



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, 2003 through June 30, 2004

NAIC COMPANY CODE: 70435

EMPLOYER'S ID NUMBER: 04-3117253



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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

July 14, 2005

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

Dear Commissioner Bowler:

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

THE SAVINGS BANKS LIFE INSURANCE COMPANY OF
MASSACHUSETTS

at its home office located at:

One Linscott Road
Woburn, MA 08101

The following report thereon is respectfully submitted.

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SCOPE OF EXAMINATION

The Massachusetts Division of Insurance (the “Division”) conducted a comprehensive market conduct examination of The Savings Bank Life Insurance Company of Massachusetts (“the Company”) for the period January 1, 2003 to June 30, 2004. The examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC (“RNA”) were engaged to complete certain agreed upon procedures.

EXAMINATION APPROACH

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

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

I. COMPANY OPERATIONS/MANAGEMENT

STANDARD I-1 (PAGE 13)

Findings: None.

Observations: When internal audits are performed, findings and recommendations are included in the examination area to which they relate. Internal audits are not performed on many significant systems, processes and controls. Based upon our review of certain workpapers from the Company’s independent auditor, no significant control deficiencies or material errors were noted by the auditor.

Recommendation: The Company should consider reevaluating and clearly documenting the responsibilities, scope and oversight of the internal audit function. The Company should strengthen the function by providing independent oversight of its workplan and reporting through the Audit Committee or another committee of the Board of Directors.

STANDARD I-3 (PAGE 12)

Findings: None.

Observations: RNA confirmed that the Company has a written antifraud 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 and that the

Company's policy is to seek approval of the Division regarding the hiring of any "prohibited person" as noted above in instances where the Company wishes to employ such a person. Based upon our review of the Company's policies and procedures, it appears that the Company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts, although criminal background checks for all existing employees are not conducted.

Recommendation: RNA recommends that the Company conduct criminal background checks for all current and prospective employees.

STANDARD I-13 (PAGE 20)

Findings: RNA noted that the Company is not providing an abbreviated notice or Comprehensive Notice of Information Practices (CNIP) on its applications for guaranteed issue senior life coverage in violation of M.G.L. c. 175I, §4. The number of policies sold annually is less than 500.

Observations: The Company appears to comply with the requirements to provide the abbreviated notice of privacy practices, the CNIP and the Notice of Adverse Underwriting Decision in accordance with requirements in M.G.L. c. 175I, §§1-22 except as noted above.

Recommendation: As a result of our finding that the Company was not providing an abbreviated notice or CNIP on its applications for guaranteed issue senior life coverage, the Company has implemented our recommendation by changing the application to provide such notice.

II. COMPLAINT HANDLING

STANDARD II-1 (PAGE 25)

Findings: None.

Observations: For all complaints tested, RNA noted that the Company appears to maintain proper complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10). However, the Company's complaint log does not include whether each complaint was justified or unjustified. For the two justified complaints, which were not related and appeared to be isolated incidents, the Company adequately and fairly addressed the complaints.

Recommendations: The Company should begin compiling the final disposition for each complaint, particularly whether each complaint was justified or unjustified and include such information as part of their complaint log.

III. MARKETING AND SALES

STANDARDS III-4 AND III-5 (PAGE 31)

Findings: None.

Observations: The results of our testing showed the following:

- For each of the 42 replacements, there was evidence of replacement disclosure as required by 211 CMR 34.04(1).
- The Company provides a replacement disclosure and policy summary to the replaced carrier within seven days of the receipt of the application in the home office as required by 211 CMR 34.06. However, RNA noted the time elapsed between the date an application was signed by the applicant and the date the application was received in the home office often exceeded fourteen days. This timing frequently causes the notice to the replaced carrier to occur late in the sales process.
- A full commission was initially paid on one internal replacement. As a result of our examination, the commission payment was noted and subsequently reduced by the Company
- RNA observed Company personnel responding to notices from replacing carriers of policyholders' intentions to replace life policies as required by 211 CMR 34.06.

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

- The Company should review its procedures and provide notice to the replaced carrier at the time the call center mails an application to the customer as required by 211 CMR 34.06.
- The Company should review its monitoring procedures to ensure that all commissions paid on internal replacements are reduced in a timely manner.

STANDARD III-7 (PAGE 34)

Findings: None.

Observations: RNA noted no evidence of multiple sales to policyholders. RNA noted the Company has few written guidelines for its producers with regard to assessing customers' insurance needs. Moreover, almost no financial background information is required on policies issued with a face value less than \$300,000. Additionally, producers' practices for obtaining such financial background information are inconsistent. Thus, the Company substantially relies on its producer's training and professional judgment to assess a customer's insurance needs.

The Company's primary distribution is through its employee-producers at its call center. Thus, few customers are personally contacted by a licensed representative of the Company. We do note that all applicants receive a medical screening by a licensed third party paramedical professional. RNA further noted an insurance application is often

signed by the employee-producer after a telephone interview but in advance of the date the application is signed by the applicant. This selling process creates a time delay (often several days or weeks) between the time an insurance application is discussed with a customer and the time the actual signed application is received in the home office for underwriting processing and approval.

Recommendations: We recommend that the Company address the following:

- The Company should consider requiring all producers to consistently obtain adequate customer financial information in order to evaluate customer needs. In addition, the Company should consider developing additional written suitability guidelines to assist producers in assessing all customers' needs.
- The Company should develop enhanced monitoring procedures to ensure that no application is sent to an applicant after an employee-producer conducts a telephone interview unless the application is complete with regard to all customer background information. Moreover, the Company should consider requiring that the employee-producer sign the application after the telephone interview and then sign it again when the application has been received back in the home office to ensure the application is consistent with the telephone interview.

IV. PRODUCER LICENSING

STANDARD IV-1 (PAGE 38)

Findings: None.

Observations: RNA noted that for all of the sales tested, except for one, the producer was located on the Division's list of Company appointed agents. The producer not appointed as agent was licensed. RNA noted that the Company provides notice to agents of the requirements of 18 U.S.C. § 1033 of the Act.

Recommendation: The Company should complete a periodic reconciliation of the Company's appointment list with the Division's list to ensure that both lists are accurate and complete.

