



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Comprehensive Market Conduct Examination of

Primerica Life Insurance Company

Duluth, Georgia

For the Period January 1, 2005 through December 31, 2005

NAIC COMPANY CODE: 65919

EMPLOYER'S ID NUMBER: 04-1590590



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

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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

April 20, 2006

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

Dear Commissioner Bowler:

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

PRIMERICA LIFE INSURANCE COMPANY

at its home office located at:

3120 Breckinridge Boulevard
Duluth, Georgia 30099

The following report thereon is respectfully submitted.

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Scope of Examination

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of Primerica Life Insurance Company (“Primerica” or “the Company”) for the period January 1, 2005 to December 31, 2005. 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 *NAIC Market Conduct Examiner’s Handbook*, (“the Handbook”) the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. All procedures were performed under the management and control and general supervision of the market conduct examination staff of the Division, including procedures more efficiently addressed by the concurrent Division financial examination. For those objectives, market conduct examination staff discussed, reviewed and used procedures performed by the Division’s financial examination staff to the extent deemed necessary, appropriate and effective to ensure that the objective was adequately addressed. The following describes the procedures performed and the findings for the workplan steps thereon.

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

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

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

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

EXECUTIVE SUMMARY

This summary of the comprehensive market conduct examination of the Company is intended to provide a high-level overview of the 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 should be provided to the Division.

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

The comprehensive market conduct examination resulted in no findings or negative observations with regard to complaint handling, producer licensing, policyholder service, and underwriting and rating. 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 each of these areas.

COMPANY OPERATIONS/MANAGEMENT

The examination concluded that the Company is in compliance with most tested Company policies, procedures and statutory requirements. Further, the tested Company practices appear to meet industry best practices in most of these areas. However, the examination noted one finding. The Company did not provide the Notice of Adverse Underwriting Decision to an applicant who applied for reinstatement after their initial application was partially denied. The Company should remind the underwriting department of the requirement to send the Notice of Adverse Underwriting Decision to the applicant when an application is partially denied. Further, the Company, particularly the audit & risk review department (“ARR”) or compliance department, should monitor the reinstatement underwriting process to ensure that the Notice of Adverse Underwriting Decision is provided when applications are fully or partially denied. The examination also noted that the Company has conducted criminal background checks on all employees.

MARKETING AND SALES

The examination concluded that the Company is in compliance with tested Company policies, procedures and statutory and regulatory requirements regarding marketing and sales. However, during the examination period the Company was not monitoring replacement activity by producer or Regional Vice-President (“RVP”). The Company completed development of such a monitoring system in June of 2006. The Company, particularly the ARR or compliance department, should monitor the timely use of the replacement activity reporting by the home office.

CLAIMS

The examination concluded that the Company is in compliance with most tested Company policies, procedures and statutory requirements in the area of claims. The examination noted three findings. One paid death claim tested lacked evidence that the claims examiner checked the Massachusetts Department of Revenue website for past due child support to comply with M.G.L. c. 175, § 24D, which requires interception of non-recurring payments. Further, two paid life death claims tested lacked evidence that a multi-policy search was performed as required by Division of Insurance Bulletin 2001-07. The Company has implemented process improvements to address these findings. RNA recommends that the Company, particularly the ARR or compliance department, closely monitor the effectiveness of the changes to the claim process to ensure that all searches are being timely conducted in compliance with regulatory requirements.

RNA further noted that the Company improperly overpaid one claimant for an increasing benefit rider included in the insured's policy that was not effective until the policy's next renewal date. The Company, particularly the ARR or compliance department, should monitor the claims settlement process for claims with increasing benefit riders to ensure that such claims are properly adjudicated.

FOR INFORMATION PURPOSES ONLY

COMPANY BACKGROUND

Primerica Life Insurance Company ("Primerica" or "the Company") is a wholly-owned subsidiary of Citigroup Inc. ("Citigroup"). Citigroup, together with its subsidiaries, is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers, with more than 200 million customer accounts and doing business in more than 100 countries. Citigroup's activities are conducted through its Global Consumer, Corporate and Investment Banking, Global Wealth Management, and Alternative Investments business segments. The Global Consumer segment delivers a wide array of banking, lending, insurance and investment services through a network of local branches, the Primerica Financial Services, Inc. ("PFS") sales force, and electronic delivery systems such as automated teller machines and the Internet. PFS offers consumers an array of financial services and products, including term life insurance underwritten by Primerica. PFS also markets other Citigroup products, including Smith Barney mutual funds (until December 1, 2005), CitiFinancial loans and mortgages and annuities from Metropolitan Life Insurance Company (as a result of Met Life's acquisition in June 2005 of Travelers Insurance Company, a former affiliate).

Primerica markets its products through the PFS distribution channel. PFS began operations in 1977, with a business plan to help middle-income families using its "Buy Term and Invest the Difference" philosophy. That philosophy encourages families to purchase affordable term life insurance, so they will have more money to invest in their family's future. The PFS business model uses a hierarchical multi-level marketing system whereby individual producers are recruited, trained, supervised and compensated as they advance through the system. The highest level producers are rewarded based upon their own production, as well as the production of producers who were recruited by the higher level producers several levels below them within the hierarchal system. With more than 100,000 full and part-time representatives, the Company states that PFS is the largest financial services marketing organization in North America. Approximately 1,300 PFS representatives are appointed as insurance agents by Primerica in Massachusetts. The Company sells only term life insurance products, most of which are level-term policies with a standard accelerated benefit rider for terminal illness. Various additional riders offered include a waiver of premium for disability, juvenile insurance, spouse insurance and increasing benefits. The average face value sold is approximately \$200,000. The Company also maintains very small closed blocks of annuity and individual health business, which it has not marketed anywhere since the mid 1990s.

The Company is rated A+ ("Superior") by A.M. Best Company and AA ("Very Strong") by Standard & Poors Corp. The Company had \$5.4 billion in admitted assets and \$1.7 billion in surplus as of December 31, 2005. For the year ended December 31, 2005, the Company's premium and annuity considerations were \$1,130.9 million, and net income was \$344.3 million.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- Citigroup's internal audit function, the ARR, performs audits of the Company's operational functions. ARR is an independent internal audit function which includes 13 auditors dedicated to performing audit procedures at PFS.
- The Audit Committee of Citigroup's Board of Directors ("Audit Committee") approves the audit plan and schedule in December of the preceding year, and is apprised of the audit plan progress throughout the year.
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- The Audit Committee receives periodic summaries of internal audit results and monitors the Company's progress implementing ARR's recommended corrective actions, if any.
- The Company's field audit department ("FAD") includes 31 field auditors who annually review each RVP and Office of Supervisory Jurisdiction ("OSJ"). The OSJ is field or branch office whereby broker dealers must meet certain regulatory requirements of the National Association of Securities Dealers to supervise its producers that sell securities. Each of the Company's RVPs reports to an OSJ. The two field auditors assigned to Massachusetts are supervised by four regional employee supervisors. The FAD audits are one day on-site reviews, and evaluate policy delivery, complaint reporting, advertising compliance, producer recruitment and the occurrence of any unlicensed activity.
- FAD audit reports are generally issued within one week of the audit's completion, and are reviewed by management. FAD audit reports are given a score in one of five categories, which vary based upon the number and/or seriousness of the exceptions noted. Those reports rated in the three lowest categories require follow up audits, and possible referrals to the Business Integrity Group ("BIG") for further action.
- The Company's compliance department, which includes the Chief Compliance Officer, reports to the Director of Compliance, who reports to Citigroup's Independent Compliance Department. The Compliance Department periodically completes compliance reviews of various areas of the Company's operations.
- The Company's financial statements are audited annually by an independent auditor, and the Company has received unqualified opinions on these financial statements.

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

Transaction Testing Procedure: RNA reviewed the six 2004 and 2005 ARR audit reports, and discussed the reports with ARR management. In addition, RNA reviewed a summary of all FAD audit reports, and requested detail regarding each of those in the three lowest rated categories for

discussion with management. Finally, RNA reviewed the two compliance reports issued by the compliance department in 2005.

Transaction Testing Results:

Findings: None.

Observations: The review of the ARR audit reports disclosed findings and recommendations as a result of the audits, along with timeframes to implement the recommendations. ARR appeared to follow up to ensure that key recommendations were implemented. RNA's review of the summary of the FAD audits noted that all but five audits received a rating in the two highest categories. Moreover, all RVPs and OSJs appeared to have been audited by FAD in 2005. RNA noted that five FAD reports were rated in the three lowest categories, and each of those was summarized for our review. None of the lower ratings appeared to be caused by deficiencies in insurance sales or complaint activity. Corrective actions plans appeared to have been implemented to address the concerns, which were securities and loan related requirements. The review of the two compliance reports issued by the compliance department indicated that findings were timely addressed with required actions to correct deficiencies.

