated benefits from group life certificate holders was not considered significant.

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

M.G.L. c. 176D, § 3(7).

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes for all lines of in-force business, and obtained documentation supporting such processes. No further testing of life and annuity claims was considered necessary, due to the small number of claims related to the run-off of the Company's life and annuity business. RNA selected eight individual disability income claims that were subject to audit by the Company's claims internal audit procedures. RNA verified that the claims internal audit procedures to re-adjudicate and evaluate the claims handling for each of the selected claims were documented. RNA reviewed these claims for any evidence of inappropriate discrimination against claimants with similar qualifying events under its policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2008 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. One required action is included in this examination report.

ACKNOWLEDGEMENT

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

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

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