STANDARD IV-2 (PAGE 39)

Findings: Based on the results of our testing, RNA noted that for seven of the sales tested, producers who had signed agent contracts with the Company had not been appointed at the time of sale or within 15 days in violation of M.G.L. c. 175, § 162S. All seven were subsequently appointed as agents. One of those seven was appointed as a result of notification by RNA in connection with our examination testing.

RNA noted that for two of the sales tested, two producers of those sales who retain a broker's license under the Division's superseded licensure protocols, continue to sell insurance on behalf of the Company and have not been properly appointed as agents. The Company has stated that they will determine whether to appoint the producers as agents when the producers' licenses renew.

Finally, RNA noted that one employee producer whose license had expired January 15, 2004 did not renew the license until June 2004. The producer was also appointed by the Company during that month. During the period when the producer was not licensed, the producer continued to sell the Company's policies in violation of M.G.L. c. 175, § 162I.

The requirement for E&O coverage is only included in the Company's General Agency Contract and not in several other contracts. The amount of E&O coverage is not stipulated in any contract, and compliance with these requirements do not appear to be monitored.

Observations: None.

Recommendations: The Company should develop an improved monitoring procedure to ensure that producers who have signed agent contracts with the Company are appointed at the time of the contract signing or within 15 days of such signing to ensure compliance with M.G.L. c. 175, § 162S.

The Company should adopt a uniform policy regarding the sales of the Company's products and whether it will allow producers not appointed as agents to sell the Company's products. If the Company continues to permit producers not appointed as agents to sell the Company's products, strong consideration should be given to requiring disclosure to the consumer of the relationship between the producer and the Company and whether producer commissions are to be paid a result of the sale.

The Company should develop an improved monitoring procedure to ensure that producers who sell the Company's policies are appointed in accordance with M.G.L. c. 175, § 162I.

The Company should review its policy to require E&O coverage for agents and ensure that any requirement is consistently documented in the agent contracts. Further, the amount of E&O coverage should be stipulated in the contract, and compliance with these requirements should be monitored.

STANDARD IV-3 (PAGE 41)

Findings: The results of our testing showed that for four of the terminations, the Division was not notified timely in violation of M.G.L. c. 175, § 162T. For three of the terminations tested the appointed agents were employees of financial institutions who had selling agreements with the Company. The financial institutions failed to notify the Company of the employees termination, thus the Division and the agent were not notified by the Company of the terminations in violation of M.G.L. c. 175, § 162T.

Observations: None.

Recommendation: The Company should ensure that for all agent terminations, the Division and the agent are notified timely in accordance with M.G.L. c. 175, § 162T. For those appointed agents who are employees of financial institutions for which the Company has selling agreements, the Company should require the financial institutions to notify the Company timely of any employee terminations when those employees are appointed as Company agents. The Company should incorporate language pertaining to

such timely notifications in future selling agreements that it establishes with financial institutions.

STANDARD IV-5 (PAGE 43)

Findings: None.

Observations: RNA noted that the termination listing showed that the termination reason was unknown in all but one case. Management further stated that they were not aware of any terminations for cause as defined in M.G.L. c. 175, § 162R. Management commented that they believed that terminations were generally a result of an agent leaving employment with a financial institution or a result of adequate production.

Recommendations: The Company should diligently inquire as applicable and document the reasons for all agent terminations and ensure that any terminations for cause as defined in M.G.L. c. 175, § 162R are reported to the Division timely.

V. POLICYHOLDER SERVICE

STANDARD V-8 (PAGE 52)

Findings: None.

Observations: The Company appears to have reasonable procedures to provide term policyholders with timely annual statements and to comply with annual statement requirements in 211 CMR 95.13. Whole life policyholders receive an annual statement; however, it omits vital policy information.

Recommendation: The Company should strongly consider providing timely annual statements to whole life policyholders that fully disclose the policy's accumulated cash values.

VI. UNDERWRITING AND RATING

STANDARD VI-2 (PAGE 56)

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes for providing advertising and mandatory disclosures comply with statutory requirements. However, we noted for life insurance sales, the Company cannot verify if a Buyer's Guide or Policy Summary is actually received by the policyholder since a policy delivery receipt is not utilized.

Recommendations: The Company should consider obtaining policy delivery receipts that include an acknowledgement by the applicant of receipt of the Buyer's Guide and Policy Summary. Alternatively, the Company should consider providing the Buyer's Guide at the time an application is mailed to an applicant. The application could include an acknowledgement by the producer and/or applicant that the Buyer's Guide was received.

COMPANY BACKGROUND

The Company primarily offers traditional 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 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. Presently, the stock company is owned by 38 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 recommendations to the company as they deem appropriate to insure the ability of the company to offer safe, low cost insurance. The Board of Directors consists of 20 members, and the PPB includes seven members. One person is common to both boards. An annual letter is filed with the Division summarizing the PPB's actions over the past year.

The privately held stock company is rated A+ (Superior) by A.M. Best. Approximately 85% of the Company's business is sold in Massachusetts. The Company has \$1.58 billion in assets and \$175.9 million in surplus as of December 31, 2003. For 2003, premiums and annuity considerations were \$196.1 million and net income was \$13.0 million.

The Company uses a home office sales strategy where the 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 approximately 85% of its sales leads. The Company has 30 employees who are appointed agents in the telemarketing area at the Company's home office and at four regional centers in the Northeast. Additionally, the Company has selling agreements with approximately 100 banks with approximately 80 of these institutions in Massachusetts. The employees who sell policies at banks are also appointed agents.

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

I. COMPANY OPERATIONS/MANAGEMENT

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

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

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

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

- The Company has a limited internal audit function that has performed reviews of some of the Company's operational functions.
- When internal audits are conducted, reports are prepared and distributed to relevant management personnel. The reports contain a summary of findings and recommendations as a result of the audit.
- The statutorily created Policyholder Protection Board annually reviews the Company's operations to ensure that the Company continues to offer low cost life insurance to consumers. Annual reporting is made by the Policyholder Protection Board to the Division.
- The Company's financial statements are audited annually by an independent auditor, and the Company has received unqualified opinions on their financial statements by their auditor.

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

Transaction Testing Procedure: RNA reviewed the Company's internal audit reports issued from 2001 through 2003 and discussed findings with internal audit personnel. No internal audit reports were issued in 2004. Significant issues noted in such reports were further investigated and reviewed. Certain workpapers from the Company's independent auditor were obtained and reviewed.