Recommendations: None.

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

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

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

18 U.S.C. § 1033; Division of Insurance Bulletins 98-11 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 a 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 of Insurance Bulletins 98-11 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 controls were noted in review of this Standard:

- The Company has adopted a written Anti-Fraud Plan which requires them to take all reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The Anti-Fraud Plan defines required procedures for employees to report suspected fraud to the Company's SIU, the Company's Office of the General Counsel and to the Massachusetts Insurance Fraud Bureau.
- The Company's policy is to not hire employees who are "prohibited persons."
- The Company's policy, commenced in December 1998, is to complete criminal background checks for all prospective employees prior to hiring them. The Company also, in December of 1998, conducted a background check on all existing regular home office employees. In addition, all employees must sign an acknowledgement that they have taken the Annual Compliance Meeting training course and, in conjunction with such training, sign a separate acknowledgement disclosing any bankruptcy or felony conviction.

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

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for addressing fraud and employee hiring due diligence.

Transaction Testing Results:

Findings: None.

Observations: RNA reviewed the Anti-Fraud Plan, and confirmed that the Company completes criminal background checks for prospective new employees. RNA also confirmed that all employees must sign an acknowledgement that they have taken the Annual Compliance Meeting training course, and must disclose any bankruptcy or felony conviction.

Recommendations: None.

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Standard I-4. The company has a valid disaster recovery plan.
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No work performed. All required activity for this Standard is included in the scope of the ongoing statutory financial examination of the Company.

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Standard I-5. The company is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the company.
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Objective: This Standard addresses the Company's efforts to adequately monitoring the activities of the contracted entities that perform a business function.

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

- The Company has contractual arrangements where third parties other than producers perform a business function or action on behalf of the Company. Such third parties conduct medical examinations of applicants prior to policy issuance, conduct telephonic interviews of applicants in certain instances and complete background checks on prospective new employees and producers prior to their appointment as agents.
- The FAD conducts field audits which annually review each RVP and OSJ. The FAD audits are one day on-site reviews which evaluate policy delivery, complaint reporting, advertising compliance, producer recruitment and the occurrence of any unlicensed activity.

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 supporting documentation. RNA also reviewed and discussed with management the 2005 FAD audit reports.

Transaction Testing Results:

Findings: None.

Observations: The review indicated that the use of such third parties is conducted in compliance with Company policies and procedures. The review of the summary of the FAD audit reports indicated that the Company is adequately monitoring the activities of its RVPs and OSJs.

Recommendations: None.

* * * * *

Standard I-6. Records are adequate, accessible, consistent and orderly and comply with record retention requirements.
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Objective: This Standard addresses the adequacy and accessibility of the Company's records. Retained documentation is evaluated in the various Standards.

Controls Assessment: The Company has adopted written procedures to ensure that records are appropriately 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 read the Company's record retention policy, and performed various procedures throughout this examination related to review of retained documentation.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company's record retention policy adequately discloses its record retention policies and procedures. Testing results relating to documentation evidence are also noted in the various examination areas.

Recommendations: None.

* * * * *

Standard I-7. The company 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 also 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 discussed with the Division the lines of business that the Company writes in the Commonwealth, and reviewed its certificate of authority. RNA also reviewed the Company's annual statement premium writings to confirm that they include only those lines reflected on Division records.

Transaction Testing Results:

Findings: None.

Observations: According to the Division, the Company is licensed for the lines of business being written, and its annual statement reported premium supports that the Company is writing only the lines for which it is licensed.

Recommendations: None.

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Standard I-8. The company files all certifications with the Department of Insurance as required by statutes, rules, and regulations.

M.G.L. c. 175, § 25.

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

M.G.L. c. 175, § 25 sets forth the form and content requirements for annual statements insurers file with the Division.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed that certifications are filed with the Division in connection with the annual Company financial reporting process.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard I-9. The company 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 met the Division's expectations.

Recommendations: None.

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

M.G.L. c. 175I, §§ 1-22.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers as required by M.G.L. c. 175I, §§ 1-22. Various aspects of privacy requirements are addressed in Standards I-11 through I-17.

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

- The Company's definitions of Adverse Underwriting Decision, Personal Information and Pretext Interview appear to comply with Massachusetts' law. Company policy prohibits pretext interviews except as allowed by law.
- The Company's policy is to provide the Notice of Insurance Information Practices and the Privacy Policy at the application date. Both are part of the policy application package, which is required to be completed for all new business.
- The Privacy Policy states that the Company shares personal information with affiliates, other financial service providers and non-financial companies for marketing purposes. The Company allows the customer to opt out of participation in sharing of information with affiliates and non-affiliates. The Company does not ask specific questions on the application designed to obtain information for marketing or research.
- The Notice of Insurance Information Practices states that the Company collects certain types of personal information from third parties or other sources, and gives examples of such third parties or other sources. Further, the Notice of Insurance Information Practices states that the Company may in some cases disclose personal information, and that the customer has a right to access and correct such information.
- The Company provides the Annual Privacy Notice to customers via standard mail prior to the policy anniversary date.
- The Company requires that the HIPAA/Privacy Disclosure be signed by the applicant at time of application for a policy.
- The Company provides the applicant a Notice of Adverse Underwriting Decision when it (1) declines to provide coverage, (2) elects to provide a reduced amount of coverage, and (3) terminates coverage or offers to provide insurance at higher than standard rates. The Notice of Adverse Underwriting Decision includes all statutory requirements.
- Company policy does not base an adverse underwriting decision on the existence of (1) a previous adverse underwriting decision; (2) on personal information obtained from an insurance support organization, provided that the insurer or producer can base their decision on further information obtained as a result of the initial information received; or (3) on the basis of sexual orientation or perceived orientation.
- Company policy is to disclose nonpublic personal health information it obtains only as required or permitted by law to regulators, law enforcement agencies and third parties who assist the Company in processing business transactions to its customers. This information is shared only if expressly authorized in writing by the applicant.

- The Company does not disclose information provided by medical professionals, and requires that the applicant obtain such information directly from those medical professionals.
- The Company provides its Privacy Policy, the Notice of Insurance Information Practices and its electronic communication privacy policies on the Company's website.
- The Company annually conducts an information systems risk assessment to consider, document and review information security threats and controls. The risk assessment evaluations have resulted in continual improvements to information systems security.
- Company policy requires that information technology security practices safeguard nonpublic personal and health information, and communicates these practices in training programs, compliance presentations and various memoranda as needed.

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

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the Notice of Adverse Underwriting Decision be provided when applications are declined, and when coverage is offered at higher than standard rates. RNA tested 10 underwriting declinations from the examination period for evidence that the Company provided a timely Notice of Adverse Underwriting Decision. As part of new business testing, RNA also reviewed four applications where the Company offered coverage at higher than standard rates, which requires them to provide the Notice of Adverse Underwriting Decision to the applicant. Finally, RNA reviewed seven denied reinstatement applications, and one partially denied reinstatement application, for evidence that the Company provided timely Notice of Adverse Underwriting Decision. RNA also reviewed underwriting and claims documentation for any evidence of the use of pretext interviews.

Transaction Testing Results:

Findings: The Company did not provide the Notice of Adverse Underwriting Decision to one applicant who applied for reinstatement when their initial application was partially denied.

Observations: For the 10 underwriting declinations tested, the Company provided the Notice of Adverse Underwriting Decision when it declined to provide coverage. The Company also provided the Notice of Adverse Underwriting Decision to four applicants who were offered coverage at higher than standard rates, and to seven applicants who were denied reinstatement. In testing of claims and new business processing, RNA noted no instances where the Company conducted pretext interviews.

Recommendations: The Company should remind the underwriting department of the requirement to send the Notice of Adverse Underwriting Decision to the applicant when the application is partially denied. Further, the Company, particularly the ARR or the compliance department, should monitor the reinstatement underwriting process to ensure that it provides the Notice of Adverse Underwriting Decision when applications are fully or partially denied.

* * * * *

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

M.G.L. c. 175I, §§ 1-22.

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 company 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.

Objective: This Standard addresses policies and procedures to ensure privacy of non-public personal 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 documentation supporting its privacy policies and procedures. RNA tested 10 underwriting declinations for evidence that the Company provided consumers with information supporting the reason(s) for the declinations. RNA also sought any evidence that the Company improperly provided personal information to parties other than the applicant.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for each of the underwriting declinations tested, the Company offered to make available driving records, consumer reporting information and results of lab and medical tests conducted for the purpose of obtaining insurance only when requested by the applicant. RNA noted no instances where the Company improperly provided information to parties other than the applicant.

Recommendations: None.

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Standard I-13. The company 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.

Objective: This Standard addresses requirements to provide privacy notices.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's compliance with statutory privacy disclosure requirements in conjunction with its testing of 50 new business applications from the examination period.

Transaction Testing Results:

Findings: None.

