



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

*Report on the Comprehensive Market Conduct Examination of
The Savings Bank Life Insurance Company of Massachusetts
Woburn, Massachusetts*

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

NAIC COMPANY CODE: **70435**

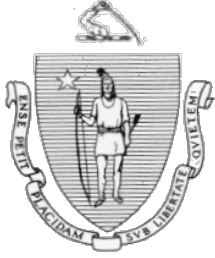
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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

June 25, 2010

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

Dear Commissioner Murphy:

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

THE SAVINGS BANK LIFE INSURANCE COMPANY OF MASSACHUSETTS

at their home offices located at:

One Linscott Road
Woburn, MA 01801

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

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

EXAMINATION APPROACH

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

The comprehensive market conduct examination resulted in no recommendations with regard to complaint handling or 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 these areas.

SECTION I -COMPANY OPERATIONS/MANAGEMENT

STANDARD I-1

Findings: None.

Observations: The internal audit plan and reports reviewed by RNA provided detailed information on the plans, procedures performed, findings, actions taken and recommendations.

Recommendations: The Company should assign the responsibility for non-financial compliance to the board of directors or a committee thereof. The Company should also consider requiring the internal audit department to complete periodic audits regarding replacement compliance, agent termination, and general agent oversight.

Subsequent Actions: The board of directors has assigned the responsibility to oversee the Company’s non-financial compliance efforts to the Audit Committee. Further, a new Vice-President Senior Compliance Officer will report to the Audit Committee on non-financial compliance matters. Duties of this position include supervising the Company’s compliance and internal audit functions. The Company plans to conduct the recommended internal audits.

STANDARD I-6

Findings: None.

Observations: The Company should enhance oversight monitoring of the growing number of independent brokerages and producers, to ensure that the requirements contained in their contracts are met.

Required Action: The Company shall enhance oversight monitoring of its independent brokerages and producers by ensuring that they meet their contract requirements. The monitoring shall include desk audit and other sufficient audit procedures, to confirm that controls are properly functioning in compliance with contractual requirements.

Subsequent Action: The Company states that it plans to implement this required action.

SECTION III-MARKETING AND SALES

STANDARD III-1

Findings: None.

Observations: Based upon testing, the Company's process for approving advertising and sales materials prior to use is functioning in accordance with its policies, procedures and statutory requirements. RNA noted inconsistent documentation of required changes to advertising and sales materials prior to their use. RNA further noted that the Company's web-based sales guide does not reference certain compliance requirements such as those related to replacements and suitability. The Company's website disclosure complies with Division Bulletin 2001-02. Finally, the results of new business testing showed no evidence of the Company's or its agents' use of unapproved advertising and sales materials.

Recommendations: The Company should implement a procedure to document that all required changes are made to advertising and sales materials prior to their use. The Company's internal audit department should independently monitor the effectiveness of these new procedures. Further, the Company should amend the web-based sales guide to address compliance matters including, but not limited to, replacement and suitability requirements, to ensure that compliance guidelines are assigned equal value to sales training.

Subsequent Actions: The Company states that it plans to implement these recommendations and that the internal audit function will monitor the effectiveness of these new procedures. .

STANDARD III-4

Findings: None.

Observations: The replacement questions on all life insurance and fixed annuity replacement applications tested were properly answered. The replacement disclosure forms were properly signed by the applicants on the application dates in accordance with statutory requirements. The sales files for 21 life insurance replacements documented that the replacement sales were in the applicants' best interests; however, the sales files for 18 external and three internal life insurance

replacements did not include such documentation. While the Surrender & Exchange Form is to document that internal life insurance replacements are in the applicants' best interests, there is no form to similarly document such conclusions for external replacements.

Required Actions: The Company shall re-emphasize to all producers that life insurance and fixed annuity replacement sales must be in the applicants' best interests. Producers must support such conclusions by completing the Company-required form.

Subsequent Actions: The Company plans to require that its producers use the NAIC model replacement disclosure form to document that all replacement sales are in the applicants' best interests.

STANDARD III-5

Findings: None.

Observations: Based upon testing, all replacement sales were properly included on the Company's replacement register. Notices to replaced carriers were timely provided, although for portions of two sales shown as replacements, it was unclear whether the applicants were replacing two other carriers' coverage or simply adding coverage. The Company reduced commissions on internal replacements in compliance with Company policy. RNA noted that the underwriting or new business departments did not consistently review and challenge as necessary the Surrender & Exchange Forms submitted with the life insurance replacement applications. Finally, RNA noted that the Company has not yet developed adequate procedures to monitor replacement activity by producer.

Required Actions: The Company's underwriting or new business department shall thoroughly review and challenge each submitted Company-required replacement form to ensure that the life insurance replacement is in the applicant's best interest, and to ensure that statutory requirements including notice to replaced carriers are met. In addition, the Company shall develop procedures for monitoring replacement activity by producer, and completing appropriate and timely investigations when unusual activity is noted. The Company shall implement such procedures as soon as practicable. Finally, the Company's internal audit department shall independently monitor all replacement required actions noted, to ensure that the Company's new policies and procedures are timely and effective. The results of the audit reported shall be reported to the Division by December 31, 2010.

Subsequent Actions: The Company states that it plans to implement these required actions.

SECTION IV-PRODUCER LICENSING

STANDARD IV-1

Findings: None.

Observations: RNA tested 95 life insurance and 14 fixed annuity sales during the examination period. For those sales which were sold by agents appointed in 2008, the appointment dates on the Division's and the Company's databases that matched within a few days. Further, all the producers who sold policies during the examination period were properly licensed, and all but two producers were included on the Division's database of the Company's appointed agents at the time the contracts were issued. Both producers were subsequently appointed as agents. As a

result of the examination, the Company is in the process of comparing the Division's and the Company's agent appointment records. The Company also plans to contract with a third party to frequently and electronically compare and reconcile the Division's and Company's agent records.

Required Actions: The Company shall review its appointment procedures to ensure that the process for originating and maintaining agent appointments is effective, and provides reasonable assurance that all agent appointments are completely and timely processed. Further, the Company shall contract as soon as is practicable with the third party that will perform the frequent agent database comparisons. Finally, the Company's internal audit department shall independently monitor the appointment transmission procedures, and the contracted agent database comparison process, to ensure that they are timely and effective.

Subsequent Actions: The Company states that it plans to implement these required actions.

STANDARD IV-3

Findings: RNA noted that each of the nine agent terminations tested was not timely reported to the agents in violation of M.G.L. c. 175, § 162T. As a result of this examination, in August 2009 the Company began providing timely written notice to agents whose termination occurred in 2009.

Observations: It appears that each of the nine agent terminations tested was timely reported to the Division. However, testing further noted that the Division's termination records did not always match the NAIC, National Insurance Producer Registry ("NIPR") and Company records. As a result of this examination, the Company is in the process of implementing a monthly procedure to compare the most recent month's terminations as reflected in the Company's and Division's databases, and to correct any inconsistencies between the two databases. The Company also plans to contract with a third party to frequently and electronically compare and reconcile the Division's and Company's agent appointment records.

Required Actions: The internal audit department shall conduct an audit of the new agent termination process to ensure that timely notice is given to Massachusetts terminated agents. The results of the audit shall be reported to the Division by December 31, 2010. Further, the Company shall work with the Division to ensure that the Division's agent appointment and termination records are accurate and complete. Finally, as soon as is practicable, the Company shall contract with the third party that will complete the frequent agent database comparisons.

Subsequent Actions: The Company states that it plans to implement these required actions and will work with the Division to ensure that the Division's agent appointment and termination records are accurate and complete.

SECTION V-POLICYHOLDER SERVICE

STANDARD V-6

Findings: None.

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

Company has not developed a procedure for locating unreported deceased policyholders by periodically checking its in-force databases against the Social Security Death Index.

Recommendations: RNA recommends that the Company periodically compare its in-force policy listing with the Social Security Death Index, to ensure that the Company is aware of deceased policyholders and annuitants even if the beneficiaries have not reported deaths to the Company. Further, the comparison procedure should also include checking all contracts that are pending lapse, and those approaching maturity, against the Social Security Death Index. The Company's internal audit department should independently monitor these new procedures to ensure that they are timely performed and effectively implemented.

Subsequent Actions: The Company states that it plans to implement these recommendations.

SECTION VII-CLAIMS

STANDARD VII-2

Findings: None.

Observations: Although the Company believes that it regularly conducts multi-policy searches as required by Division Bulletin 2001-07, RNA's review of 55 claim files determined that the Company did not consistently document its performance of these in-force multi-policy searches. However, testing of the 55 claim files noted no evidence of other in-force policies which were excluded from the claims adjudication process. Testing otherwise showed that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Required Actions: The Company shall ensure that its claim files contain documentation of the claim representative's performance of in-force multi-policy searches at the time a death claim is reported. The Company shall perform an internal audit of its in-force multi-policy search procedures, to ensure that it performs and documents such searches on all life and annuity death claims. The Company shall report the findings of this internal audit to the Division by December 31, 2010.