Transaction Testing Results:

Findings: None.

Observations: When internal audits are performed, findings and recommendations are included in the examination area to which they relate. Internal audits are not performed on many significant systems, processes and controls. Based upon our review of certain workpapers from the Company's independent auditor, no significant control deficiencies or material errors were noted by the auditor.

Recommendation: The Company should consider reevaluating and clearly documenting the responsibilities, scope and oversight of the internal audit function. The Company should

strengthen the function by providing independent oversight of its workplan and reporting through the Audit Committee or another committee of the Board of Directors.

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

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

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Standard I-3. The company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts. 18 U.S.C. § 1033; Division of Insurance Bulletins 98-11 and 2001-14.

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

Pursuant to 18 U.S.C. § 1033 of the Violent Crime Control and Law Enforcement Act of 1994 (“Act”), it is a criminal offense for anyone “engaged in the business of insurance” to willfully permit a “prohibited person” to conduct insurance activity without written consent of the primary insurance regulator. A “prohibited person” is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company has a written antifraud plan which requires that the Company take all reasonable precautions to prevent, detect and thoroughly investigate potential insurance fraud.
- The plan defines the duties of employees, agents and independent contractors to report suspected fraud to the Company’s general counsel. The policy states that adverse action will not be taken against those who report such suspected fraud.
- The plan details specific investigation procedures to be undertaken by the legal department.
- The Company’s policy is to seek approval of the Division regarding the hiring of any “prohibited person” as noted above in instances where the Company wishes to employ such a person.
- The Company completes criminal and financial background checks for newly hired employees.

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 antifraud 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 and that the Company's policy is to seek approval of the Division regarding the hiring of any "prohibited person" as noted above in instances where the Company wishes to employ such a person. Based upon our review of the Company's policies and procedures, it appears that the Company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts, although criminal background checks for all existing employees are not conducted.

Recommendation: RNA recommends that the Company conduct criminal background checks for all current employees.

* * * * *

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

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

* * * * *

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

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

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

- The Company has certain arrangements where third parties, other than producers, are assuming a business function or acting on behalf of the Company, which could have an impact on the evaluation of market conduct activities. The Company uses third parties to conduct medical examinations of applicants prior to policy issuance. The Company also uses a third party to complete background checks on new hires and agents.

- The contracts with third parties conducting medical examinations designate responsibilities of the companies and their representatives in areas including contract duties, restrictions, general confidentiality requirements, and privacy requirements for all medical information and lab specimens.
- The Company has entered into selling agreements with independent producers that designate responsibilities in areas including:
 - o Authorization, duties and limitations of authority
 - o Restrictions and confidentiality
 - o Replacement requirements
 - o Termination including control of policyholder records
 - o General indemnification by the producer
 - o E&O requirements in certain instances

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 selling agreements and documents explaining the process for conducting medical examinations.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of a sample of contractual agreements and documents explaining the process for conducting medical examinations, it appears that contracts are in compliance with applicable rules and regulations and that the Company is adequately monitoring the activities of the contracted entities. Comments regarding the contract language included in selling agreement are included in Standard IV-1.

Recommendations: None.

* * * * *

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

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

Controls Assessment: Company policy requires that policy files including claim files be permanently maintained in hard copy form or on microfilm. Most company financial information is retained for at least six years, and some records are retained permanently on microfilm.

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

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

Transaction Testing Results:

Findings: None.

Observations: RNA testing results are noted in the various examination areas.

Recommendations: None.

* * * * *

Standard I-7. The company is licensed for the lines of business that are being written. M.G.L. c. 175, §§ 32 and 47.

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: RNA reviewed the Certificate of Authority for the Company and compared it to the lines of business that 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-8. The company files all certifications with the Department of Insurance as required by statutes, rules, and regulations. M.G.L. c. 175, § 25.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

Standard I-9. The company cooperates on a timely basis with examiners performing the examinations. M.G.L. c. 175, § 4.

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

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

Controls Reliance: Not applicable.

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

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

Standard I-10. The company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders. M.G.L. c. 175I, §§ 1-22

Objective: This Standard is concerned with the Company's policies and procedures to ensure it minimizes improper intrusion into the privacy of consumers as contained in M.G.L. c. 175I, §§ 1-22. Disclosure notices are evaluated in Standard I-13. Opt out rights and notices are evaluated in Standard I-14.

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

- 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 for new business. The abbreviated notice is part of the policy application, and such an application is required for all new business except for senior life coverage.
- For renewal business, an annual notice of privacy practices is provided prior to the renewal date. For reinstatements where new underwriting procedures are completed, such notice is provided at the application date.
- Company policy approved June 5, 2001 by the Board of Directors states that the Company shares personal information with business partners and other third parties in order to assist in marketing their products and the products of other parties pursuant to joint marketing agreements. The Company's Comprehensive Notice of Information Practices (CNIP) allows the individual to opt out of such marketing arrangements with written notification. The Company does not ask specific questions designed to obtain information for marketing or research.
- The Notice of Adverse Underwriting Decision appears to include all statutory requirements.
- An individual has the right to have any factual error corrected and misrepresentation or misleading entry amended or deleted.
- Company policy does not base an adverse underwriting decision on the existence of a previous adverse underwriting decision, or that the individual had insurance through the residual market, provided that the insurer or producer can base their decision on further information obtained from those responsible for a previous underwriting decision; on personal information obtained from an insurance support provided that the insurer or producer can base their decision on further information obtained as a result of the information received; or on the basis of sexual orientation or perceived orientation.
- The Company has summarized certain privacy policies on their website.

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 policies and procedures to correct errors when brought to the attention of the Company in conjunction with our new business testing. We tested compliance with requirements to provide the Notice of Adverse Underwriting Decision. We sought evidence of the use of pretext interviews.

Transaction Testing Results:

Findings: None.

Observations: The Notice of Adverse Underwriting Decision was provided when applications were declined. Efforts were made to correct errors when brought to the attention of the Company. Errors appeared to be fairly rare. In our testing of claims and

new business processing, we noted no instances where the Company was conducting pretext interviews.

Recommendation: None.

* * * * *

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

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

* * * * *

Standard I-12. The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers. M.G.L. c. 175I, §§ 1-22.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it protects privacy of non-public personal information.