Observations: As required by the Company, the applicant for each new business sale tested acknowledged on the application that he or she received the Notice of Insurance Information Practices and the Privacy Policy. RNA also noted that the Company has procedures for providing the Annual Privacy Notice to the customer by mail prior to the annual policy anniversary date.

Recommendations: None.

* * * * *

Standard I-14. If the company 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.

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

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 regarding consumer opt out rights. RNA examined documentation supporting the Company's procedures for disclosing opt out rights, collecting such opt out information and managing requests for this information.

Transaction Testing Results:

Findings: None.

Observations: The Company's documentation supports that it allows the customer to opt out of participation in the Company's sharing of information with affiliates and non-affiliates. Further, the Company appears to have policies and procedures in place to collect such opt out information, and to manage requests it receives for this information.

Recommendations: None.

* * * * *

Standard I-15. The company'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.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's compliance with statutory and regulatory requirements pertaining to collection and use of nonpublic personal financial information in conjunction with its testing of 50 new business applications from the examination period.

Transaction Testing Results:

Findings: None.

Observations: RNA noted from its testing of new business applications that that the Company's collection and use of nonpublic personal financial information was reasonable and proper.

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 Department of Insurance, the company 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.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA sought any evidence that the Company improperly disclosed nonpublic personal health information in conjunction with underwriting declinations, claims and new business testing. RNA also reviewed the Company's compliance with the use of the HIPAA/Privacy Disclosure in conjunction with its testing of 50 new business applications from the examination period.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the HIPAA/Privacy Disclosure was received and signed by each applicant for all new business applications tested. RNA noted no instances where the Company improperly disclosed nonpublic personal health information when we tested underwriting declinations, new business and 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.

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

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. Review of information technology access and authorization controls is also included in the scope of the concurrent statutory financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: The Company's documentation supports that it routinely conducts an information systems risk assessment to consider, document and review information security threats and controls. Further, the Company's documentation shows that it has procedures to implement and monitor information technology security practices to safeguard nonpublic personal and health information. Further documentation supports that the Company communicates such practices to employees and producers in training programs, compliance presentations and various memoranda. Finally, documentation supports that only individuals approved by Company management are granted access to its key electronic and operational areas where such information is located, and documentation further supports that such access is frequently monitored by management.

Recommendations: None.

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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 company complaint register.

M.G.L. c. 176D, § 3(10).

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

Pursuant to M.G.L. c. 176D, § 3(10), an insurer is required to maintain a complete record of all complaints 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 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 logs all written and oral complaints in the complaint registers in a consistent format. The Company maintains separate registers for regulatory and consumer complaints.
- Each complaint register includes the date received, the date closed, the person making the complaint, the insured, the policy number, the state of residence and nature of the complaint using NAIC reason codes. The complaint registers also include the complaint disposition, and whether each complaint was justified or unjustified.
- The Company responds 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 its toll free telephone number and address in its written responses to consumer inquiries and on its web site.
- The Company may issue a letter of advisement or reprimand to producers against whom it substantiates complaints. The Company may refer producers with serious complaints or a significant number of complaints to the BIG for possible action against the producer.
- The Company has recently instituted a post sale customer satisfaction survey to obtain customer feedback.

The complaint data for Massachusetts complaints closed by the Division in 2004 and 2005 indicated that the Company received two sales and marketing complaints. The Company and the Division both determined that the two complaints were "Not Justified."

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 both of the Massachusetts complaints closed by the Division from January 1,

2004 to December 31, 2005, and selected 15 consumer complaints made directly to the Company, to evaluate their compliance with M.G.L. c. 176D, § 3(10). RNA reviewed the file for each complaint, and noted the response date and the documentation supporting the resolution of the complaint. RNA also reviewed the Company's complaint register to ensure that it included complaints filed with the Division. Further, RNA reviewed complaint activity for nine producers who had multiple complaints during the examination period for evidence that the Company adequately monitored potential problem producers. Finally, RNA reviewed the results of the customer satisfaction survey to evaluate the Company's treatment of customer responses.

Transaction Testing Results:

Findings: None.

Observations: For all complaints selected from the complaint registers, RNA noted that the Company appears to maintain proper complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10). Based upon the review of the complaint activity for the nine producers with multiple complaints, such complaints appeared to be properly addressed.

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

Controls Reliance: Refer to 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 both of the complaints closed by the Division from January 1, 2004 to December 31, 2005, and selected 15 consumer complaints made directly to the Company to evaluate compliance with M.G.L. c. 176D, § 3(10). RNA reviewed the Company's file for each complaint, noting the response date and the documentation supporting the resolution of the complaint. Further, RNA reviewed complaint activity for nine producers who had multiple complaints for evidence that the Company adequately monitored potential problem producers,

and reviewed the results of the customer satisfaction survey to evaluate the Company's treatment of customer responses. Finally, various forms sent to policyholders were reviewed to determine whether they comply with the requirement that the Company provide contact information for consumer inquiries.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place to address complaints filed with the Division and the Company. Further, the Company adequately communicates such procedures to policyholders and treats significant negative comments received on the customer satisfaction survey as consumer complaints.

Recommendations: None.

* * * * *

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

Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised, and whether policyholders with similar fact patterns are treated consistently and fairly.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to 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 both of the complaints closed by the Division from January 1, 2004 to December 31, 2005, and selected 15 consumer complaints made directly to the Company to evaluate this Standard.

Transaction Testing Results:

Findings: None.

Observations: Documentation for all complaints tested appeared to be complete, including the original complaint, related correspondence and the Company's complaint summary. Complainants with similar fact patterns appeared to be treated consistently and reasonably.

Recommendations: None.

* * * * *

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

Objective: This Standard is concerned with the time required for the Company to process each complaint. Massachusetts does not have a specific time standard in statute or regulation. However, the Division has established a practice of requiring an insurer to respond to any notice of complaint that it sends within 14 calendar days of receipt.

Controls Assessment: Refer to Standard II-1.

Controls Reliance: Refer to 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 both of the Massachusetts complaints closed by the Division from January 1, 2004 to December 31, 2005, and selected 15 consumer complaints made directly to the Company, to evaluate whether its responses were timely.

Transaction Testing Results:

Findings: None.

Observations: Resolution of all complaints tested appeared to be reasonably timely, and within the 14 calendar day period directed by the Division.

Recommendations: None.

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III. MARKETING AND SALES

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

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

M.G.L. c. 176D, § 3; M.G.L. c. 175, § 181 and Division of Insurance Bulletin 2001-02.

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

Pursuant to M.G.L. c. 176D, § 3 and M.G.L. c. 175, § 181, it is deemed an unfair method of competition to misrepresent or falsely advertise insurance policies, or the benefits, terms, conditions and advantages of said policies. Pursuant to Division of Insurance Bulletin 2001-02, an insurer who maintains an Internet website must disclose on the website the name of the company as it appears on the certificate of authority, and the address of its principal office.

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

- The Company has written policies and procedures regarding review and use of advertising materials.
- The Company's marketing advisory department is responsible for reviewing and approving the content of all insurance-related sales and advertising materials, and maintains a log and files of all marketing materials.
- The Company maintains an electronic catalog of approved advertising materials that are available for use by its producers. All other materials developed by producers must be submitted for review and approval by the marketing advisory department prior to use.
- The Company discloses its name and address on its website.
- The Company's FAD performs annual compliance audits of each RVP to monitor their compliance with various Company policies and procedures, including those pertaining to producers' use of approved advertising materials.

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

Transaction Testing Procedure: RNA obtained a list of home office and Massachusetts producers' approved sales and advertising materials. RNA reviewed five pieces of advertising and sales material from the list for evidence of proper home office approval prior to use. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought evidence of whether the Company was using unapproved sales and marketing materials as part of our new business testing and review of FAD reports.

Transaction Testing Results:

Findings: None.

Observations: The testing results indicated that the Company's process for approving advertising and sales materials prior to use is functioning in accordance with its policies, procedures and statutory requirements. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02. Finally, the results of new business testing and review of FAD reports indicated no evidence that the Company or its producers used unapproved advertising and sales materials.

Recommendations: None.

* * * * *

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

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

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

- Company producer training programs tailored to each experience level have been developed for producers and prospective producers. The Company requires all producers to complete its annual compliance meeting course. The Company specifically designs additional programs for individual producers upon request by an RVP. The Company provides mandatory training courses for prospective producers to assist them in passing the producer licensing examination.
- All training materials are reviewed and approved by the Company's marketing advisory department prior to use.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer training, and reviewed training materials for three training sessions for compliance with Company policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: The Company's producer training materials appear to be properly designed and in compliance with Company policies and procedures. RNA's review of the above three training sessions indicated that the material appeared to be appropriate.

Recommendations: None.