Subsequent Actions: The Company states that it has implemented new procedures to document the performance of in-force multi-policy searches when a death is reported. The Company states that it plans to conduct the required internal audit.

STANDARD VII-3

Findings: A disbursement processing error resulted in the Company settling one of 108 claim transactions tested 412 days after it received all the necessary information, in violation of M.G.L. c. 176D, § 3(9)(f). The Company states that it has implemented new automated claim processing procedures and supervisory reviews to ensure timely settlement of pending claims.

Observations: Based upon the results of testing, it appears that the Company's processes for investigating claims are generally functioning in accordance with its policies, procedures and statutory requirements. However, more rigorous follow-up with beneficiaries or of pending tasks would have resolved eight of the tested claims more timely. For example, a claim representative did not check the social security death index for the beneficiary as required by Company procedure, causing the claim to remain open approximately 17 months until it was determined

that the beneficiary had died. The claim representative on another claim erroneously deleted a follow-up task in the automated claim work flow system, causing an approximate 14 month delay in the claim investigation. The Company states many of the delays noted by RNA were attributable to a lack of timely follow-up during a claim systems conversion. The Company further states it has implemented new automated claim processing procedures and supervisory reviews, to monitor pending claims for follow-up with beneficiaries and other pending tasks, to ensure timely resolution of claims.

Required Actions: The Company shall ensure that its follow-up with beneficiaries and on pending tasks are timely on all claims. The Company shall perform an internal audit of the timeliness of its claim resolutions and settlements, and shall report the findings of such monitoring to the Division by December 31, 2010.

Subsequent Actions: The Company states that it has implemented new automated claim processing procedures and supervisory reviews to ensure timely settlement of pending claims. In addition, the Company is in the process of merging all identical clients under one client number and attaching all policies to the single client number. Finally, the Company states that it plans to conduct the required internal audit.

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COMPANY BACKGROUND

The Company primarily offers traditional individual term life insurance, and to a lesser extent, whole life and fixed annuity products. The Company's predecessor entities began in 1907 as mutual savings banks that were permitted by Massachusetts law to establish life insurance departments to provide low cost life insurance to bank customers. In 1990, Massachusetts' law was amended via Chapter 178A to abolish these savings bank life insurance departments and convert them into the Company. Today, the stock company is owned by various banks, while a Policyholder Protection Board ("PPB") appointed by the Governor has the statutory authority to "review the financial operations of the company on a continuing basis and make such recommendation to the company as they deem appropriate to insure the ability of the company to offer safe, low cost insurance." The Company's Board of Directors consists of 15 members, with only the CEO being a member of management, and the PPB includes seven members appointed by the Governor. One person is common to both boards. Annually in June, a letter is filed with the Division summarizing the PPB's actions over the past year.

The Company uses a home office sales strategy where sales are made directly by licensed and appointed employee agents. In addition, the Company uses direct mail, internet marketing, radio and television, print media, and telemarketing efforts to generate sales leads. In addition the Company uses a brokerage distribution channel in which the Company has selling agreements with depository institutions, independent general agents, experienced producers and third party marketing organizations, such as internet aggregators. Historically, much of the Company's business was sold in Massachusetts; however the Company in recent years has expanded its geographical footprint to 37 other states and the District of Columbia.

The privately held stock company is rated A+ (Superior) by A.M. Best. The Company has \$2.1 billion in assets and \$158.2 million in surplus as of December 31, 2008. For 2008, premiums and annuity considerations were \$187.8 million and the net loss was \$28.6 million, primarily due to investment impairments as a result of the worldwide financial turmoil in late 2008.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company's statutory financial statements are audited annually by an independent auditor.
- The Company's internal audit plan is annually approved by the audit committee of the board of directors ("Audit Committee"). Key business risks and mitigating controls are identified, and a two-year rolling audit plan has been developed with high risk areas audited annually. Information technology and underwriting audits have been outsourced to third parties.
- Internal audit reports are provided to the Audit Committee, including recommendations and management's responses. The Audit Committee is updated quarterly on the status of in-process audits. The internal audit department verifies that audit recommendations have been implemented by management.
- The Company has a Chief Compliance Officer who is responsible for compliance processes, controls and monitoring. In addition, the Company engaged a third party to complete a 2008 assessment of compliance processes and controls, and has implemented several recommendations as a result of the assessment.
- The statutorily created PPB annually reviews the Company's operations to ensure that the Company adheres to its mission to offer low cost life insurance to consumers. The PPB annually reports to the Division on its activities.

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

Transaction Testing Procedure: RNA reviewed internal audit plans, internal audit reports and discussed reported findings with management. Issues noted in such reports were further investigated and reviewed.

Transaction Testing Results:

Findings: None.

Observations: The internal audit plan and reports reviewed by RNA provided detailed information on the plans, procedures performed, findings, actions taken and recommendations.

Recommendations: The Company should assign the responsibility for non-financial compliance to the board of directors or a committee thereof. The Company should also consider requiring the internal audit department to complete periodic audits regarding replacement compliance, agent termination, and general agent oversight.

Subsequent Actions: The board of directors has assigned the responsibility of overseeing the Company's non-financial compliance efforts to the Audit Committee. Further, a new Vice-President Senior Compliance Officer will report to the Audit Committee on non-financial compliance matters. Duties of this position include supervising the compliance and internal audit functions. The Company plans to

conduct the recommended internal audits.

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

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

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

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

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

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

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

- The Company has a written anti-fraud plan, which requires that the Company take all reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The anti-fraud plan defines the duties of employees, agents and independent contractors to report suspected fraud to the Compliance Officer in the Company's Special Investigation Unit. The policy states that adverse action will not be taken against those who report such suspected fraud.
- The anti-fraud plan details specific investigation procedures to be undertaken by the Special Investigation Unit.
- The Company completes criminal, financial and post-secondary education background checks for prospective employees. The Company's policy is to not hire a "prohibited person" as defined above.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company uses third parties to conduct medical examinations of applicants. These contracts designate responsibilities and duties, restrictions, general confidentiality and privacy requirements for all medical information and lab specimens.
- The Company uses independent agents and general agents to sell the Company's products. The independent and general agent contracts describe the duties of the parties, licensing and appointment requirements, limitations of authority, compensation, terminations and reappointments, compliance with the Company's replacement requirements and errors and omissions coverage requirements.
- The Company uses third parties to perform information technology and underwriting audits.

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 a sample of agent contracts and documents explaining the process for conducting medical examinations. RNA also reviewed audits performed by third parties.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard I-5.

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

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

Transaction Testing Results:

Findings: None.

Observations: The Company should enhance oversight monitoring of the growing number of independent brokerages and producers, to ensure that the requirements contained in their contracts are met.

Required Action: The Company shall enhance oversight monitoring of its independent brokerages and producers by ensuring that they meet their contract requirements. The monitoring shall include desk audit and other sufficient audit procedures, to confirm that controls are properly functioning in compliance with contractual requirements.

Subsequent Action: The Company states that it plans to implement this required action.

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

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

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

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

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

Transaction Testing Results:

Findings: None.

Observations: The Company's record retention policies appear reasonable. Testing results relating to documentation evidence are also noted in the various examination standards.

Recommendations: None.

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

M.G.L. c. 175, §§ 32 and 47.

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

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- The Company'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 abbreviated notice of privacy practices at the application date as part of the policy application. The notice states that personal information may be collected from other persons; that information may in certain circumstances be disclosed to third parties without authorization; that a right of access and correction exists; and that the Comprehensive Notice of Information Practices ("CNIP") shall be furnished upon request.
- The CNIP is provided with the insurance policy or annuity contract, and each year with the annual statement. For reinstatements where new underwriting procedures are completed, the CNIP is provided at the application date. The CNIP states that the personal information collected or maintained, and the source of such information, are available to the individual to whom it refers within 30 days of receipt of a written request for such information by such individual. The CNIP also discloses how a consumer can correct, amend or delete such information.
- The Company shares personal information with business partners who perform a function on behalf of the Company. The Company does not share nonpublic personal financial information with anyone for marketing purposes, and thus no opt out right is necessary for such information sharing.
- Company policy is to provide the Notice of Adverse Underwriting Decision, including all statutory requirements, as required by law. Company policy does not base an adverse underwriting decision on the existence of a previous adverse underwriting decision, and the Company's policy prohibits seeking information concerning any previous adverse underwriting decision experienced by an individual, unless the inquiry also requests the reasons for the previous adverse underwriting decision.
- The Company has summarized certain privacy policies on their website.
- Company policy is to disclose nonpublic personal information only as required or permitted by law to regulators and law enforcement agencies.