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

- The abbreviated notice of privacy 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 notice in the full version of disclosure shall be furnished to the individual upon request.
- Company policy states that the Company shares personal information with business partners and other third parties in order to assist in marketing their products and the products of other parties pursuant to joint marketing agreements. The CNIP allows the individual to opt out of such marketing arrangements with written notification. The Company does not ask specific questions designed to obtain information for marketing or research.
- The Company's CNIP states personal information collected or maintained, and the source of such information, is available to the individual to whom it refers within 30 days of receipt of a written request for such information by such individual. Also, the CNIP discloses how a consumer can correct, amend or delete such information.
- The Company will not disclose information provided by medical professionals regarding mental health or possible alcohol or drug addiction unless the medical professional had disclosed those concerns to the patient.
- 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.

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 privacy policies and procedures. We tested compliance with the requirement to provide consumers with requested information in conjunction with our test of declinations.

Transaction Testing Results:

Findings: None.

Observations: RNA's review of privacy procedures related to declinations noted that the Company made available driving records, consumer reporting information and results of lab results and medical tests conducted for the purpose of obtaining insurance when requested by the applicant. We noted no instances where information was shared improperly. Based upon our review of the Company's policies and procedures, it appears that such policies and procedures appear to adequately protect consumer non-public personal information.

Recommendations: None.

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Standard I-13. The company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information. M.G.L. c. 175I, §§ 1-22.
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Objective: This Standard is concerned with the Company's practice of providing privacy notices to customers and consumers.

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

- The Company's policy is to provide the abbreviated notice of privacy practices at the application date for new business. The abbreviated notice is part of the policy application, and such an application is required for all new business except for senior life coverage.
- For renewal business, an annual notice of privacy practices is provided prior to the renewal date. For reinstatements where new underwriting procedures are completed, such notice is provided at the application date.
- The abbreviated 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 notice in the full version of disclosure shall be furnished to the individual upon request.
- Company policy states that the Company shares personal information with business partners and other third parties in order to assist in marketing their products and the products of other parties pursuant to joint marketing agreements. The Company's CNIP allows the individual to opt out of such marketing arrangements with written notification. The Company does not ask specific questions designed to obtain information for marketing or research.
- The CNIP is in plain language, is dated, specifies the types of persons authorized to disclose information, specifies the nature of information authorized to be disclosed, includes names the insurer or producer to whom the individual is authorizing the

- disclosure, specifies the purpose of the information, notes the length of time such authorization is valid, and advises the individual of a right to obtain a copy of the form.
- The Notice of Adverse Underwriting Decision appears to include all statutory requirements.
 - An individual has the right to have any factual error corrected and misrepresentation or misleading entry amended or deleted.
 - Company policy does not base an adverse underwriting decision on the existence of a previous adverse underwriting decision, provided that the insurer or producer can base their decision on further information obtained from those responsible for a previous underwriting decision; on personal information obtained from an insurance support provided that the insurer or producer can base their decision on further information obtained as a result of the information received; or on the basis of sexual orientation or perceived orientation.
 - The Company has summarized certain privacy policies on their website.

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

Transaction Testing Procedure: RNA reviewed compliance with privacy disclosure requirements contained in M.G.L. c. 175I, §§1-22 in conjunction with our new business testing. We tested compliance with requirements to provide the Notice of Adverse Underwriting Decision and the requirement to provide consumers with requested information in conjunction with our test of declinations.

Transaction Testing Results:

Findings: RNA noted that the Company is not providing an abbreviated notice or CNIP on its applications for guaranteed issue senior life coverage in violation of M.G.L. c. 175I, §4. The number of policies sold annually is less than 500.

Observations: The Company appears to comply with the requirements to provide the abbreviated notice of privacy practices, the CNIP and the Notice of Adverse Underwriting Decision in accordance with requirements in M.G.L. c. 175I, §§1-22 except as noted above.

Recommendation: As a result of our finding that the Company was not providing an abbreviated notice or CNIP on its applications for guaranteed issue senior life coverage, the Company has implemented our recommendation by changing the application to provide such notice.

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Standard I-14. If the company discloses information subject to an opt out right, the company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the company provides opt out notices to its customers and other affected consumers. M.G.L. c. 175I, §§ 1-22.

Objective: This Standard is concerned with the Company's policies and procedures with regard to opt out rights and notices of such rights.

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

- The abbreviated notice of privacy 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 notice in the full version of disclosure shall be furnished to the individual upon request.
- Company policy states that the Company shares personal information with business partners and other third parties in order to assist in marketing their products and the products of other parties pursuant to joint marketing agreements. The CNIP allows the individual to opt out of such marketing arrangements with written notification. The Company does not ask specific questions designed to obtain information for marketing or research.
- The Company has adopted procedures to ensure that non-public personal information from customers who have requested opt out rights is not shared with third parties for marketing purposes.

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 privacy policies and procedures. We reviewed the Company's procedures for ensuring that non-public personal information from customers who have requested opt out rights is not shared with third parties for marketing purposes.

Transaction Testing Results:

Findings: None.

Observations: The CNIP allows the individual to opt out of marketing arrangements with written notification. Our review of the Company's practices and procedures noted that the Company has a process for honoring such requests. We noted no instances where information for marketing purposes was improperly shared with third parties.

Recommendations: None.

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Standard I-15. The company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations. M.G.L. c. 175I, §§ 1-22.

The objective of this Standard was included in Standards I-10, I-12, I-13, I-14, I-16 and I-17.

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Standard I-16. In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the Department of Insurance, the company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure. M.G.L. c. 175I, §§ 1-22.

Objective: This Standard is concerned with the Company's policies and procedures to ensure it maintains privacy of nonpublic personal health information related to claims.

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

- Company policy is to disclose nonpublic personal health information obtained only as required or permitted by law to industry regulators, law enforcement agencies, anti-fraud organizations, and third parties who assist the Company in processing business transactions to its customers.
- Company policy allows for the sharing of nonpublic personal health information obtained only if expressly authorized by the applicant.
- The Company will not disclose information to the applicant provided by medical professionals regarding mental health or possible alcohol or drug addiction unless the medical professional had disclosed those concerns to the applicant as patient in accordance with Massachusetts law.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for privacy compliance and reviewed documentation supporting privacy policies and procedures and evaluated such procedures in our testing of new business testing and claims.