* * * * *

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

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

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

- The Company's quarterly newsletter to producers, entitled *Walk the Talk*, provides information on Company policies and practices, changes to laws and regulations, product updates and information, sales and marketing tips, producer and RVP profiles and producer training.
- The Company's Primerica On-Line internet portal allows producers to obtain the Company's policies and procedures regarding sales, marketing and underwriting. Using Primerica On-Line, a producer can also assist policyholders with customer service requests, and help them file claims.

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 *Walk the Talk* for Winter, Spring and Fall 2005, and reviewed the Company's Primerica On-Line internet portal, for any evidence of improper or misleading information.

Transaction Testing Results:

Findings: None.

Observations: The Company's communications to producers appear to be accurate and reasonable, and no improper or misleading information was noted.

Recommendations: None.

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

M.G.L. c. 175, § 204 and 211 CMR 34.04.

Objective: This Standard addresses appropriate replacement handling by the producer, including identification of replacement transactions on applications and use of appropriate replacement related forms.

M.G.L. c. 175, § 204 addresses the promulgation of regulations governing the replacement of life insurance and annuities. Pursuant to 211 CMR 34.04, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant regarding whether the transaction involves the replacement of existing life insurance or annuities; and (b) a signed statement as to whether the agent or broker knows that the transaction involves or may involve a

replacement. In sales involving external replacement, producers must provide a copy of the replacement notice to applicants at the time of application.

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

- Written Company policies and procedures govern the replacement handling process.
- All replacements are recorded in a consistent format in the Company's replacement register.
- The Company's policies state that, for any replacement where the applicant has satisfied the contestability period on the replaced policy, the applicant will not receive a new contestability period on the new policy face value up to the face value of the replaced policy.
- The Company provides a 20 day free look on all external replacements.
- The Company's applications require a response from the applicant and the producer as to whether the policy applied for will replace another policy.
- The selling producer submits copies of the replacement disclosure forms provided to and signed by the applicant on the application date with the application.
- Company personnel review applications and forms for completeness of replacement information.
- The Company performs an alphabetical search of its policy administration system to identify potential undisclosed replacements.
- Telephone interviews conducted with applicants for higher face policies to confirm whether the application is a replacement.
- Written company policy requires that notice to the replaced carrier be sent within three business days from the date the application is received "in good order" in the home office.
- The Company furnishes a policy summary to its policyholder upon receiving notice from a replacing carrier of the policyholder's intention to replace a Company policy.
- The Company pays reduced commissions on internal replacements.

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

Transaction Testing Procedure: RNA selected a sample of 25 replacement sales from the examination period to evaluate the Company's compliance with its policies, procedures and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The testing results showed that there was evidence of the applicants' and producers' responses as to whether the sale is a replacement. Further, signed and properly completed disclosure forms for each of the tested replacements were provided for each replacement sale.

Recommendations: None.

* * * * *

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

M.G.L. c. 175, § 204; 211 CMR 34.04, 34.05 and 34.06.

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

M.G.L. c. 175, § 204 addresses the promulgation of regulations governing the replacement of life insurance and annuities. Pursuant to 211 CMR 34.05, the Company shall inform its producers of the requirements of 211 CMR 34.04 pertaining to agents and brokers. In addition, 211 CMR 34.06 requires the Company to obtain a statement signed by the agent or broker as to whether the transaction involves or may involve a replacement. In sales involving an external replacement, producers must provide a copy of the replacement notice to the applicant at the time of application. For external replacements, the replacing insurer shall submit a policy summary to the existing insurer, and a written communication advising of the replacement or proposed replacement, by the earlier of seven working days from the date the application is received in the replacing insurer's home or regional office, or from the date the contract is issued.

Controls Assessment: See Standard III-4 for controls regarding replacements.

Controls Reliance: See Standard III-4 for controls regarding replacements.

Transaction Testing Procedure: RNA selected a sample of 25 replacement sales from the examination period to evaluate the Company's compliance with its replacement policies, procedures and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed the following:

- All replacements tested were included on the Company's replacement register.
- For all external replacements tested, the Company provided notice to the replaced carrier within seven days of its receipt of the application in the home office, as required by 211 CMR 34.06.
- The replacement forms submitted with all replacement applications appeared to be complete and timely provided to applicants.
- During the examination period the Company was not monitoring producers and RVPs who have a high volume of replacement sales. The Company completed development of such a monitoring system in June of 2006.

Recommendations: The Company, particularly the ARR or compliance department, should monitor the timely use of the replacement activity reporting by the home office.

* * * * *

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

211 CMR 31.05.

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

Pursuant to 211 CMR 31.05, non-variable life insurance marketed through agents requires insurers to provide applicants with buyer's guides and preliminary policy summaries before the application is signed, and with policy summaries before accepting premium. However, if the policy or policy summary contains an unconditional refund offer, the policy summary may be delivered with the policy.

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

- The Company has written policies and procedures addressing the use and distribution of buyer's guides, preliminary policy summaries and policy summaries.
- The Company reviews all submitted applications to ensure that all applicable questions are answered, and that required forms and information are consistently filed.
- Producers submitting applications in the newly-adopted electronic format provide a buyer's guide to applicants at the time of sale, and the applicant attests in writing to the receipt of the buyer's guide. For non-electronic application submissions, producers provide a buyer's guide to the applicant at time of sale, although the Company does not maintain documentation showing that the producer provided the buyer's guide.
- Producers provide preliminary policy summaries to the applicant at the time of sale or shortly thereafter. Also, the policyholder receives a policy summary with the policy, which contains a 20 day free look period.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA reviewed advertising materials used by the Company for reference to availability of a buyer's guide and a policy summary. RNA selected 50 new business sales from the examination period, and verified that each application submitted was signed and complete. Further, RNA reviewed the preliminary policy summaries, policy summaries and disclosures, and verified that they were timely provided to the applicants. Finally, RNA noted whether the contracts received were consistent with those applied for, and that any changes resulted in full disclosure to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based on the testing results, advertising materials used by the Company include a reference to availability of a buyer's guide and policy summary. RNA noted that the applications submitted were signed and complete, and that the producer and/or the Company timely provided preliminary policy summaries, policy summaries and other

disclosures to applicants. Contracts received by applicants were issued consistent with their applications, or any changes resulted in full disclosure to the applicants.

Recommendations: None.

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

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

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

- The Company's Primerica On-Line contains policies and procedures which require producers to ensure that products meet the needs of applicants. While insurance underwriters review all applications to ensure that they are complete and acceptable, the Company does not perform any additional needs assessment, nor does the Company challenge the assessment made by the producer. Thus, responsibility for needs assessment lies with the producer.
- The Company's applications require submission of information regarding the applicant's income, family status, and other insurance in-force to assist in determining their insurance needs.
- The Company's FAD performs annual compliance audits of each RVP to monitor their compliance with contractual requirements.
- The Company's ARR conducts periodic independent compliance audits of the field 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 with responsibility for new business processing, and obtained supporting documentation. RNA selected 50 new business sales from the examination period, and verified that the application submitted for each sale was signed and completed in accordance with Company policy. RNA further reviewed the application package, and confirmed that the policy appeared to meet the applicant's needs. RNA reviewed and discussed with field audit department management, a summary of the field audit reports, particularly those field audits where the RVP rating was substandard. Finally, RNA interviewed management from the ARR, and reviewed audit reports related to field audit compliance.

Transaction Testing Results:

Findings: None.

Observations: The application submitted for each new business sale tested was signed and completed in accordance with Company policy. Documentation on the application for each sale supported that the term life product appeared to meet the applicant's needs. RNA's review and discussion of a summary of the field audit reports indicated that the

field compliance audits appeared to be conducted annually for each RVP, and that deficiencies appeared to be addressed timely. Finally, RNA's review and discussion of the ARR audit reports indicated that their compliance audits of the FAD appeared thorough, and any deficiencies appeared to be addressed timely.

Recommendations: None.

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

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

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

211 CMR 55.06.

Objective: This Standard is concerned with the required disclosures related to accelerated benefits coverage.

211 CMR 55.06 requires that a disclosure statement concerning accelerated benefit provisions on life insurance be provided to the applicant at the time of application.

Controls Assessment: See Standard VI-6 for controls over policy form content and filing.

Controls Reliance: See Standard VI-6 for controls over policy form content and filing.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 50 new business sales from the examination period, and verified that each application included the applicant's written acknowledgment of having received required disclosures related to accelerated benefit coverage, a standard component of the Company's term products.

Transaction Testing Results:

Findings: None.

Observations: The application submitted for each new business sale tested included the applicant's written acknowledgment of having received required disclosures related to accelerated benefit coverage.

Recommendations: None.

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

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

No work performed. The Company does not offer its products through depository institutions.

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FOR INFORMATION PURPOSES ONLY

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. Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 98-11 and 2001-14; 18 U.S.C. § 1033.

Objective: This Standard compares the Company's and the Division's agent licensing records.