- Company policy requires that its information technology security practices safeguard nonpublic personal financial and health information. The Company annually conducts information systems risk assessments to consider, document and review information security threats and controls, and to continually improve information systems security.
- Only individuals approved by Company management are granted access to the Company's key electronic and operational areas where nonpublic personal, financial and health information is located. Access is frequently and strictly monitored.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. RNA also reviewed life claims documentation for any evidence of the use of pretext interviews. RNA tested compliance with requirements to provide the Notice of Adverse Underwriting Decision in Standard VI-7.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

M.G.L. c. 175I, §§ 1-22 and the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt out

requirements, and the consumer has not elected to opt out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed documentation supporting its privacy policies and procedures. As part of life underwriting and claims testing, RNA sought any evidence that the Company improperly provided personal information to parties other than the applicant.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Objective: This Standard addresses requirements to provide privacy notices.

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA reviewed the Company's policies and procedures for providing privacy notices to all applicants, and annually thereafter to policyholders. Further, RNA evaluated compliance with these privacy disclosure requirements in conjunction with testing of 95 life insurance applications and 14 fixed annuity applications submitted during the examination period.

Transaction Testing Results:

Findings: None.

Observations: The abbreviated notice of privacy practices was provided with each of the applications tested. RNA also noted that the Company has procedures for providing the CNIP

with the policy or contract issued, and annually thereafter to policyholders and contract holders.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

M.G.L. c. 175I, §§ 1-22 and the Gramm-Leach-Bliley Act, §§ 502, 503, 504 and 505 and 16 CFR Part 313, set forth requirements for proper notice to consumers, and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Further, a financial institution must provide its customers with a written notice of its privacy policies and practices. In addition, a financial institution is prohibited from disclosing nonpublic personal consumer

information to nonaffiliated third parties, unless the institution satisfies various disclosure and opt out requirements, and the consumer has not elected to opt-out of such disclosure.

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance, and reviewed supporting documentation. RNA also sought evidence that the Company improperly disclosed nonpublic personal health information in conjunction with testing of life underwriting and claims. Finally, RNA reviewed compliance with HIPAA authorization disclosure requirements in conjunction with testing of 95 life insurance applications submitted during the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted that the HIPAA authorization disclosure was

signed by life insurance applicants when necessary, in compliance with company policy. RNA noted no instances where the Company improperly disclosed nonpublic personal health information in conjunction with testing of life underwriting and claims.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard I-10.

Controls Reliance: See Standard I-10.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

211 CMR 28.11.

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

211 CMR 28.11 requires that the illustration actuary annually file certifications with the Division for life

products requiring an illustration.

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA confirmed that the illustration actuary filed certifications with the Division in 2008 for life products requiring an illustration.

Transaction Testing Results:

Findings: None.

Observations: The Company has filed actuarial certifications with the Division related to life illustrations in use in 2008.

Recommendations: None.

FOR INFORMATIONAL PURPOSES ONLY

II. COMPLAINT HANDLING

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

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

M.G.L. c. 176D, § 3(10).

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed management and staff responsible for complaint handling, and examined evidence of the Company's related processes and controls. RNA reviewed nine Massachusetts complaint files from the examination period to evaluate the Company's compliance with M.G.L. c. 176D, § 3(10). RNA noted the response date and the adequacy of documentation supporting the resolution of each complaint. RNA also compared the Company's complaint register to the Division's complaint records, to ensure that the Company's records were complete.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 176D, § 3(10).

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

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

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the Company fully addressed the issues raised in the complaints reviewed. Documentation for the complaints appeared complete, including the original complaint, related correspondence and the Company's complaint register information. RNA is not aware of any complainants with similar fact patterns that were not treated consistently and reasonably.

Recommendations: None.

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

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

Massachusetts does not have a specific complaint processing time standard in statute or regulation. The Division has established a practice of requiring that insurers respond to complaints from the Division within 14 calendar days from the date they receive a notice of a complaint.

Controls Assessment: See Standard II-1.

Controls Reliance: See Standard II-1.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

FOR INFORMATIONAL PURPOSES ONLY

III. MARKETING AND SALES

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

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

M.G.L. c. 176D, § 3; M.G.L. c. 175, §§ 18, 121 and 181; Division 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 annuity contracts, or the benefits, terms, conditions and advantages of such policies and contracts. M.G.L. c. 175, § 18 requires companies to conduct their business using their corporate name on policies and contracts. M.G.L. c. 175, § 121 prohibits a life company and producers from making any contract other than as plainly expressed in policies or contracts issued. Pursuant to Division 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 adopted written policies and procedures for review and use of advertising and sales materials, including a provision in agent contracts requiring agents' adherence to such procedures.
- The legal department maintains a log of all submitted advertising and marketing materials, which are to be reviewed and approved by the Company's legal department prior to use. The log documents the date of the reviewer's approval.
- The Company discloses its name and address on its website.
- The Company's internal audit department has periodically conducted audits of the Company's compliance with policies and procedures with regard to the use of sales and marketing 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 interviewed Company personnel with responsibility for review, approval and maintenance of sales and advertising materials, and obtained supporting documentation. RNA obtained a list of advertising and sales materials utilized during the examination period, and selected numerous pieces for evidence of approval prior to use. RNA also reviewed the Company's website for disclosure of its name and address. Finally, RNA sought evidence of the use of unapproved sales and marketing materials as part of new business testing.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company's process for approving advertising and sales materials prior to use is functioning in accordance with its policies, procedures and statutory requirements. RNA noted inconsistent documentation of required changes to advertising and sales materials prior to their use. RNA further noted that the Company's web-based sales guide does not reference certain compliance requirements such as those related to replacements and suitability. The Company's website disclosure complies with Division Bulletin 2001-02. Finally, the results of new business testing showed no evidence of the Company's or its agents' use of unapproved advertising and sales materials.

Recommendations: The Company should implement a procedure to document that all required changes are made to advertising and sales materials prior to their use. The Company's internal audit department should independently monitor the effectiveness of these new procedures. Further, the Company should amend the web-based sales guide to address compliance matters including, but not limited to, replacement and suitability requirements, to ensure that compliance guidelines are assigned equal value to sales training.

Subsequent Actions: The Company states that it plans to implement these recommendations and that the internal audit function will monitor the effectiveness of these new procedures.

Standard III-2. Regulated entity 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:

- The Company's primary distribution channel has historically been its internal direct call center agents, all of whom are Company employees. There are approximately 20 full-time employee agents and three part-time employee agents.
- The Company's broker distribution channel consists of independent agents. The Company contracts with certain experienced producers and third party marketing organizations, such as internet aggregators and depository institutions, as general agents, who are charged with seeking sub-producers, who report to the general agents.
- The Company's training includes a 12-course program provided to new employee agents. Additional training for more experienced employee agents is provided regarding new products, policies and procedures. The Company also uses recorded phone interviews with customers for training purposes.
- The Company conducts "How to Do Business Conference Calls" with brokers to ensure that they understand the Company's products, policies and procedures.
- Continuing professional education must be coordinated by each employee agent. The Company will pay for such continuing education costs and track the accumulated hours as reported by the agent, to ensure that any shortfall is timely addressed.

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 developing and delivering producer training materials through the Company's training programs. RNA reviewed the Company's training program for new employee agents.

Transaction Testing Results:

Findings: None.

Observations: The Company's procedures for producer training generally appear adequate, and producer training materials for new employee agents appear appropriate.

Recommendations: None.

Standard III-3. Regulated entity 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:

- Communication to agents of policies and procedures is both formal and informal. Agent communications are available on the Company's website.
- The employee agents are required to attend a compliance and sales meeting at least twice annually to discuss important matters.

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 developing and distributing producer communications.

Transaction Testing Results:

Findings: None.

Observations: Based on our review, procedures for communications to producers generally appear appropriate and reasonable.

Recommendations: None.

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

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. Testing of suitability of all fixed annuity sales is conducted in Standards III-11 through III-13.

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 policies and procedures govern replacement handling.
- The Company's applications require a response from the applicant and the agent as to whether the life insurance policy or fixed annuity contract applied for will replace another policy or contract.
- Agents are required to submit applications to the Company that include a copy of the Massachusetts replacement disclosure form provided to, and signed by, the applicant on the application date. The Company's Surrender & Exchange Form is designed to document the applicant's need for replacement when the Company's own policies are replaced (internal life insurance replacements).
- Company policy requires that producers conclude that all replacement sales are in the applicants' best interests.

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. As part of new business testing, RNA selected a sample of 42 life insurance and five fixed annuity replacement sales from the examination period for testing, including 14 internal and 33 external replacements. RNA reviewed the applications to ensure that the replacement questions on the applications were properly answered, and reviewed evidence that the replacement disclosure forms were properly signed by the applicants at the application dates. Finally, RNA evaluated whether the documentation for the life insurance replacement sales supported that such replacement sales were in the applicants' best interests.