Transaction Testing Results:

Findings: None.

Observations: Our review of privacy procedures related to declinations noted that the Company made available driving records, consumer reporting information and results of lab results and medical tests conducted for the purpose of obtaining insurance when requested by the applicant. We noted instances where the Company did not disclose information to the applicant provided by medical professionals regarding mental health or

possible alcohol or drug addiction in cases where the medical professional had not disclosed those concerns to the applicant as patient in accordance with Massachusetts law. We noted no instances where information was shared improperly. It appears that Company policies and procedures provide reasonable assurance regarding the privacy of nonpublic personal health information.

Recommendations: None.

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

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

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

- The Company has conducted an information systems risk assessment to consider, document and review information security threats and controls.
- The Company has a policy requiring that information technology security practices safeguard nonpublic personal and health information.
- Access to the Company's key operational areas where nonpublic personal and health information is located is only granted to approved individuals.

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 privacy policies and procedures. Additionally, information technology control review for access and authorization is also included in the scope of the statutory financial examination of the Company which is ongoing.

Transaction Testing Results:

Findings: None.

Observations: Based upon our 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 information systems protect nonpublic personal information.

Recommendations: None.

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II. COMPLAINT HANDLING

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

Standard II-1. All complaints are recorded in the required format on the company complaint register. M.G.L. c. 176D, § 3(10).

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

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

- Written policies and procedures govern the complaint handling process.
- All complaints are recorded in a consistent format in the complaint register.
- The complaint log, which includes all in-house and external complaints, records the date received, the date closed, the person making the complaint, the insured, the policy number, state of residence and nature of the complaint. The log does not include the complaint disposition, particularly whether each complaint was justified or unjustified.
- The Company's definition of complaint is similar to the statutory requirement.
- Company personnel regularly review the complaint log to ensure compliance with statutory requirements.
- The Company policy is to respond to Division complaints within 10 business days when possible and in a timely manner once all required information is obtained and evaluated.

The Massachusetts complaint data for 2003 and the first six months of 2004 is as follows:

Massachusetts Complaints	January 1, 2003 to June 30, 2004
Underwriting	3
Sales and Marketing	1
Policyholder Service	4
Total	8

Massachusetts Complaint Resolution	Justified	Not Justified	Total
Underwriting	0	3	3
Sales and Marketing	0	1	1
Policyholder Service	2	2	4
Total	2	6	8

The determination of whether a complaint was “Justified” or “Not Justified” was made by RNA.

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 each of the eight Massachusetts complaint files from January 1, 2003 to June 30, 2004 to evaluate compliance with M.G.L. c. 176D, § 3(10). For each complaint, RNA reviewed the complaint file noting the response date and the documentation supporting the resolution of the complaint. Also, RNA compared the Company’s complaint register to the Division’s complaint records to ensure that the Company’s records were complete.

Transaction Testing Results:

Findings: None.

Observations: For all complaints tested, RNA noted that the Company appears to maintain proper complaint handling procedures and a complete listing of complaints in accordance with M.G.L. c. 176D, § 3(10). However, the Company’s complaint log does not include whether each complaint was justified or unjustified. For the two justified complaints, which were not related and appeared to be isolated incidents, the Company adequately and fairly addressed the complaints.

Recommendations: The Company should begin compiling the final disposition for each complaint, particularly whether each complaint was justified or unjustified and include such information as part of their complaint log.

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

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed each of the eight Massachusetts complaint files from January 1, 2003 to June 30, 2004 to evaluate this Standard. Also, RNA interviewed management and staff responsible for complaint handling and examined evidence of the Company's processes and controls. In addition, to determine whether or not the Company provides contact information for consumer inquiries, a sample of forms and billing notices sent to policyholders were reviewed for compliance.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have adequate complaint procedures in place and communicates such procedures to policyholders.

Recommendations: None.

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Standard II-3. The company should take adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.
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Objective: This Standard addresses whether the Company response to the complaint fully addresses the issues raised.

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed each of the eight Massachusetts complaint files from January 1, 2003 to June 30, 2004 to evaluate this Standard.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

Controls Assessment: Refer to Standard II-1.

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

Transaction Testing Procedure: RNA reviewed each of the eight Massachusetts complaint files from January 1, 2003 to June 30, 2004 to evaluate timely response.

Transaction Testing Results:

Findings: None.

Observations: For all complaints tested, resolution appeared to be reasonably timely and within the 14 calendar day period directed by the Division when possible.

Recommendations: None.

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III. MARKETING AND SALES

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

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

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

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

- The Company promotes its brand awareness to generate a majority of sales leads to its call center. As such, the Company advertises heavily in all forms of media including, radio, print, television, bill boards, direct mailing, etc.
- All advertising and sales materials are internally produced by the Company are reviewed by management for approval and compliance with statutory and regulatory requirements prior to use.
- All approved advertising pieces are logged and maintained in the legal department.
- The Company's policy is to disclose the Company's name and address on its website.

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

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed that the Company's process to approve advertising and sales material prior to use was functioning in accordance with Company policies and procedures and that the review appears to effectively determine compliance with Massachusetts M.G.L. c. 176D, § 3. The Company's website disclosure complies with the requirements of Division of Insurance Bulletin 2001-02. Our review of complaint activity did not indicate marketing and sales concerns. Finally, the results of our testing of the 100 selected life and annuity sales showed no evidence of use of

advertising and sales materials with policyholders which was not approved by the home office prior to use as required by Company policy.

Recommendations: None.

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

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

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

- The Company trains new call center employee-producers using an internally developed two week training program. On-going training for experienced call center employee-producers is conducted through on-site supervision, mentoring and career development. Outside vendors are occasionally used to present training programs on specific topics as needed. The Company has experienced little turnover with its call center employee-producers. Training topics are varied and cover subjects such as new products, compliance with new laws or regulations and needs based selling techniques.
- Non-employee producers, who are mostly employed by financial institutions and a limited number of insurance agencies, are serviced and trained regarding the Company's policies and procedures by field marketing personnel. Field marketing personnel have a broad range of responsibilities related to the Company's business relationship with its external producers.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for training and supervising the call center employee-producers and for providing field support for its external producers in the Company's other distribution channels. We obtained training materials and other documentation supporting the Company's training program and assertions about the training program.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

- The Company has distributed general information focusing on company policies, practices and procedures including those relating to underwriting and rating, policyholder service, and claims. The Company's employee-producers also have access to electronic training manuals.
- Updated electronic policy and procedure manuals are provided to employee-producers throughout the year noting changes in policies, practices and procedures.
- Communications to external producers regarding changes in policies practices and procedures are provided by field support personnel as needed.