M.G.L. c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance be licensed for that authority line. Further, no producer may act as a Company agent unless appointed by them pursuant to M.G.L. c. 175, § 162S. 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 the written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses, who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts must notify the Division in writing, of its agents and employees who are affected by this law. Individuals "prohibited" under the law may apply to the Commissioner for written consent, and must not engage or participate in the business of insurance unless and until they are granted such consent.

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

- The Company's producers are representatives in the PFS distribution channel who sell the Company's life insurance products, and other financial services products offered by Citigroup affiliates.
- The Company's RVPs are responsible for recruiting producers. The Company's RVPs also serve as the primary supervisory and management structure for the PFS distribution channel.
- Once recommended by an RVP, an applicant submits his or her employment history, criminal, financial and other background information to the Company for evaluation. In addition, the applicant provides evidence that they hold a valid Massachusetts' insurance producer license. Applicants who are not licensed insurance producers must complete an 18 hour pre-licensing course offered by the Company and approved by the Division, to qualify for an insurance license. The Company performs criminal background checks on all applicants it deems in good order.
- Terms and conditions in the standard producer contract define the producer's duties and responsibilities, including their responsibility to maintain licenses, comply with laws and regulations, and conduct business honestly and ethically.
 - The Company requires that producers who sign a producer contract be appointed as an agent within 15 days from the date the contract is executed.
 - The Company seeks the Division's approval regarding the appointment of any "prohibited person" when the Company wishes to appoint such an agent.

- A Company database tracks all agent appointments and producer licenses, and the Company periodically reconciles its agent records to those from the Division.
- The Company's ARR conducts periodic independent compliance audits to monitor compliance with various Company policies and procedures, including those pertaining to producer licensing and appointment.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting and processing of agent appointments. RNA selected 50 new business sales from the examination period for testing, and verified that the selling producer for each sale was included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the producer for each sale tested was included on the Division's list of the Company's appointed agents. RNA noted that the Company provides written notice to producers of the requirements of 18 U.S.C. § 1033.

Recommendations: None.

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

M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletins 98-11 and 2001-14; 18 U.S.C. § 1033.

Objective: This Standard addresses the requirement that producers be licensed and agents be appointed. See also Standard IV-1 for discussion of 18 U.S.C. § 1033 and related Division of Insurance Bulletins 98-11 and 2001-14.

M.G.L c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance be licensed for that authority line. Further, no producer may act as an agent of the Company unless appointed by the Company pursuant to M.G.L c. 175, § 162S.

Controls Assessment: Refer to Standard IV-1.

Controls Reliance: Refer to Standard IV-1.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting and processing of appointments, and reviewed the Company's standard producer contracts. RNA selected 50 new business sales from the examination period for testing. RNA verified that the selling producer for each sale was included on the Division's list of the Company's appointed agents at the time of sale.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the producer for each sale tested was properly licensed and appointed when the application was taken.

Recommendations: None.

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

M.G.L. c. 175, § 162R and 162T.

Objective: This Standard addresses termination of agents, and the requirement that companies notify the regulator and the agent of such terminations.

M.G.L. c. 175, § 162T requires that the Company notify the Division in writing within 30 days of the effective date of an agent's termination, including the reason for any "for cause" terminations as defined in M.G.L. c. 175, § 162R.

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

- The Company's producer contracts and appointments are "perpetual" until terminated with notice, or "for cause."
- The Company's written policy is to notify the Division of all agent terminations and the reason for any "for cause" termination.
- The Company periodically reconciles its agent records to those from the Division.
- The Company's ARR conducts periodic independent compliance audits to monitor compliance with various Company policies and procedures, including those pertaining to supervision and termination of producers.

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

Transaction Testing Procedure: RNA interviewed company employees with responsibility for processing agent terminations. RNA selected 10 terminations from the examination period from both the Division's and the Company's records to compare the termination dates. RNA inquired whether any terminations were "for cause," and if the reasons for any such terminations were timely reported to the Division.

Transaction Testing Results:

Findings: None.

Observations: The results of testing showed that all 20 terminations tested were timely reported to the Division. None of the terminations tested was "for cause."

Recommendations: None.

* * * * *

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments. RNA selected 10 terminations from the examination period from both the Division's and the Company's records for testing. RNA reviewed documentation for each of the terminations for any evidence of unfair discrimination against policyholders resulting from the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

M.G.L. c. 175, § 162R and 162T.

Objective: The Standard addresses whether Company records of terminated agents adequately document the action taken.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division in writing within 30 days of the effective date of an agent's termination, and of the cause for any "for cause" termination as defined in M.G.L. c. 175, § 162R.

Controls Assessment: Refer to Standard IV-3.

Controls Reliance: Refer to Standard IV-3.

Transaction Testing Procedure: RNA interviewed company employees with responsibility for processing agent terminations. RNA selected 10 terminations from the examination period from both the Division's and the Company's records to search for evidence of any "for cause" terminations.

Transaction Testing Results:

Findings: None.

Observations: RNA noted through testing that Company records adequately document the reasons for an agent's termination, and that none of the terminations tested was "for cause."

Recommendations: None.

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

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

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

- The Company's policies are billed on a direct basis, mitigating the possibility for excessive balances owed by producers.
- The Company advances commissions to producers based upon sales of first year premium, but does not pay commissions on renewal premiums. The Company's commission advance and chargeback system calculates commissions and bonuses payable to the producer based upon the producer's commission hierarchy.
- The Company actively monitors producers' balances to ensure that outstanding amounts are not excessive.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and commission processing. RNA reviewed commission activity for 10 producers for selected sales from the examination period to ensure that commissions were paid in accordance with the Company's standard commission scales and contract terms. The Division's financial examiners are also evaluating producers' debit balances in conjunction with the ongoing financial examination of the Company.

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Transaction Testing Results:

Findings: None.

Observations: Based upon review, producers' debit balances and commissions paid appear to comply with the producer contract.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

V. POLICYHOLDER SERVICE

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

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

M.G.L. c. 175, §§ 110B, 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.

Pursuant to M.G.L. c. 175, §110B, no individual life policy may lapse for nonpayment of premium until three months after 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 the Company to provide written notice to the policyholder for policies it cancels, including cancellations for non-payment of premium.

Controls Assessment: The following controls are pursuant to written Company policy and were noted in review of this Standard:

- The Company directly bills life premiums on an annual, semi-annual or quarterly basis, although, the majority of premiums are monthly and paid electronically by pre-authorized check ("PAC").
- Billing notices for policies are generated and mailed to the policyholder 20 days prior to the premium due date. The billing notice states that the policy will lapse unless payment is made by the due date.
- A late payment offer is sent 32 days after the due date if no payment has been received, with notice that the policy will lapse 62 days after the original due date if no payment is made. The producer is also notified of the overdue premium for conservation efforts.
- The Company makes a maximum of two attempts to collect premiums paid by PAC. If there are insufficient funds, a notification letter to the policyholder states that he or she has 30 days to make payment, and the future billings will be made on a quarterly basis.
- The Company sends renewal notices 60 days prior to the policy renewal date, notifying the policyholder of any increase in premium or scheduled changes in coverage.
- The Company has established time and service standards to monitor the timely processing of these transactions. These standards are integrated into the Company's written policies and procedures for each 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 discussed billing procedures with Company personnel and obtained supporting documentation, including time and service standard comparison results. RNA selected 10 lapses that occurred during the examination period to test whether adequate notice was given prior to lapse.

Transaction Testing Results:

Findings: None.

Observations: The Company gave timely and adequate advance notice to the policyholder prior to each of the tested lapses, in compliance with statutory requirements. Premium billing notices included required disclosure of potential lapse in the event of non-payment. The Company's time and service results indicate that the Company is meeting its time and service standards.

Recommendations: None.

* * * * *

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

M.G.L. c. 175, § 187H; 211 CMR 34.06.

Objective: This Standard addresses the Company's procedures to ensure that customer surrender requests are processed timely. Objectives pertaining to policy issuance are included in Underwriting and Rating Standard VI-9.

M.G.L. c. 175, § 187H requires companies to give policyholders a 10 day free look on life policies with low face amounts, while Division policy requires that a 10 day free look be given on all life policies. Further, 211 CMR 34.06 requires that a 20 day free look be given on life and annuity replacements.

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

- Upon an insured's request to surrender a insurance policy, the Company sends the customer a form which must be signed and returned by the policy owner. The Company also communicates the surrender request to the producer in an attempt to conserve the business. The surrender is effective on the date the Company receives the signed form, and a check for any return premium due as of that date is mailed to the policyholder.
- All customers have the right to return a newly purchased policy within 20 days of receiving it. Applicable premium down payments are then returned to the customer within 30 days of the Company's receipt of a returned policy. The Company's receipt of a request from the producer who received a request to return the policy is sufficient to exercise the right of return. The Company refunds the premium to the policyholder.
- The Company checks the United States Treasury Department's Office of Foreign Asset Control ("OFAC") list before any surrender payment is made, to ensure that the policyholder is not a prohibited party with which the Company may not do business.
- The Company has established time and service standards to guide the processing of these transactions.