Transaction Testing Results:

Findings: None.

Observations: The replacement questions on all life insurance and fixed annuity replacement applications tested were properly answered. The replacement disclosure forms were properly signed by the applicants on the application dates in accordance with statutory requirements. The sales files for 21 life insurance replacements documented that the replacement sales were in the applicants' best interests; however, the sales files for 18 external and three internal life insurance replacements did not include such documentation. While the Surrender & Exchange Form is to document that internal life insurance replacements are in the applicants' best interests, there is no form to similarly document such conclusions for external replacements.

Required Actions: The Company shall re-emphasize to all producers that life insurance and fixed annuity replacement sales must be in the applicants' best interests. Producers must support such conclusions by completing the Company-required form.

Subsequent Actions: The Company plans to require that its producers use the NAIC model replacement disclosure form to document that all replacement sales are in the applicants' best interests.

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

211 CMR 34.05 - 34.07.

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.

Pursuant to 211 CMR 34.05-34.06, an insurer must inform its representatives and producers of the requirements of 211 CMR 34.04, and require that life and annuity applications include a signed form acknowledging replacement. 211 CMR 34.07 requires insurers who solicit direct response sales to obtain a signed form acknowledging replacement.

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

- Written policies and procedures govern replacement handling.
- Company policy requires that all replacements be consistently recorded in the Company's replacement register.
- The Company reviews submitted applications, which require a signed response from the applicant and producer on the application as to whether or not the policy or contract applied for will replace another policy or contract. The Company also reviews submitted application packages for evidence of signed replacement disclosure forms from the applicants.
- When a life insurance or fixed annuity sale involves a replacement of another carrier's contract, the Company's policy is to send notice to the replaced carrier within three business days after receipt of the application in the home office.
- The Company provides a 30 day free look on all replacement sales.
- The Company's surrender and exchange guidelines require that reduced commissions be paid on internal replacements if the replaced contracts have been in-force less than eight years.

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. As part of new business testing, RNA selected a test sample of 42 life insurance and five fixed annuity replacement sales from the examination period, including 14 internal and 33 external replacements. RNA reviewed these replacement sales to ensure that they were properly included on the Company's replacement register, reviewed the notice to the replaced carriers for timeliness, and evaluated the commissions paid on internal replacements to ensure that they were reduced in accordance with Company policy. RNA evaluated whether the underwriting or new business departments thoroughly reviewed and challenged the Surrender & Exchange Forms submitted with the life insurance replacement sale applications. Finally, RNA evaluated the Company's procedures to monitor replacement activity by producer.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, all replacement sales were properly included on the Company's replacement register. Notices to replaced carriers were timely provided, although for portions of two sales shown as replacements, it was unclear whether the applicants were replacing

two other carriers' coverage or simply adding coverage. The Company reduced commissions on internal replacements in compliance with Company policy. RNA noted that the underwriting or new business departments did not consistently review and challenge as necessary the Surrender & Exchange Forms submitted with the life insurance replacement applications. Finally, RNA noted that the Company has not yet developed adequate procedures to monitor replacement activity by producer.

Required Actions: The Company's underwriting or new business department shall thoroughly review and challenge each submitted Company-required replacement form to ensure that the life insurance replacement is in the applicant's best interest, and to ensure that statutory requirements including notice to replaced carriers are met. In addition, the Company shall develop procedures for monitoring replacement activity by producer, and completing appropriate and timely investigations when unusual activity is noted. The Company shall implement such procedures as soon as practicable. Finally, the Company's internal audit department shall independently monitor all replacement required actions noted, to ensure that the Company's new policies and procedures are timely and effective. The results of the audit reported shall be reported to the Division by December 31, 2010.

Subsequent Actions: The Company states that it plans to implement these required actions.

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

211 CMR 28.09; 211 CMR 31.05 and 31.07.

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

211 CMR 28.09 establishes requirements for the delivery of illustrations 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 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. 211 CMR 31.07 requires producers to disclose that he or she is acting as producer in the sale.

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 life insurance policy illustrations, required disclosure forms and buyer's guides at the application date, and disclosure by the producer that he or she is acting as producer in the sale.
- The Company has written policies and procedures addressing the distribution of Company-required fixed annuity disclosure forms, including 1035 exchange forms and other transfer forms, at the application date.
- The Company reviews all submitted life insurance applications to ensure that required forms and disclosures are provided to the applicants.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants.

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 a sample of 75 life insurance and 14 fixed annuity applications from the examination period for testing. RNA reviewed the life insurance illustrations and other required disclosures, and verified that they were timely provided to the applicants. RNA also reviewed the fixed annuity 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 written disclosure to applicants.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, RNA noted that all life policy illustrations and/or summaries, buyer's guides and fixed annuity disclosures were timely provided to the applicants when required. Contracts received by applicants were issued consistent with their applications, or any changes resulted in full written disclosure to the applicants.

Recommendations: None.

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

211 CMR 96.06; U.S. Public Law 109-290.

Objective: This Standard is concerned with whether the Company maintains suitability or needs assessment standards for its products. See Standards III-4 and III-5 for testing of replacement suitability and Standards III-11 through III-13 for testing of fixed annuity suitability.

211 CMR 96.06 requires that the producer obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

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

- Agents are required to submit complete applications to the Company that are signed by the applicant on the application date.
- Company policy requires that producers conclude that all sales meet the applicants' needs.

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 53 non-replacement life insurance applications from the examination period, to evaluate whether the sales appeared to meet the applicants' needs.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each of the non-replacement life sales tested appeared to meet the applicants' needs.

Recommendations: None.

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.

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

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

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

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

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

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

Notices related to an extension of credit must inform the consumer that the bank cannot condition the extension of credit upon the consumer also purchasing an insurance policy or annuity from the bank or its affiliate. In addition, the disclosure notice must inform the consumer that insurance and annuities are not deposits, other obligations of, or guaranteed by the bank or its affiliates; that insurance and annuities are not insured by the FDIC or any agency of the United States, the bank, or its affiliates; and that there may be potential for investment risk, including the possible loss of value in certain cases.

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

- The Company has written policies and procedures for sales of life insurance and fixed annuities by depository institutions, and the Company reviews all new business submissions from depository institutions for completeness and use of Company-required forms.

- Company policy requires that depository institutions disclose that the fixed annuity is not a deposit or other obligation of, or guaranteed by, the depository institution, the FDIC, or any other agency of the United States.
- Company policy requires that depository institutions disclose risks including the possible loss of value for products involving investment risk.
- The Company prohibits depository institutions from tying fixed annuity sales to extensions of credit when selling Company products.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing. RNA evaluated whether appropriate depository institution sales disclosures were made for three life insurance sales and 14 fixed annuity sales from the examination period.

Transaction Testing Results:

Findings: None.

Observations: Based on testing, appropriate depository institution sales disclosures were made in the sale of the Company's life insurance policies and fixed annuities.

Recommendations: None.

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

211 CMR 96.06; U.S. Public Law 109-290.

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

211 CMR 96.06 requires that the producer obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

Controls Assessment: The following controls were noted in this Standard and Standards III-12 and III-13:

- The Company requires that producers obtain the applicant's financial status, tax status and investment objectives, and any other necessary information, to document that the annuity is suitable for the applicant.
- Company policy requires that producers conclude that all fixed annuity sales are suitable and meet the applicants' needs.
- The Company reviews all submitted fixed annuity applications to ensure that Company-required forms and disclosures are provided to the applicants, and that the applications are complete and consistent.
- The Company has provided producer training regarding its fixed annuity products. All training materials are approved by the Company prior to their 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 Company personnel with responsibility for fixed annuity new business processing, and obtained supporting documentation. RNA tested 14 fixed annuity applications and sales files from the examination period, to evaluate whether the agents made appropriate need assessments.

Transaction Testing Results:

Findings: None.

Observations: The fixed annuity applications and sales files tested showed that agents obtained the required financial information and investment objectives, and made appropriate needs assessments.

Recommendations: None.

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

211 CMR 96.06; U.S. Public Law 109-290.

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

211 CMR 96.06 requires that the producer obtain the financial status, tax status and investment objectives of the applicant, and any other necessary information, to ensure that the annuity is suitable for the applicant. Further, the insurer shall ensure that a system of supervision with written procedures and periodic reviews is in place, to prevent and detect violations of these requirements. U.S. Public Law 109-290 provides protections for U.S. military personnel in the sale of life insurance and annuities.

Controls Assessment: See Standard III-11.

Controls Reliance: See Standard III-11.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for fixed annuity new business processing and obtained supporting documentation. RNA tested 14 fixed annuity applications and sales files from the examination period, to review the Company's efforts to review the applications for completeness and consistency.

Transaction Testing Results:

Findings: None.

Observations: The fixed annuity applications and sales files tested showed evidence that the Company reviewed the applications for completeness and consistency.