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

Transaction Testing Procedure: RNA reviewed the Company's communications to producers for accuracy and reasonableness.

Transaction Testing Results:

Findings: None.

Observations: The Company's communications to producers appear to be accurate and reasonable.

Recommendations: None.

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

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

For life insurance and annuities, pursuant to 211 CMR 34.04-34.06, the agent or broker must submit to the insurer as a part of the application: (a) a statement signed by the applicant as to whether replacement of existing life insurance or annuity is involved in the transaction; and (b) a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction. Furthermore, where a replacement is involved, a copy of the replacement notice is required to be provided to the applicant at a time not later than the time of taking the application. The replacing insurer shall submit to the existing insurer a written communication advising of the replacement or proposed replacement and a policy summary within seven (7) working days of the date the application is received in the replacing insurer's home or regional office or when the contract is issued, whichever is earlier.

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

- The Company's policy is to comply with requirements to provide disclosure notices to applicants and replaced carriers in accordance with 211 CMR 34.04-34.06.
- Written policies and procedures govern the replacement handling process.
- All life and annuity replacements are recorded in a consistent format in the Company's replacement register.
- The Company's application requires an affirmative response from the applicant and producer as to whether or not the insurance policy or contract applied for will replace another insurance policy or contract.
- The Company's definition of replacements parallels the statutory and regulatory requirements.
- Company personnel review applications for completeness of replacement information and forms.
- The Company's policy is to comply with requirements in 211 CMR 34.06 which requires the Company to furnish a policy summary to life policyholders upon receiving notice from a replacing carrier of the policyholder's intention to replace a life policy.
- The Company has policies and procedures which require that reduced commissions be paid on internal replacements. The policy is intended to be a disincentive to producers to replace existing Company policies or contracts, as compensation on such sales will be reduced.

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

Transaction Testing Procedure: RNA selected a sample of 42 sales included on the Company's replacement register from January 1, 2003 to June 30, 2004 to evaluate compliance with replacement disclosure requirements, as well as Company policies and procedures. Of those 42 sales, 33 were determined to be external replacements and nine were internal replacements at the time of sale. Specifically, RNA performed the following procedures:

- Determine compliance with replacement disclosure as required by 211 CMR 34.04-34.06 and compliance with Company policies and procedures.
- Determine that the producers' commissions were reduced in accordance with Company guidelines for internal replacement activity.

Transaction Testing Results:

Findings: None.

Observations: The results of our testing showed the following:

- For each of the 42 replacements, there was evidence of replacement disclosure as required by 211 CMR 34.04(1).
- The Company provides a replacement disclosure and policy summary to the replaced carrier within seven days of the receipt of the application in the home office as required by 211 CMR 34.06. However, RNA noted the time elapsed between the date an application was signed by the applicant and the date the application was received in the home office often exceeded fourteen days. This timing frequently causes the notice to the replaced carrier to occur late in the sales process.
- A full commission was initially paid on one internal replacement. As a result of our examination, the commission payment was noted and subsequently reduced by the Company.
- RNA observed Company personnel responding to notices from replacing carriers of policyholders' intentions to replace life policies as required by 211 CMR 34.06.

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

- The Company should review its procedures and provide notice to the replaced carrier at the time the call center mails an application to the customer as required by 211 CMR 34.06.
- The Company should review its monitoring procedures to ensure that all commissions paid on internal replacements are reduced in a timely manner.

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Standard III-6. An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations.
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Objective: This Standard is concerned with ensuring that illustrations contain all required information, are provided to policyholders, and maintained in Company records.

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

- The Company has written policies and procedures for new business processing.
- The Company's procedures are designed to ensure that new business submissions from producers are accurate and complete including use of all Company required forms and instructions.
- When an application is taken for a policy that includes anticipated dividends or any cash value, the Company provides an illustration to the applicant. The illustration is generated using purchased illustration software and includes required policy information regarding coverage, minimum premiums, cost indexes, guaranteed values, etc.

- The Company provides a policy summary to its deferred annuity customers and requires that such customers sign an annuity disclosure form at the time of sale. The annuity disclosure form provides disclosures indicating the annuity contract is not an obligation of a bank or FDIC insured. It makes further disclosures regarding the annuity contract's guaranteed minimum crediting rate, withdrawal charges, and that the annuity contract value is subject to various investment risks, etc.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting, new business processing and policy issuance. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified that the application submitted was signed and complete. RNA reviewed a copy of the applicable policy illustrations and/or summaries provided to the insured and noted whether it was consistent with the application, or that any changes from the application were documented with the underwriter's approval.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes for providing policy illustrations and/or summaries comply with statutory requirements and Company policies and procedures.

Recommendations: None.

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

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

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

- The Company has developed policies and procedures to ensure that products and sales are suitable for prospective policyholders. The Company does not sell variable products.
- The Company's application for insurance requests information regarding the customer's income, net worth, family status, etc. to help determine a customer's life insurance needs.
- Supervisors monitor selected employee-producer calls with customers which are made at the Company's call center.
- The Company's policy is to review all applications to determine that all applicable questions are answered and that required information is filed and consistent.

- Underwriters review all applications to ensure that they are complete and that underwriting guidelines are met.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting, new business processing and policy issuance. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified that the application submitted was signed and complete. RNA reviewed the application and noted whether the insurance policy or contract sold was consistent with the application, or that any changes from the application were documented with the underwriter's approval. RNA also reviewed for evidence of multiple sales to policyholders.

Transaction Testing Results:

Findings: None.

Observations: RNA noted no evidence of multiple sales to policyholders. RNA noted the Company has few written guidelines for its producers with regard to assessing customers' insurance needs. Moreover, almost no financial background information is required on policies issued with a face value less than \$300,000. Additionally, producers' practices for obtaining such financial background information are inconsistent. Thus, the Company substantially relies on its producer's training and professional judgment to assess a customer's insurance needs.