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

Transaction Testing Procedure: RNA discussed policy surrender procedures with Company personnel and obtained supporting documentation, including time and service standard performance. RNA selected 10 surrenders that occurred during the examination period to ensure that surrenders were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Each of the policy surrenders appeared to be processed accurately, timely and in compliance with statutory requirements. The Company's time and service performance results indicate that the Company is meeting its performance standards.

Recommendations: None.

* * * * *

Standard V-3. All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.
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Objective: This Standard addresses the Company's procedures to provide timely and responsive information to customers. Complaints are covered in the Complaint Handling section.

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

- The Company's client communications department includes 32 representatives who process address and billing changes, send forms for other requests and answer basic questions about existing coverage.
- The Company conducts a customer service survey of new policyholders selected at random, asking detailed questions about their experiences with the Company.
- The Company has established time and service standards to guide the processing of responses to 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, including time and service performance results and customer service survey results. The Company's response to correspondence related to the various examination areas is addressed for each specific Standard.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of the Company's time and service performance results indicates that it is generally meeting its performance standards, and has adequate staff and procedures to timely respond to customer inquiries. Our review of the customer survey results indicates that new policyholders express strong satisfaction with the Company based on their experiences.

Recommendations: None.

* * * * *

Standard V-4. Reinstatement is applied consistently and in accordance with policy provisions. M.G.L. c. 175, § 132(11).

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

M.G.L. c. 175, § 132(11) states that life insurance policies must allow reinstatement.

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

- Company policy provides that policies lapse for non-payment 62 days after the premium is due. Reinstatements are accepted within one year of lapse upon completion of a policy change form which revalidates health and key application information. Reinstatement requests require approval by the underwriting department before the reinstated policy is issued. The applicant receives a new two year contestability period upon reinstatement.
- The Company has established time and service standards to measure performance against department standards for processing of reinstatements.

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 17 reinstatements (nine accepted, seven denied and one partially denied) from the examination period to ensure that reinstatements were handled consistently, timely and in accordance with policy provisions. See Standard I-10 for testing of the requirement to provide the adverse underwriting notice for denied reinstatement applications.

Transaction Testing Results:

Findings: None.

Observations: The Company consistently and timely processed each of the reinstatement transactions tested in accordance with policy provisions.

Recommendations: None.

* * * * *

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

M.G.L. c. 175, §§ 123, 126 and 139.

Objective: This Standard addresses procedures for processing beneficiary and ownership changes and conversions.

M.G.L. c. 175, § 123 requires a disinterested witness for beneficiary changes. M.G.L. c. 175, § 126 limits beneficiary changes once a married woman is named as beneficiary. M.G.L. c. 175, § 139 limits face amounts of conversions for rewritten policies with an effective date prior to the exchange application date.

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

- Company policy provides for beneficiary and ownership changes to be effective upon the signing and mailing of a properly completed form. Company policy requires a disinterested witness signature for a beneficiary change, and a letter confirming the change is sent to the policy owner. Letters confirming ownership changes are sent to both the old and the new owners.
- Changes in insurance policy billing mode and address can be requested and processed via telephone.
- The Company has established time and service standards to measure performance against department standards for processing beneficiary and ownership changes.

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 beneficiary changes and three ownership changes from the examination period to ensure that the Company processed transactions accurately, timely and in accordance with statutory requirements and policy provisions.

Transaction Testing Results:

Findings: None.

Observations: The beneficiary changes tested were processed timely and in accordance with statutory requirements. The ownership changes tested were generally processed timely and in accordance with Company policy.

Recommendations: None.

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Standard V-6. Non-forfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.
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No work performed. The Company sells only term life products.

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Standard V-7. Reasonable attempts to locate missing policyholders or beneficiaries are made.

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

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

M.G.L. c. 200A, §§ 5A, 7-7B, 8A and 9 state that a matured life policy is 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 payments to the State Treasurer's Office for escheated property.

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

- The Company has policies and procedures in place to locate missing policyholders.
- Company policy requires that un-cashed checks, including death claims and premium refunds, be reported and escheated when the owner can not be found.
- The Company annually reports escheatable funds to the State Treasurer on May 1 as required by law.

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 the Company's procedures for locating missing policyholders and escheatment of funds with Company personnel. RNA inquired whether the financial examiners reviewed the May 1 report the Company filed with the State Treasurer regarding its escheatable funds.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders and beneficiaries, and appears to make reasonable efforts to locate such individuals. RNA confirmed that the Division's financial examiners reviewed the May 1 report the Company filed with the State Treasurer. Thus, the Company appears to report unclaimed items and escheat them as required by law.

Recommendations: None.

* * * * *

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

No work performed. The Company sells only term life products.

* * * * *

Standard V-9. Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

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

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

M.G.L. c. 175, § 119B requires that proceeds payable under life policies include premiums paid for periods beyond the end of the policy month of death. M.G.L. c. 175, § 119C requires interest to be paid on excess premium beginning 30 days after death. M.G.L. c. 175, § 187C requires that return premium be made in accordance with the policy upon cancellation. M.G.L. c. 175, § 187D precludes remittance of unearned premiums where the premium was not paid. Interest on unearned premium at death is also tested in Standard VII-6 of this report.

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

- The Company's policy administration systems automatically calculate the unearned premium on cancelled policies and unearned premium after an insured's death. The Company returns such amounts to policy owners or beneficiaries.
- The Company has established and actively monitors time and service standards to ensure that returns of unearned premium are processed timely and accurately.

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 including time and service performance results. RNA selected 10 surrenders that occurred during the examination period to ensure that return premiums were properly calculated and timely returned.

Transaction Testing Results:

Findings: None.

Observations: Return premium for each of the surrenders tested was properly calculated and timely returned. The Company's time and service performance results indicate that it is meeting its performance standards.

Recommendations: None.

* * * * *

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

No work performed. The Company did not enter into assumption reinsurance agreements during the examination period.

* * * * *

Standard V-11. Upon receipt of a request from policyholder for accelerated benefit payment, the company 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. Company must also advise that the request may adversely affect the recipient's eligibility for Medicaid or other government benefits or entitlements.

211 CMR 55.06(1)(b) and 55.110

This Standard is similar to Standard VII-12 and is therefore addressed in that Standard.

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FOR INFORMATION PURPOSES ONLY

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 176D, § 3(7).

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

Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or other benefits payable, or in any other terms or condition of such contracts.

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

- The Company has written underwriting policies and guidelines which are designed to assure reasonable consistency in classification and rating of new and renewal business.
- The Company utilizes a multi-class underwriting system for its level term life insurance products. Tobacco/non-tobacco standard and a preferred rate category classify applicants according to written guidelines based upon the applicant's medical history, family history, height, weight, and personal history. Premium surcharges or discounts are used to modify rates based upon the underwriter's evaluation of claim risks and other factors.
- The Company uses software to automatically compute all product rates based on applicant information and rating classifications assigned by the underwriter.
- The Company has a process to log and document Division approval of all product rates to comply with provisions contained in statutory underwriting and rating requirements.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 50 new business sales from the examination period for testing, including products for which actuarial rate setting documentation was filed with the Division. RNA further randomly selected 10 of these sales, re-rated the premiums charged, and verified that the Company's rate classifications complied with statutory requirements.

Transaction Testing Results:

Findings: None.

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

comply with statutory requirements. Related product filings were also submitted to, and approved by, the Division.

Recommendations: None.

* * * * *

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

211 CMR 31.05.

This Standard addresses mandated disclosures for individual insurance policies which are required in accordance with statutes, regulations and Company policy. Requirements to provide illustrations, policy summaries, disclosures and buyer's guides are included in Standard III-6 of this report.

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Standard VI-3. All mandated disclosures for group insurance are documented and in accordance with applicable statutes, rules and regulations.

No work performed. The Company does not offer group products in Massachusetts.

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

No work performed. The Company does not sell credit products in Massachusetts.

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Standard VI-5. The company does not permit illegal rebating, commission cutting or inducements.

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

Objective: This Standard prohibits illegal rebating, commission cutting or inducements in connection with sales of the Company's products.

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

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

- The Company has procedures to pay producers' commissions in accordance with home office approved written contracts.

- The producer contracts and home office policies and procedures are designed to comply with provisions contained in statutory underwriting and rating requirements, which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed company personnel with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. RNA reviewed commission activity for selected sales by 10 producers to ensure that commissions were paid in accordance with the Company's standard commission scales and contract terms, and to ensure that activity was not unusual.

Transaction Testing Results:

Findings: None.