Recommendations: None.

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

211 CMR 96.06.

Objective: This Standard is concerned with whether the Company has procedures to educate and monitor producers, to provide full disclosure to consumers on fixed-index annuity products and to ensure all such sales meet statutory and regulatory requirements.

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

Controls Assessment: See Standard III-11.

Controls Reliance: See Standard III-11.

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for fixed annuity new business processing and producer training, and obtained supporting documentation. RNA tested 14 fixed annuity applications and sales files from the examination period, to evaluate whether the agents obtained the required financial information and investment objectives, and made appropriate needs assessments. RNA also assessed the Company's efforts to review the applications for completeness and consistency.

Transaction Testing Results:

Findings: None.

Observations: The fixed annuity applications and sales files tested indicated that the agents obtained the required financial information and investment objectives, and made appropriate needs assessments. The fixed annuity applications and sales files also showed evidence that the Company reviewed the applications for completeness and consistency.

Recommendations: None.

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

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

IV. PRODUCER LICENSING

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

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

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

Objective: The Standard addresses licensing and appointment of the Company's producers.

M.G.L. c. 175, § 162I requires that all persons who solicit, sell or negotiate insurance in the Commonwealth be licensed for that line of authority. Further, any such producer shall not act as an agent of the Company unless the producer has been appointed by the Company pursuant to M.G.L. c. 175, § 162S.

Pursuant to 18 U.S.C. § 1033 of the 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, who willfully engages in the business of insurance as defined in the Act. In accordance with Division Bulletins 1998-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and producers acting as agents 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 primary distribution channel has historically been its internal direct call center agents, all of whom are Company employees. There are approximately 20 full-time employee agents and three part-time employee agents.
- The Company's broker distribution channel consists of independent agents. Certain experienced producers and third party marketing organizations, such as internet aggregators and depository institutions, are contracted with as general agents and charged with seeking sub-producers, who report to the general agents in exchange for paying an override commission to the general agent.
- All employee and non-employee contracted producers are appointed as agents using the Massachusetts On-line Producer Registration and Appointment System ("OPRA").
- The Company completes criminal and credit background checks for the previous seven years, and NAIC and NIPR licensing checks during the recruiting process. However, credit checks are not completed for agents who are bonded employees of banks. Any unusual activity noted as a result of the background checks requires approval from the Company's legal department before the individual can be hired.
- Proof of errors & omissions ("E&O") coverage is a required condition for all non-employee agents in the agent contracts.
- The Company monitors continuing education compliance for employee agents. All non-employee agents are responsible for monitoring their own continuing education compliance.
- All agent contracts generally describe the duties of the parties including licensing and appointment requirements, limitations of authority, compensation, general contract provisions,

terminations, and compliance with the Company's replacement policies. General agent contracts contain indemnification requirements and require maintenance of E&O coverage.

- The Company maintains an automated producer database to track all appointments, terminations and other licensing changes related to its agency force.
- The Company completes an annual reconciliation of its agent appointment records with those of the Division.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for producer contracting, processing of agent appointments and reconciliation of agent records. RNA tested agent appointment procedures in conjunction with testing of 95 life insurance and 14 fixed annuity sales during the examination period. RNA verified that the sales agent for each policy was included on the Division's list of the Company's appointed agents at the time of sale. RNA also verified that the appointment dates on the Division's and the Company's databases matched within reason for tested sales where the sales agents were appointed in 2008.

Transaction Testing Results:

Findings: None.

Observations: RNA tested 95 life insurance and 14 fixed annuity sales during the examination period. For those sales which were sold by agents appointed in 2008, the appointment dates on the Division's and the Company's databases that matched within a few days. Further, all the producers who sold policies during the examination period were properly licensed, and all but two producers were included on the Division's database of the Company's appointed agents at the time the contracts were issued. Both producers were subsequently appointed as agents. As a result of the examination, the Company is in the process of comparing the Division's and the Company's agent appointment records. The Company also plans to contract with a third party to frequently and electronically compare and reconcile the Division's and Company's agent records.

Required Actions: The Company shall review its appointment procedures to ensure that the process for originating and maintaining agent appointments is effective, and provides reasonable assurance that all agent appointments are completely and timely processed. Further, the Company shall contract as soon as is practicable with the third party that will perform the frequent agent database comparisons. Finally, the Company's internal audit department shall independently monitor the appointment transmission procedures, and the contracted agent database comparison process, to ensure that they are timely and effective.

Subsequent Actions: The Company states that it plans to implement these required actions.

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

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

See Standard IV-1 for testing.

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 the Company's termination of producers in accordance with applicable statutes requiring notification to the state and the producer.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

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

- The Company maintains an automated producer database to track all appointments, terminations and other licensing changes related to its agency force.
- The Company's policy is to notify the Division of agent terminations as required by statute.
- The Company's policy is to notify the Division of the reason for agent terminations when the terminations are "for cause."
- The Company has a new process for notifying agents that their appointments have been terminated, which complies with statutory and contractual requirements.
- The Company completes an annual reconciliation of its agent termination records with those of the Division.

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

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected nine agent terminations from the examination period, to determine whether the Company gave timely notice of the terminations to the Division and the agents.

Transaction Testing Results:

Findings: RNA noted that each of the nine agent terminations tested was not timely reported to the agents in violation of M.G.L. c. 175, § 162T. As a result of this examination, in August 2009 the Company began providing timely written notice to agents whose termination occurred in 2009.

Observations: It appears that each of the nine agent terminations tested was timely reported to the Division. However, testing further noted that the Division's termination records did not always match the NAIC, NIPR and Company records. As a result of this examination, the Company is in the process of implementing a monthly procedure to compare the most recent month's terminations as reflected in the Company's and Division's databases, and to correct any inconsistencies between the two databases. The Company also plans to contract with a third party to frequently and electronically compare and reconcile the Division's and Company's agent appointment records.

Required Actions: The internal audit department shall conduct an audit of the new agent termination process to ensure that timely notice is given to Massachusetts terminated agents. The results of the audit shall be reported to the Division by December 31, 2010. Further, the Company shall work with the Division to ensure that the Division's agent appointment and termination records are accurate and complete. Finally, as soon as is practicable, the Company shall contract with the third party that will complete the frequent agent database comparisons.

Subsequent Actions: The Company states that it plans to implement these required actions and will work with the Division to ensure that the Division's agent appointment and termination records are accurate and complete.

Standard IV-4. The regulated entity'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: See Standards IV-1 and IV-3.

Controls Reliance: See Standards IV-1 and IV-3.

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting, appointments and terminations. RNA tested agent appointments in conjunction with testing of 95 life insurance sales, 14 fixed annuity sales and nine agent terminations from the Company's records during the examination period, for any evidence of unfair discrimination against policyholders.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

M.G.L. c. 175, §§ 162R and 162T.

Objective: The Standard addresses the Company's documentation of producer terminations.

Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of a producer's termination, and if the termination was "for cause" as defined in M.G.L. c. 175, § 162R, the Company must notify the Division of such cause. Further, M.G.L. c. 175, § 162R provides the reasons for which the Company may terminate a producer's appointment as agent, and the reasons for which the Division may terminate a producer's license.

Controls Assessment: See Standard IV-3.

Controls Reliance: See Standard IV-3.

Transaction Testing Procedure: RNA interviewed Company employees with responsibility for processing agent terminations. RNA selected nine terminations from the examination period to test for adequate documentation of termination reasons. Further, RNA reviewed the terminations to note whether any were “for cause,” and whether any such terminations and the related reasons were communicated to the Division.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, RNA noted that the reasons for terminations were adequately documented. The Company has a process for communicating “for cause” terminations and related reasons to the Division. None of the terminations tested was “for cause.”

Recommendations: None.

Standard IV-6. Producer account balances are in accordance with the producer’s contract with the insurer.

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 direct billed, mitigating the possibility for excessive balances owed by producers.
- The Company pays producers’ commissions in accordance with written producer contracts, and permits draws against future commissions.
- The Company actively monitors producers’ account balances to ensure that outstanding amounts are within limits it deems reasonable.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and commission processing. The Division’s financial examiners evaluated producers’ account balances in conjunction with the financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: Based upon review of Company procedures, the Company appears to have a process for ensuring that producer account balances remain reasonable.

Recommendations: None.

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 life insurance policies may lapse for nonpayment of premium until after three months from the premium due date, unless, within 10 days prior to the due date, the Company has mailed a notice to the policyholder showing the premium due and the due date, with notice that the policy will lapse if no payment is made on or before the due date. M.G.L. c. 175, § 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium.