The Company's primary distribution is through its employee-producers at its call center. Thus, few customers are personally contacted by a licensed representative of the Company. We do note that all applicants receive a medical screening by a licensed third party paramedical professional. RNA further noted an insurance application is often signed by the employee-producer after a telephone interview but in advance of the date the application is signed by the applicant. This selling process creates a time delay (often several days or weeks) between the time an insurance application is discussed with a customer and the time the actual signed application is received in the home office for underwriting processing and approval.

Recommendations: We recommend that the Company address the following:

- The Company should consider requiring all producers to consistently obtain adequate customer financial information in order to evaluate customer needs. In addition, the Company should consider developing additional written suitability guidelines to assist producers in assessing all customers' needs.
- The Company should develop enhanced monitoring procedures to ensure that no application is sent to an applicant after an employee-producer conducts a telephone interview unless the application is complete with regard to all customer background information. Moreover, the Company should consider requiring that the employee-producer sign the application after the telephone interview and then

sign it again when the application has been received back in the home office to ensure the application is consistent with the telephone interview.

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

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

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

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

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Standard III-10. Policy application forms used by depository institutions provide required disclosure material regarding insurance sales. Gramm-Leach-Bliley Act and Rule 12 CFR Parts 14, 208, 343, and 536.

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

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

- The Company has written policies and procedures for sales of Company products by depository institutions.
- Company policy requires that the insurance product or annuity states that it is not a deposit or other obligation of, or guaranteed by, the depository institution.
- Company policy requires that the insurance product or annuity state that it is not insured by the FDIC, any other agency of the United States, or the depository institution.
- Company policy requires that in the case of an insurance product or annuity that involves investment risk, there must be disclosure that there is investment risk associated with the product, including the possible loss of value.
- The Company's procedures are designed to ensure that new business submissions from depository institutions are accurate and complete including use of all Company required forms and instructions.
- The Company requires that financial institutions which sell Company annuities not tie sales of annuities to extensions of credit.
- The Company requires that deferred annuity customers sign an annuity disclosure form at the time of sale.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting, new business processing and policy issuance. RNA selected 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified that the application submitted was signed, complete, included required disclosures and showed no evidence of improper tying of annuity sales to extensions of credit.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company uses policy application forms with required disclosures for sales by depository institutions in accordance with Federal statutory requirements.

Recommendations: None.

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FOR INFORMATION PURPOSES ONLY

IV. PRODUCER LICENSING

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

Standard IV-1. Company records of licensed and appointed (if applicable) producers agree with department of insurance records. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S. Division of Insurance Bulletins 98-11 and 2001-14.

Objective: The Standard is concerned with ensuring that the Company's and Division's agent records are in agreement. M.G.L c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to 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 Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust or certain other offenses and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletins 98-11 and 2001-14, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all producers acting as agents who are affected by this law. Those individuals may either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company's policy requires any individual who sells insurance for the Company to be licensed in accordance with M.G.L. c. 175, § 162I.
- The Company's policy requires that producers who sign an agent contract or who are Company employees be concurrently appointed as agents as prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as agent within 15 days from the date the agent's contract is executed.
- The Company allows producers not appointed as agents to sell the Company's policies in certain instances.
- The Company's policy is to seek approval of the Division regarding the appointment of any "prohibited person" as noted above in instances where the Company wishes to appoint such an agent.
- The Company's policy is to conduct criminal and financial background checks on newly appointed agents.
- The Company maintains a database that tracks all agent appointments and producer licenses for all producers.
- The Company requires that some, but not all, agent contracts require that E&O coverage be maintained. The amount of such coverage is not stated.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments. RNA selected 90 sales of life policies and 10 sales annuity contracts for the period January 1, 2003 through June 30, 2004. For each of the sales, RNA verified that the selling agent was included on the Division's list of the Company's appointed agents.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that for all of the sales tested, except for one, the producer was located on the Division's list of Company appointed agents. The producer not appointed as agent was licensed. RNA noted that the Company provides notice to agents of the requirements of 18 U.S.C. § 1033 of the Act.

Recommendation: The Company should complete a periodic reconciliation of the Company's appointment list with the Division's list to ensure that both lists are accurate and complete.

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Standard IV-2. Producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken. 18 U.S.C. § 1033; M.G.L. c. 175, §§ 162I and 162S; Division of Insurance Bulletin 98-11.

Objective: The Standard is concerned with ensuring that the Company's appointed agents and those producers who sell the Company's products are appropriately licensed by the Division and that such agents are appropriately appointed. M.G.L. c. 175, § 162I requires all persons who solicit, sell or negotiate insurance in the Commonwealth to 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 Violent Crime Control and Law Enforcement Act of 1994 ("Act"), it is a criminal offense for anyone "engaged in the business of insurance" to willfully permit a "prohibited person" to conduct insurance activity without written consent of the primary insurance regulator. A "prohibited person" is an individual who has been convicted of any felony involving dishonesty or a breach of trust, or certain other offenses, and who willfully engages in the business of insurance as defined in the Act. In accordance with Division of Insurance Bulletin 98-11, any entity conducting insurance activity in Massachusetts has the responsibility of notifying the Division, in writing, of all employees and agents who are affected by this law. Those individuals must either apply for an exemption from the law, or must cease and desist from their engagement in the business of insurance.

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

- The Company's policy requires any individual who sells insurance for the Company to be licensed in accordance with M.G.L. c. 175, § 162I.

- The Company's policy requires producers who sign an agent contract or who are Company employees be concurrently appointed as agents as prescribed in M.G.L. c. 175, § 162S, which requires that a producer must be appointed as agent within 15 days from the date the agent's contract is executed.
- The Company allows producers not appointed as agents to sell the Company's policies in certain instances.
- The Company's policy is to seek the Commissioner's approval regarding the hiring of any "prohibited person" as noted above in instances where the Company wishes to employ such a person.
- The Company's policy is to conduct criminal and financial background checks in Massachusetts on newly appointed agents.
- The Company maintains a database that tracks all agent appointments and producer licenses for all producers.
- All appointed agents are required to enter into a written contract with the Company prior to selling business.
- The Company's General Agency Contract requires that E&O coverage be maintained. The amount of such coverage is not stated.
- The Company completes criminal and financial background checks in Massachusetts for new employees.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments and review a sample of agent contracts. RNA selected 90 sales of life policies and 10 sales of annuity contracts for the period January 1, 2003 through June 30, 2004. For each of the sales, RNA verified that the selling agent was included on the Division's list of the Company's appointed agents at the time of sale. In addition, RNA verified that all of the Company's employee producers are currently appointed as agents.