Observations: Commission payments appear to be reasonable and did not indicate unusual activity. Further, it appears that the Company's processes for prohibiting illegal acts, including special inducements and rebates, are functioning in accordance with Company policies, procedures and statutes.

Recommendations: None.

* * * * *

Standard VI-6. All forms including contracts, riders, endorsement forms and certificates are filed with the department of insurance, if applicable.

M.G.L. c. 175, §§ 2B, 22, and 132; and Division of Insurance Bulletin 2001-05.

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

Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance may be delivered to more than 50 policyholders until it has been on file with the Division for 30 days, or the Division approves the form during that time. Further, no life, endowment or annuity form may be delivered unless it complies with readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions, and M.G.L. c. 175, § 132 sets forth a 30 day filing requirement and identifies mandated provisions for life, endowment and annuity forms. Finally, Division of Insurance Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist.

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

- The Company uses forms, rates, contract riders, endorsement forms, and illustrations that are developed by teams from its actuarial, marketing, legal, compliance and information technology departments.
- The Company's written underwriting guidelines are designed to assure reasonable consistency in classification of risks.

- The Company documents Division approval of all such forms, contract riders, endorsement forms and illustrations to comply with statutory provisions.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for preparing and obtaining Division approval for forms, contracts, riders, endorsement forms, and policy summaries. RNA selected 50 new business sales from the examination period for testing, and examined the policy form used for each sale. RNA selected 11 of the most commonly used policy forms from the sample, and verified that these contract forms, riders, endorsement forms and illustrations were approved by the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard VI-7. The company's underwriting practices are not to be unfairly discriminatory. The company adheres to applicable statutes, rules and regulations, and company guidelines in selection of risks.

M.G.L. c. 175, §§ 120, and 120A -120E; M.G.L. c. 176D, § 3(7); 211 CMR 32.00 et seq.

Objective: This Standard addresses unfair discrimination in underwriting.

Pursuant to M.G.L. c. 175, § 120, no Company may discriminate between insureds of the same class and equal life expectancy with regard to premiums or rates for life or endowment insurance or annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 120, and 120A-120E prohibit discrimination in the issuance of life insurance policies against those with mental retardation, blind persons, individuals with Diethylstilbestrol ("DES") exposure, domestic abuse victims, as well as on the basis of genetic tests. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or in any other of the terms and conditions of the contracts it makes. Finally, mortality tables must conform to the requirements set forth in 211 CMR 32.00 et seq.

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

- Company policy prohibits unfair discrimination in underwriting in accordance with statutory requirements, and its written underwriting guidelines are designed to assure reasonable consistency in classification and rating of risks.
- Company policy is to utilize mortality tables that conform to regulatory requirements.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and classification of risks. RNA selected 50 new business sales from the examination period for testing, and verified that the policy form for each sale was approved by underwriting with no evidence of discriminatory rates or contract provisions.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Objective: This Standard addresses whether the Company issues life policies and annuities timely and accurately.

M.G.L. c. 175, §§ 123 and 131 require a written application for issuance of life policies, and a signed application to be attached to a life or annuity contract. M.G.L. c. 175, § 130 requires that no life policy or annuity issued be dated more than six months prior to the application date if the applicant would rate at an age younger than the age at the nearest birthday on the application date. See Standard V-4 for testing of reinstatements and Standard VI-10 for testing of insurance applications rejected by the Company.

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

- The Company has written underwriting guidelines and procedures that require compliance with M.G.L. c. 175, §§ 123, 130 and 131.
- All new business applications and supporting information submitted to the Company are reviewed by the new business department for accuracy and completeness using an "in good order" checklist. Once all the required information is received, insurance applications are considered "in good order" and are assigned to an underwriter for further evaluation.

- Company underwriters review all insurance applications to ensure that they are complete and internally consistent, and obtain any additional information needed to make an underwriting decision.
- The Company established and monitors service standards to ensure that insurance policies and riders are issued timely and accurately.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance, and selected 50 new business sales from the examination period for testing. RNA reviewed the insurance policies and riders issued for each sale to ensure that they were reasonably timely, accurate and complete.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that contracts issued are reasonably timely, accurate, complete and in accordance with Company policies, procedures and statutory requirements.

Recommendations: None.

* * * * *

Standard VI-10. Rejections and declinations are not unfairly discriminatory.

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

Objective: This Standard addresses whether application denials are fair.

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

M.G.L. c. 175I, § 12 states that an adverse underwriting decision may not be based, in whole or in part, on a previous adverse underwriting decision, on personal information received from certain insurance-support organizations or on sexual orientation. Pursuant to M.G.L. c. 176D, § 3(7), it is an unfair method of competition to unfairly discriminate between individuals of the same class and equal life expectancy in rates charged for any life or annuity contract, or other benefits payable, or in any other of the terms and conditions of such contracts.

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

- The Company has written underwriting guidelines and policies that prohibit discrimination in accordance with statutory requirements.

- Company underwriting approval processes and procedures, training of home office underwriters and producer communications are designed to prohibit unfair discrimination.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting, policy issuance, policy application, and rejections. RNA selected 10 applications rejected by the Company during the examination period to ensure that the reason for the rejection was in accordance with the Company's written underwriting guidelines. Further, RNA verified that written notice of reasons for an adverse decision was provided to the applicant in accordance with statutory requirements. Finally, RNA verified that the initial premium was returned to the applicant after an application rejection.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company's processes to prohibit unfair discrimination in underwriting and selection of risks are functioning in accordance with Company policies, procedures and statutory requirements, and that written notice of reasons for adverse underwriting decisions was provided to applicants. The Company appears to provide a timely return of initial premium to rejected applicants.

Recommendations: None.

* * * * *

Standard VI-11. Cancellation/non-renewal reasons comply with policy provisions and state laws and company guidelines.

M.G.L. c. 175, § 132(2).

Objective: The Standard addresses whether the reasons for a cancellation or non-renewal are valid according to policy provisions and state laws.

M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) if the Company so elects, to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists.

Controls Assessment: The Company does not have a contractual right to cancel any policy absent the conditions set forth above, but may in some cases, rescind the policy. Refer to Standard VI-12.

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

Transaction Testing Procedure: RNA selected 10 lapses for non-payment from the examination period to test for compliance with Company guidelines and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon review and testing, RNA noted no instances of improper coverage cancellation for non-payment of premium.

Recommendations: None.

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Standard VI-12. Rescission is not made for non-material misrepresentation.

M.G.L. c. 175, § 132(2).

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

M.G.L. c. 175, § 132(2) requires that a life insurance policy be incontestable after being in-force for two years, unless there has been: (1) non-payment of premium; (2) a violation of the terms of the policy for military service during wartime; or (3) (if the Company adds such language) to contest the payment of disability or accidental death benefits. Insurance policies issued in Massachusetts are contestable after two years in-force when evidence of insurance fraud exists.

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

- The Company does not have a contractual right to cancel insurance coverage absent the conditions set forth above, but may in some cases rescind the policy.
- The Company's underwriting process considers the risk of material misrepresentation by applicants, and attempts to corroborate application information received, including health status.
- All cases considered for rescission are reviewed by the underwriting department.
- The rare decisions to rescind policies are reviewed by the legal staff.
- Rescissions are only made for material misrepresentations within the first two years after the policy is issued.

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

Transaction Testing Procedure: Because grounds for rescission in Massachusetts are limited and such incidents are rare, RNA did not directly test the Company's rescission procedures, but looked for evidence of improper rescission in tests of complaints, lapses, declinations and claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

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

Controls Assessment: Refer to Standard III-6 and Standard VI-9.

Controls Reliance: Refer to Standard III-6 and Standard VI-9.

Transaction Testing Procedure: Refer to Standard III-6 and Standard VI-9.

Transaction Testing Results: Refer to Standard III-6 and Standard VI-9.

Recommendations: Refer to Standard III-6 and Standard VI-9.

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

211 CMR 36.04-36.06 and 36.08.

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

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

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

- The Company's new business submission requirements address compliance with 211 CMR 36.04-36.06 and 36.08 in life insurance underwriting.
- The Company has a specific form including required Massachusetts disclosures found in 211 CMR 36.05 that is provided at the time an application is taken.
- The Company's procedures require the applicant to acknowledge in writing that he or she understands his or her rights regarding the tests for HIV status that are required for underwriting.

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

Transaction Testing Procedure: RNA selected 50 new business sales from the examination period to verify that the Company obtained signed Massachusetts AIDS testing disclosure notices from the applicants. In testing of underwriting denials, RNA looked for evidence of unfair discrimination.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, it appears that the Company obtains the Massachusetts AIDS testing disclosure notice from applicants in accordance with Company policies, procedures and statutory requirements. RNA noted no evidence of unfair discrimination in the denial of coverage.

Recommendations: None.

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VII. CLAIMS

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

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

M.G.L. c. 176D, § 3(9)(b).