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

- Life policyholders may elect to pay premiums either quarterly, semi-annually or annually, by either electronic funds transfer or by check.
- The Company generates and mails billing notices for individual life policies 30 days prior to the installment due date. The notices also state that the policies will lapse unless payments are made.
- If life insurance premiums are not received by the due date, an overdue premium notice is mailed after 15 days stating that if the overdue premium is not paid, the policy will lapse for non-payment 62 days after the original due date. If payment is received within five days of lapse, reinstatement is automatic. After 5 days, a reinstatement application is required.
- The Company has written service standards to ensure the timely processing of premium billing, reminder and lapse notices.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

- Upon request to cancel a life insurance policy or fixed annuity, the Company sends the owner a form requiring his or her signature. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium and surrender value is sent to the policyholder or annuity contract holder within five days.
- All owners have the right to return ("free look") newly purchased contracts within the time period stated in the contracts, which meet or exceed minimum statutory requirements. Premium refunds are to be promptly returned to the owners.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested 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 free look and insured-requested cancellation procedures with Company personnel, and obtained supporting documentation. RNA selected four life free looks, three fixed annuity free looks, five life insured-requested cancellations, and three fixed annuity surrenders from the examination period, to ensure that requests were processed accurately and timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company's life insurance policyholder and annuity contract holder functions include a post-issue call center to answer questions from customers and agents. In addition, customer service representatives respond to written correspondence and process post-issue transactions.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder correspondence.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

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

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

- Company policy provides for beneficiary and ownership change requests to be effective upon the signing and mailing of a properly completed form. Company policy requires a witness signature to process life beneficiary changes.
- Company policy requires a signed written request to process life insurance policy loans. Other life insurance policy changes may be made in writing or by phone. The call center staff regularly process name and address changes, dividend payments, certain policy coverage changes and policy rider changes.
- The call center staff regularly process annuity contract holder name and address changes.
- The Company gives written notice to life insurance policyholders and annuity contract holders prior to policy maturity, and advises them of various settlement and reinvestment options.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder service transactions.

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

Transaction Testing Procedure: RNA discussed policy change procedures with Company personnel, and obtained supporting documentation. RNA selected eight beneficiary change requests (five life and three fixed annuity), eight ownership change requests (five life and three fixed annuity), and three life policy loan requests 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: Based upon testing, the Company appears to process policyholder and contract holder transactions accurately and timely in accordance with statutory requirements and policy provisions.

Recommendations: None.

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

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

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

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

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

- Company policy requires that unclaimed maturities, unclaimed premium refunds, uncashed checks for life insurance and annuity death claims be reported and escheated when the owner cannot be found.

- The Company has implemented procedures for locating lost owners through searches of Company records and public databases. Once unclaimed checks have been outstanding for more than four months, the Company conducts further research and sends a letter to the last known address in an attempt to locate the owner. When a check is returned, a check stop payment is issued, and notice to the owner is given that the check payment was returned and/or not cashed, and subsequently voided. A new check is sent once a better address is located. If a new address is not found after nine months, the amounts are reported and escheated according to Massachusetts statutory requirements.
- The Company annually reports escheatable funds to the State Treasurer on May 1st as required by statute. Prior to escheatment of funds, a final attempt is made to locate the owner.

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

Transaction Testing Procedure: RNA discussed with Company personnel procedures for locating missing policyholders, contract holders and beneficiaries, and procedures for escheatment of funds, and reviewed supporting documentation. RNA reviewed the escheatment filing made to the State Treasurer for 2008.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes for locating missing policyholders, contract holders and beneficiaries, and appears to make reasonable efforts to locate such individuals in most instances. The Company appears to report unclaimed items and escheat them as required by statute, when the Company is made aware of such escheatable items. The Company has not developed a procedure for locating unreported deceased policyholders by periodically checking its in-force databases against the Social Security Death Index.

Recommendations: RNA recommends that the Company periodically compare its in-force policy listing with the Social Security Death Index, to ensure that the Company is aware of deceased policyholders and annuitants even if the beneficiaries have not reported deaths to the Company. Further, the comparison procedure should also include checking all contracts that are pending lapse, and those approaching maturity, against the Social Security Death Index. The Company's internal audit department should independently monitor these new procedures to ensure that they are timely performed and effectively implemented.

Subsequent Actions: The Company states that it plans to implement these recommendations.

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

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

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

M.G.L. c. 175, § 119B requires that proceeds payable under life insurance policies include reimbursement for unearned premiums paid. M.G.L. c. 175, § 119C requires interest to be paid on life insurance

proceeds left on deposit beginning 30 days after death. M.G.L. c. 175, §§ 187C and 187D require written notice to the policyholder for Company cancellations, including those for non-payment of premium.

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

- The Company's contract administration systems automatically calculate the unearned premium on cancelled policies and unearned premium after an insured's death. Such amounts are returned to owners or beneficiaries.
- Upon request to cancel a life insurance policy or fixed annuity contract, the Company sends the owner a required form, which he or she must sign. The Company communicates the cancellation request to the agent to enable the conservation of the business. The cancellation request is effective on the date the Company receives the signed form, and a check for any return premium and surrender value is sent to the policyholder within five days.
- All owners have the right to a free look for newly purchased contracts within the time period stated in the contracts. Premium refunds are to be promptly returned to the owners.
- The Company has written service standards to ensure the timely processing of policyholder and contract holder requested 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 return premium calculation procedures with Company personnel, and obtained supporting documentation. RNA selected four life and three fixed annuity free looks, five life insured-requested cancellations, and three fixed annuity surrenders from the examination period, to ensure that unearned premiums were properly calculated and timely returned. Further, during life insurance claim testing, RNA tested claims where unearned premium was due to the beneficiary, to ensure that unearned premium was timely paid.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, unearned premium appeared to be properly calculated and timely returned to the policyholder. Unearned premium was timely paid on life insurance claims where such premium was due to the beneficiary.

Recommendations: None.

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

M.G.L. c. 175, §§ 132(11) and 187G.

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

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

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

- If life insurance premiums are received within five days of lapse, reinstatement is automatic. After five days, a reinstatement application is required. The underwriting department makes a decision whether or not to reinstate the policy. Requests to reinstate may be accepted up to 120 days after the lapse date.
- The Company has written service standards to ensure the timely processing of reinstatement requests.

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

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

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

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

months of lapse, setting forth any non-forfeiture benefit other than one elected by the insured.

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

- The Company uses policy forms designed to meet statutory and regulatory requirements, and has filed these with the Division for approval prior to use.
- The Company provides applicants for life policies with several dividend or non-forfeiture options, which are listed on the applications. Upon lapse, the selected non-forfeiture option is applied to any cash value remaining in the policy.

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

Transaction Testing Procedure: RNA discussed non-forfeiture procedures with Company personnel, and reviewed supporting documentation. In conjunction with new business testing, RNA reviewed 75 life insurance applications and sales files from the examination period, to ensure the applicant selected a non-forfeiture option. During testing of life lapses and life reinstatements, RNA sought any evidence of inappropriate application of the policyholders' selected non-forfeiture options.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company appears to communicate non-forfeiture options to policyholders, and to ensure that life insurance applicants select a non-forfeiture option at the application date. Finally, RNA found no evidence of inappropriate application of non-forfeiture options.

Recommendations: None.

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

211 CMR 28.10.

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

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

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

- The Company mails annual reports to all life policyholders on the policy anniversary date, disclosing policy cash value, policy insured value, benefits cost, mortality cost, loan amounts, accrued interest, dividends and projected values for the next year.
- The Company mails annual reports to all fixed annuity contract holders, disclosing current contract current value and the projected value for the next year.
- The Company has written service standards to ensure the timely processing of annual reports to policyholders and contract holders.

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

Transaction Testing Procedure: RNA discussed annual report disclosure procedures with Company personnel, and selected five life insurance and three annuity annual reports sent to owners during the examination period for testing.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

VI. UNDERWRITING AND RATING

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

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

M.G.L. c. 175, § 190B; M.G.L. c. 176D, § 3(7); Division Bulletin 2008-08.

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

Pursuant to M.G.L. c. 175, § 190B, no mass marketed life insurance may be sold if the Commissioner finds that the total charges for the insurance are unreasonable in relation to the benefits provided. 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. Finally, Division Bulletin 2008-08 provides guidelines for rate and form filings.

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

- The Company has written underwriting and rating policies and guidelines, which are designed to assure reasonable consistency in classification and rating of new business.
- The Company utilizes a six class underwriting system for its life insurance products. Two tobacco classes and four non-tobacco classes categorize applicants according to written guidelines based upon the applicant's medical history, family history, height, weight, and personal history. Premium surcharges or discounts are also used to modify rates based upon the underwriter's evaluation of claim risks and other factors.
- All policy rates are filed with the Division for approval 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 Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 95 life insurance and 14 fixed annuity sales from the examination period, to test Company rate classifications as part of the underwriting processes. Product filings, including rate-setting processes, were reviewed for evidence that they were submitted to, and approved by, the Division. RNA selected eight individual life insurance applications processed during the examination period, and re-rated the premium charged for each application.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: This Standard addresses mandated underwriting disclosures for insurance policies which are required in accordance with statutes, regulations and Company policy. Requirements to provide illustrations and other disclosures are included in Standard III-6. Replacement disclosures are included in Standards III-4 and III-5 and adverse underwriting notices are included in Standard VI-7.

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

M.G.L. c. 175, §§ 177, 182, 183 and 184; M.G.L. c. 176D, § 3(8).

Objective: This Standard prohibits illegal rebating, commission cutting or inducements in Company correspondence to producers, and in advertising/marketing materials. Reduced commissions paid on internal replacements are discussed in Standard III-5.

M.G.L. c. 175, § 177 prohibits payment of any form of compensation to an unlicensed producer for acting as producer. 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 for paying producers' commissions in accordance with written producer contracts.
- Company policies, procedures and producer contracts prohibit special inducements and rebates.
- The Company's policy is to discourage internal replacements by paying reduced commissions if the replaced policy was in force less than eight years.

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, improper commission cutting or inducements. Finally, during testing of 95 life insurance and 14 fixed annuity sales from the examination period, RNA looked for indications of rebating, improper commission cutting or inducements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no evidence of rebating, improper commission cutting or inducements.

Recommendations: None.

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

M.G.L. c. 175, §§ 120, and 120A-120E, 122, 128 and 193T; 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, annuities, or on dividends or other benefits. M.G.L. c. 175, §§ 120A-120E prohibit discrimination in the issuance of life insurance based on gender, and against those with mental retardation. M.G.L. c. 175, § 122 prohibits a life insurer from discriminating between white persons and persons of color as to premiums or rates charged. M.G.L. c. 175, § 128 states minors at age 15 may contract for life insurance in certain situations. M.G.L. c. 175, § 193T prohibits discrimination based on blindness, mental retardation or physical impairment. 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. 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.
- Written underwriting guidelines are designed to assure reasonable consistency in classification and rating of risks.

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 95 life insurance sales from the examination period, to verify that the applications were approved by underwriting without discriminatory 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 related statutes, rules and regulations.

Recommendations: None.

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

M.G.L. c. 175, §§ 2B, 22, 129, 132, 139, 144A ½, 192A, 193F, 193G and 193H; Division Bulletins 2001-05 and 2008-08.

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. M.G.L. c. 175, § 129 requires bold letters on the policy face page describing the contract. M.G.L. c. 175, § 132 sets forth a 30 day filing requirement, and identifies mandated provisions for life, endowment and annuity forms. M.G.L. c. 175, § 139 permits the exchange or conversion of life or endowment insurance or an annuity contract at the policy owner's request. M.G.L. c. 175, § 144A ½ defines required provisions in annuity contracts. M.G.L. c. 175, § 192A allows policies in loose leaf form. M.G.L. c. 175, §§ 193F, 193G and 193H permit the 30 day filing requirements to be extended, describe resubmission procedures for disapproved forms, and provide for an appeal procedure in the event that the company wishes to contest the Division's decisions. Division Bulletin 2001-05 requires that form filings be accompanied by a fully-completed form-filing checklist. Division Bulletin 2008-08 sets forth guidelines for filing rate and form filings for all lines of business.

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

- The Company's written underwriting guidelines and policy forms are designed to assure reasonable consistency in classification of risks.
- The Company obtains Division approval of all policy forms, contract riders, endorsement forms and illustrations 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 selected 95 life insurance and 14 fixed annuity sales from the examination period to test whether policy forms, contract riders and endorsement forms were approved by the Division.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the Company utilized policy forms, riders, and endorsement forms approved by the Division prior to their use.

Recommendations: None.

Standard VI-6. 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 insurance policies accurately, timely and completely. See Standard V-8 for testing of reinstatements.

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 contract 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.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and policy issuance. RNA selected 95 life insurance and 14 fixed annuity sales from the examination period, to determine whether policies and contracts were issued timely, accurately and completely.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, it appears that policies and contracts are issued timely, accurately and completely in accordance with Company policies, procedures and statutory requirements.

Recommendations: None.

Standard VI-7. 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, §§ 120A-120E prohibit discrimination in the issuance of life insurance based on gender, and against those with mental retardation. M.G.L. c. 175I, § 12 states that an adverse underwriting decision for life insurance applicants 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.

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

- The Company has written underwriting guidelines and policies that prohibit unfair discrimination in accordance with statutory requirements.
- The Company's home office underwriting approval processes and procedures, training of home office underwriters and communication with producers are designed to prohibit unfair discrimination.

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

Transaction Testing Procedure: RNA reviewed written Company policies and procedures requiring that the Adverse Underwriting Notice be provided when the Company declines applications, elects to provide a reduced amount of coverage and when it offers coverage at higher than standard rates. From a list of declined applications, RNA tested 20 life insurance underwriting declinations for evidence that the Company provided a timely Adverse Underwriting Notice. Additionally, as part of new business testing, RNA noted 22 life insurance applications where the Company either declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates, and verified that the Company provided a timely Adverse Underwriting Notice to the applicants.

Transaction Testing Results:

Findings: None.

Observations: For the applications tested, the Company provided the Adverse Underwriting Notice when it declined to offer coverage, offered coverage with exclusions or offered coverage at higher than standard rates. Based upon testing, the Company's policies and procedures for providing Adverse Underwriting Notices appear to be functioning in accordance with its policies, procedures and statutory requirements.

Recommendations: None.

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

M.G.L. c. 175, § 132(2); M.G.L. c. 175I, § 10; M.G.L. c. 176D, § 3(7).

Objective: This Standard addresses whether the reasons for a cancellation are valid according to policy provisions and state laws. Compliance with Adverse Underwriting Notice requirements are tested in Standard VI-7.

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. M.G.L. c. 175I, § 10 provides guidance on the content and timely issuance of adverse underwriting notices. 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.

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

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

Controls Reliance: Controls tested via documentation inspection, procedure observation 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 five life insurance policies cancelled for non-payment of premium during the examination period, to test for compliance with policies, procedures and statutory requirements.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, RNA noted no instances of improper cancellation for non-payment of premium, and noted that in each case the Company gave adequate notice prior to cancellation.

Recommendations: None.

Standard VI-9. Rescissions are 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 in statutes or regulations.
- The Company may rescind coverage in cases of fraud or material misrepresentation.
- The Company's underwriting process considers the risk of material misrepresentation by applicants, and attempts to corroborate information received including health status.
- Cases considered for rescission are reviewed by underwriting department and approved by legal department management.

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: Since grounds for rescission in Massachusetts are limited and such incidents are rare, RNA did not test the Company's rescission procedures, but looked for evidence of improper rescission during testing of complaints, cancellations, underwriting 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-10. 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: The following controls were noted as part of this Standard:

- The Company's life insurance applications generally require submission of information regarding the applicant's existing life insurance coverage, family member information, occupation, monthly earnings, age and the purpose of the applied for life insurance.
- Underwriters review all life insurance applications to ensure that they are complete and internally consistent.
- The Company reviews all submitted fixed annuity applications to ensure that the applications are complete and consistent.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for new business processing, and obtained supporting documentation. RNA selected 95 life insurance and 14 fixed annuity applications from the examination period for testing. RNA verified that each of the applications was signed and completed in accordance with Company policy. RNA further reviewed each application package, and confirmed that the policy or contract was issued consistent with the application, or that any changes resulted in disclosure to the applicant.

Transaction Testing Results:

Findings: None.

Observations: Based upon testing, the application submitted for each sale was signed and completed in accordance with Company policy. Each life insurance policy or fixed annuity contract was issued consistent with the application, or any changes resulted in disclosure to the applicant.

Recommendations: None.

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

211 CMR 36.04-36.08.

Objective: This Standard 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 notify the insured, or his/her designated physician, of a positive test result within 45 days after the blood sample is taken. 211 CMR 36.07 requires insurers to maintain applicant information as confidential. 211 CMR 36.08 prohibits insurers from requesting any information about the applicant's, policyholder's or beneficiary's sexual orientation.

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

- The underwriting department's procedures require that an applicant give prior written informed consent before the Company may conduct an AIDS-related test, and that the applicant acknowledge in writing that he or she understands his or her rights regarding AIDS-related tests.
- A standard form that includes required Massachusetts AIDS-related test disclosures is provided to the applicant at the time an application is taken.

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 95 life insurance applications submitted from the examination period, to verify that the Company obtained signed Massachusetts AIDS testing disclosure notices from the applicants when necessary. RNA looked for evidence of unfair discrimination when testing underwriting declinations.

Transaction Testing Results:

Findings: None.

Observations: Based upon 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 based on sexual orientation in underwriting declinations.

Recommendations: None.

VII. CLAIMS

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

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

M.G.L. c. 176D, § 3(9)(b).