Objective: The Standard 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.

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 death or waiver of premium claim is reported through an producer, by mail, or through the Company's 800 phone number, the claim is registered in the claim tracking system. The policy is researched to determine its status and to search for other policies covering the same insured. The contract is then "pended" in the policy administration system, and a claim form is automatically sent to the claimant. The Company also has a process to communicate quarterly with Citigroup affiliates to share claim payment information in a further effort to locate potential claimants with multiple policies.
- Once the claim form is received in the home office, it is assigned to a claims examiner based upon a predetermined dollar authority limit. The claims examiner investigates the claim to ensure all documentation is received, including a certified death certificate, a signed claim form, and any other information needed to verify coverage, and then processes the claim to authorize payment to the beneficiary. The claims examiner checks the Massachusetts Department of Revenue ("DOR") website to ensure compliance with the Intercept Program requirements for unpaid child support and taxes.
- The Company contests few claims, as most are received after the two-year contestable period has passed. After contestable claims are investigated by the claims examiner, a referral to the SIU and/or legal department is made when necessary. All denied or compromised claims require two levels of supervisory review and approval.
- Massachusetts claim settlement amounts include the payment of interest beginning 30 days after the Company receives the claim. The Company calculates claim payments using interest rates required by state statute, and may also include return premium amounts as applicable. A checklist documenting the examiner's review and approval of the claim payment is completed and included in the claim file. The Company's goal is to process 75% of "in good order" claims within one to three days, 95% within four to six days, and 100% within seven to 15 days. All claim payments greater than \$400,000 require supervisory review. The claims department also conducts a post claim audit of all claim files as a quality assurance review procedure.
- The payees for all claim disbursements are checked against Citigroup's OFAC list as required by law.

- The Company offers a life insurance accelerated benefit rider which allows early payment of a death benefit when an insured is living but has a terminal illness. Such benefit requests must be validated by an attending physician's statement. A disclosure statement providing required disclosures including possible tax implications and the possible effect on eligibility for Medicaid and Supplement Security Income is sent to the claimant at the time of the request for accelerated benefits.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling processes and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period to verify that the initial contact by the Company was timely.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, it appears that the Company's initial contacts with the claimants are timely in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

* * * * *

Standard VII-2. Investigations are conducted in a timely manner.

M.G.L. c. 176D, § 3(9)(c); M.G.L. c. 175, §§ 24D and 24F; Division of Insurance Bulletin 2001-07.

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

Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. M.G.L. c. 175, § 24D requires interception of non-recurring payments for past due child support, and M.G.L. c. 175, § 24F requires communication with the DOR regarding unpaid taxes. Finally, Division of Insurance Bulletin 2001-07 requires that, upon receipt of a claim and proof of death, a Company must 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 claims handling processes and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period to verify that (1)

investigations are reasonable, (2) searches for multiple policies involving the claimant are conducted, (3) statutory Intercept Program searches are completed and (4) OFAC checks are conducted prior to claim payment.

Transaction Testing Results:

Findings: RNA noted that one paid death claim tested lacked evidence that the claims examiner checked the DOR website for past due child support to comply with M.G.L. c. 175, § 24D, which requires interception of non-recurring payments. As a result of this examination, the Company subsequently verified that the claimant was not included on the DOR listing of individuals that owe past due child support. RNA also noted that two of the paid death claims tested lacked evidence that a multi-policy search was performed as required by Division of Insurance Bulletin 2001-07. As a result of this examination, the Company subsequently verified that these two insureds did not have multiple policies with the Company or its affiliates.

Observations: The Company timely investigated the tested claims, searched for multiple policies involving the claimant, completed statutory Intercept Program searches and completed required OFAC checks except as noted above. The Company has implemented new claim processing procedures to ensure that all required searches are timely conducted. Based on the results of testing, it appears that the Company's processes to investigate claims, search for multiple policies involving the claimant, complete statutory Intercept Program searches and complete OFAC checks are generally functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: The Company, particularly the ARR or the compliance department, should closely monitor the effectiveness of the changes to the claim process to ensure that all searches are being timely conducted in compliance with regulatory requirements.

* * * * *

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

M.G.L. c. 176D, § 3(9)(f).

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claim settlement practices and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period to verify that claim settlements were timely.

Transaction Testing Results:

Findings: None.

Observations: The settlement of the tested claims was timely. Based on the results of testing, it appears that the Company settles claims in a timely manner in compliance with Company policies, procedures and statutory requirements.

Recommendations: None.

* * * * *

Standards VII-4. The company responds to claim correspondence in a timely manner.

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

Objective: The Standard 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 claims handling processes, and obtained documentation supporting such processes. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period to verify that policyholder claim correspondence was answered timely.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that correspondence for the tested claims was answered timely. Based on the results of testing, it appears that the Company's procedures to timely correspond with claimants are functioning in accordance with its policies, procedures, and statutory requirements.

Recommendations: None.

* * * * *

Standards VII-5. Claim files are adequately documented.

Objective: The Standard addresses the adequacy 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 claims handling processes, and obtained documentation supporting such processes. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that files for the tested claims were adequately documented according to the Company's policies and procedures. Based on the results of testing, it appears that the Company's claim handling processes for documenting claim files are generally functioning in accordance with their policies and procedures.

Recommendations: None.

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Standards VII-6. Claim files are handled in accordance with policy provisions and state law.

M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f); M.G.L. c. 175, § 119C.

Objective: The 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 claim settlements of claims in which liability has become reasonably clear. M.G.L. c. 175, § 119C requires that once it has received proof of death, the Company must pay interest on claims beginning 30 days after the insured's death.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims correspondence, documentation and handling. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to verify that claim files were adequately handled and documented.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that files for the tested claims were adequately handled. RNA noted one claimant was improperly overpaid for an increasing benefit rider included in

the insured's policy that was not effective until the policy's next renewal date. The Company stated that the error was an isolated manual error, and not a systemic error. After discovering the error, the Company ultimately determined that it would not pursue return of the overpaid amount from the claimant. Based on the results of testing, it appears that the Company's claims handling processes are generally functioning in accordance with their policies, procedures, and statutory requirements.

Recommendations: The Company, particularly the ARR or the compliance department, should monitor the claims settlement process for claims with increasing benefit riders to ensure that such claims are properly adjudicated.

* * * * *

Standard VII-7. Company 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 the claim forms used and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to verify that claim forms were appropriate for the policies.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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 claim reserving practices. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to evaluate whether such claims should be reserved as of the claim review date. The Division's financial examiners and actuaries are also testing reserving in conjunction with the ongoing financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that none of the tested claims appeared to require establishment of a claim reserve as of the claim review date, and all appeared to be properly closed.

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

Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation. 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 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 claim denial processes and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to evaluate whether full or partial claim denials were handled in accordance with policy provisions and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Full or partial denials for the tested claims appeared to be handled in accordance with policy provisions and statutory requirements. The results of testing indicate that the Company's processes for denying claims are functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

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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 claims payment processes and obtained supporting documentation. The Company does not require a release when a claim is settled.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of claims payment processes, claim handling procedures appear appropriate.

Recommendations: None.

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

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

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.

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 was entitled.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to review claims handling practices.

Transaction Testing Results:

Findings: None.

Observations: RNA noted no instances in the tested claims where a claimant was forced to institute litigation to receive claim payments, or forced to accept less than amount due under the policy. The results of testing indicate that the Company's claim payment processes do not require claimants to institute litigation to receive claim payments, or to accept less than amount due under the policy.

Recommendations: None.

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

211 CMR 55.06(1)(b) and 55.110.

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

211 CMR 55.06(1)(b) and 55.110 require carriers to issue a disclosure statement to policyholders containing specific information when a request is made for an accelerated benefit payment.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the process for policyholders to request accelerated benefit payments, and obtained supporting documentation. As part of ownership change testing, we reviewed a request for accelerated benefits from one policyholder.

Transaction Testing Results: The testing of the request for an accelerated benefit payment indicated that the Company provided the required disclosures at the time the benefit was requested, in compliance with regulatory requirements.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-1.

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Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained supporting documentation. RNA selected 20 paid death claims, and eight denied and/or compromised claims from the examination period, to verify that there is no unfair discrimination against claimants.

Transaction Testing Results:

Findings: None.

Observations: RNA noted no evidence in the tested claims that the Company is unfairly discriminating against claimants. Thus, it appears that the Company's claim handling practices do not discriminate against claimants with similar qualifying events covered under its policies.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

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 *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. We have made recommendations to address various concerns in several of the above areas.

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

This is to certify that the undersigned is duly qualified and that, in conjunction with Rudmose & Noller Advisors, LLC, applied certain agreed-upon procedures to the corporate records of 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 (“NAIC”) and the *NAIC Market Conduct Examiners’ Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration and preparation of the comprehensive examination report. 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
Division of Insurance
Boston, Massachusetts