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.
- Life and annuity death claims are reported through an agent, by mail, or through the Company's 800 phone number. The claim is registered in the claim tracking system and acknowledged within one or two days. The insurance contract is researched to determine its status, and to ascertain if other policies or contracts insuring the same individual are in-force. The contract is then pended in the applicable policy administration system; a claims representative is assigned and a claim form is sent to the claimant.
- A claim representative investigates each life or annuity death claim form received in the home office to ensure that it includes the death certificate, a signed claim form, and any other information needed. The Company contests few claims, as most are received after the two-year contestable period. When such claims are investigated, a referral to the legal department is made.
- Company policy requires that an in-force multi-policy search be completed upon submission of a claim.
- The claim settlement amount includes the payment of interest on total proceeds at 4% from the date of death, and may also include return premium amounts, pro-rata dividends, or netting of policy loans amounts as applicable.
- Life insurance death claims are checked against the Massachusetts Department of Revenue website to ensure compliance with the Intercept Program requirements for unpaid child support and taxes. Documentation of the claims representative's review of this requirement must be included in the claim file.
- Supervisors review death claims according to objective criteria to ensure compliance with Company policies and procedures, and all claims over \$500,000 require a second supervisory review.
- The payees for all claim disbursements are checked against the Office of Foreign Asset Control list as required by law.
- Claims management states that it periodically reviews open claims to evaluate pending issues, and ensure appropriate reserves have been established.
- Company policy requires that claim representatives check the social security death index to verify that the beneficiary is not deceased.
- Claims management uses exception reports and performance metrics to measure operational effectiveness and claim processing time.
- The Company does not require a signed release when a claim is settled.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures. RNA verified the date each selected claim was reported to the Company, and noted whether its initial contact with the claimant was timely acknowledged.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of testing, the claim transactions were processed according to the Company's policies and procedures, with timely initial contact from the Company. Based on the results of testing, it appears that the Company's processes for handling life and annuity death claims are functioning in accordance with its policies, procedures and statutory requirements.

Standard VII-2. Timely investigations are conducted.

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim investigation processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to evaluate the Company's compliance with its claim handling policies and procedures, to verify that it conducts timely investigations and, when required, to verify that searches for multiple policies involving the claimant are conducted.

Transaction Testing Results:

Findings: None.

Observations: Although the Company believes that it regularly conducts multi-policy searches as required by Division Bulletin 2001-07, RNA's review of 55 claim files determined that the Company did not consistently document its performance of these in-force multi-policy searches. However, testing of the 55 claim files noted no evidence of other in-force policies which were excluded from the claims adjudication process. Testing otherwise showed that the Company's processes for investigating claims are functioning in accordance with its policies, procedures and statutory requirements.

Required Actions: The Company shall ensure that its claim files contain documentation of the claim representative's performance of in-force multi-policy searches at the time a death claim is reported. The Company shall perform an internal audit of its in-force multi-policy search procedures, to ensure that it performs and documents such searches on all life and annuity death claims. The Company shall report the findings of this internal audit to the Division by December 31, 2010.

Subsequent Actions: The Company states that it has implemented new procedures to document the performance of in-force multi-policy searches when a death is reported. The Company states that it plans to conduct the required internal audit.

Standard VII-3. Claims are resolved 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 its claim settlement practices, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to verify that claim resolutions were timely.

Transaction Testing Results:

Findings: A disbursement processing error resulted in the Company settling one of 108 claim transactions tested 412 days after it received all the necessary information, in violation of M.G.L. c. 176D, § 3(9)(f).

Observations: Based upon the results of testing, it appears that the Company's processes for investigating claims are generally functioning in accordance with its policies, procedures and statutory requirements. However, more rigorous follow-up with beneficiaries or of pending tasks would have resolved eight of the tested claims more timely. For example, a claim representative did not check the social security death index for the beneficiary as required by Company procedure, causing the claim to remain open approximately 17 months until it was determined that the beneficiary had died. The claim representative on another claim erroneously deleted a follow-up task in the automated claim work flow system, causing an approximate 14 month delay in the claim investigation. The Company states many of the delays noted by RNA were attributable to a lack of timely follow-up during a claim systems conversion. The Company further states it has implemented new automated claim processing procedures and supervisory

reviews, to monitor pending claims for follow-up with beneficiaries and other pending tasks, to ensure timely resolution of claims.

Required Actions: The Company shall ensure that its follow-up with beneficiaries and on pending tasks are timely on all claims. The Company shall perform an internal audit of the timeliness of its claim resolutions and settlements, and shall report the findings of such monitoring to the Division by December 31, 2010.

Subsequent Actions: The Company states that it has implemented new automated claim processing procedures and supervisory reviews to ensure timely settlement of pending claims. In addition, the Company is in the process of merging all identical clients under one client number and attaching all policies to the single client number. Finally, the Company states that it plans to conduct the required internal audit.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death 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 upon the results of testing, it appears that the Company timely responds to claim correspondence, in compliance with its policies, procedures and statutory requirements.

Recommendations: None.

Standard VII-5. Claim files are adequately documented.

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claims handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

Observations: Other than as noted in this report, RNA determined that files for the tested claims were adequately documented. 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.

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

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

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

Pursuant to M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f), respectively, unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation, and failure to effectuate prompt, fair and equitable settlement of claims in which liability has become reasonably clear. M.G.L. c. 175, § 22I allows insurers to deduct unpaid premiums from claim settlements. M.G.L. c. 175, § 24D requires interception of non-recurring life insurance payments for past due child support. M.G.L. c. 175, § 24F requires communication with the Commonwealth regarding unpaid taxes when adjudicating life insurance claims. M.G.L. c. 175, §§ 119B and 119C require that prepaid premium be returned after the death of the insured, and that once proof of death is provided, the Company must pay interest on claims beginning 30 days after the insured's death. M.G.L. c. 175, §§ 125 and 132C define situations where beneficiaries' and annuitants' creditors have claims to policy proceeds or prepaid premium.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to verify that claims were handled in accordance with applicable policy provisions, and statutory and regulatory requirements.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the tested claims were reported according to the Company's policies and procedures, and that the claim files were handled in accordance with policy provisions. When required, the Company properly verified that claim recipients were not subject

to the intercept requirements in M.G.L. c. 175, §§ 24D and 24F prior to making the claim payment. The Company also properly refunded prepaid premiums and paid interest on the policy value and other proceeds from the date of death to the claim payment date, in compliance with Company policy. Based upon the results of testing, it appears that the Company's processes for handling claims in accordance with policy provisions, statutory and regulatory requirements are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

Objective: The Standard addresses the reserving of filed claims.

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to evaluate claims reserving policies and procedures. The Division's financial examiners and actuaries also tested reserving in conjunction with the recently completed financial examination of the Company.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the reserves for the tested claims were evaluated, established and

adjusted according to the Company's policies and procedures. Based upon the results of testing, it appears that the Company's processes for establishing reserves are functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. The Company denied one claim during 2008, and RNA selected that denied claim for testing. RNA reviewed claim correspondence and investigative reports, and noted whether the Company handled the claim timely and properly before denying it.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the denied claim file tested appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable, and complied with policy provisions and statutory requirements. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny or delay payment of claims.

Recommendations: None.

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that each life and annuity death claim selected for testing was recorded according to the Company's policies and procedures, and that claim payment documentation was adequate. RNA noted no instances where claim payment practices appeared inappropriate. Based upon the results of testing, it appears that the Company's processes for issuing claim payment checks are appropriate, and functioning in accordance with its policies and procedures.

Recommendations: None.

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

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

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to review claims handling practices. When applicable, RNA verified the date the claims were reported, reviewed correspondence and investigative reports, and noted whether the Company handled the claims timely and properly.

Transaction Testing Results:

Findings: None.

Observations: Documentation for the selected claims appeared complete, including correspondence and other documentation. Further, the Company's conclusions appeared reasonable. Based upon the results of testing, it appears that the Company's processes do not unreasonably deny claims or compel claimants to initiate litigation.

Recommendations: None.

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

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

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

M.G.L. c. 176D, § 3(7).

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

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

Controls Assessment: See Standard VII-1.

Controls Reliance: See Standard VII-1.

Transaction Testing Procedure: RNA interviewed Company personnel to understand its claim handling processes, and obtained documentation supporting such processes. RNA selected 108 life and annuity death claims from the examination period, to verify that there is no unfair discrimination against claimants.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

SUMMARY

Based upon the procedures performed in this comprehensive examination, RNA has reviewed and tested Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims as set forth in the 2008 *NAIC Market Regulation Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts' insurance laws, regulations and bulletins. RNA has made recommendations or the Division has set forth required actions to address various concerns in the areas of Company Operations/Management, Marketing and Sales, Producer Licensing, Policyholder Service, and Claims.

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ACKNOWLEDGEMENT

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

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

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

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

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