Transaction Testing Results:

Findings: Based on the results of our testing, RNA noted that for seven of the sales tested, producers who had signed agent contracts with the Company had not been appointed at the time of sale or within 15 days in violation of M.G.L. c. 175, § 162S. All seven were subsequently appointed as agents. One of those seven was appointed as a result of notification by RNA in connection with our examination testing.

RNA noted that for two of the sales tested, two producers of those sales who retain a broker's license under the Division's superseded licensure protocols, continue to sell insurance on behalf of the Company and have not been properly appointed as agents. The Company has stated that they will determine whether to appoint the producers as agents when the producers' licenses renew.

Finally, RNA noted that one employee producer whose license had expired January 15, 2004 did not renew the license until June 2004. The producer was also appointed by the Company during that month. During the period when the producer was not licensed, the producer continued to sell the Company's policies in violation of M.G.L. c. 175, § 162I.

The requirement for E&O coverage is only included in the Company's General Agency Contract and not in several other contracts. The amount of E&O coverage is not stipulated in any contract, and compliance with these requirements do not appear to be monitored.

Observations: None.

Recommendations: The Company should develop an improved monitoring procedure to ensure that producers who have signed agent contracts with the Company are appointed at the time of the contract signing or within 15 days of such signing to ensure compliance with M.G.L. c. 175, § 162S.

The Company should adopt a uniform policy regarding the sales of the Company's products and whether it will allow producers not appointed as agents to sell the Company's products. If the Company continues to permit producers not appointed as agents to sell the Company's products, strong consideration should be given to requiring disclosure to the consumer of the relationship between the producer and the Company and whether producer commissions are to be paid a result of the sale.

The Company should develop an improved monitoring procedure to ensure that producers who sell the Company's policies are appointed in accordance with M.G.L. c. 175, § 162I.

The Company should review its policy to require E&O coverage for agents and ensure that any requirement is consistently documented in the agent contracts. Further, the amount of E&O coverage should be stipulated in the contract, and compliance with these requirements should be monitored.

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Standard IV-3. Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable. M.G.L. c. 175, § 162T.
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Objective: This Standard is concerned with whether the Company's termination of producers complies with applicable statutes requiring notification to the state and the producer. Pursuant to M.G.L. c. 175, § 162T, the Company must notify the Division within 30 days of the effective date of the producer's termination, and if the termination was for cause, must notify the Division of such cause.

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

- The Company's policy is to notify the Division of agent terminations.
- The Company's policy is to notify the Division of the reason for agent terminations when the termination is "for cause."
- The Company policy is to notify agents in certain instances that the agent relationship has been terminated. However, Company agents who are employees of financial institutions are not routinely notified of the termination of their agent appointment when their employment with the financial institution terminates.

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 processing of producer contracts and terminations. RNA reviewed the listing of terminated employee and independent agents and selected 11 terminations to ensure that such terminations were reported to the Division timely. None of the terminations that RNA tested was for cause as defined in M.G.L. c. 175, § 162R.

Transaction Testing Results:

Findings: The results of our testing showed that the Division did not receive timely notice of four terminations in violation of M.G.L. c. 175, § 162T. For three of the terminations tested the appointed agents were employees of financial institutions who had selling agreements with the Company. The financial institutions failed to notify the Company of the employees termination, thus the Division and the agent were not notified by the Company of the terminations in violation of M.G.L. c. 175, § 162T.

Observations: None.

Recommendation: The Company should ensure that for all agent terminations, the Division and the agent are notified timely in accordance with M.G.L. c. 175, § 162T. For those appointed agents who are employees of financial institutions for which the Company has selling agreements, the Company should require the financial institutions to notify the Company timely of any employee terminations when those employees are appointed as Company agents. The Company should incorporate language pertaining to such timely notifications in future selling agreements that it establishes with financial institutions.

* * * * *

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and processing of appointments. RNA selected 90 sales of life policies and 10 sales annuity contracts for the period January 1, 2003 through June 30, 2004. For each of the sales, RNA reviewed documentation for any evidence of unfair discrimination against policyholders as a result of the Company's policies regarding producer appointments and terminations.

Transaction Testing Results:

Findings: None.

Observations: Through our testing we noted no evidence of unfair discrimination against policyholders was noted as a result of the Company's policies regarding producer appointments and terminations.

Recommendations: None.

* * * * *

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

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

Controls Assessment: Refer to Standard IV-3.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and termination processing. RNA reviewed the listing of terminated employee and independent agents and selected 11 terminations to ensure that the reasons for such terminations were documented. None of the terminations that RNA tested was for cause as defined in M.G.L. c. 175, § 162R.

Transaction Testing Results:

Findings: None.

Observations: RNA noted that the termination listing showed that the termination reason was not listed in all but one case. Management further stated that they were not aware of any terminations for cause as defined in M.G.L. c. 175, § 162R. Management commented that they believed that terminations were generally a result of an agent leaving employment with a financial institution or a result of adequate production.

Recommendations: The Company should diligently inquire as applicable and document the reasons for all agent terminations and ensure that any terminations for cause as defined in M.G.L. c. 175, § 162R are reported to the Division timely.

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

Objective: The Standard is concerned with whether the Company's contract with the producer limits excessive balances with respect to handling funds.

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

- The Company's policies are billed on a direct basis mitigating the possibility for excessive balances from producers.
- In accordance with contract provisions, the Company allows the agent to obtain draws against future commissions.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for producer contracting and commission processing. RNA reviewed agent contracts and commission activity for five agents for selected months to ensure that commissions were paid in accordance with the agent contract. We will also coordinate with the financial examiners regarding significant debit balances.

Transaction Testing Results: Based upon our review, agent commissions appeared to be paid in accordance with the agent contract.

Recommendations: None.

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V. POLICYHOLDER SERVICE

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

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

Objective: This Standard is concerned with whether the Company provides policyholders with sufficient advance notice of premiums due and disclosure of the risk of lapse. Pursuant to M.G.L. c. 175, §110B, no life policy shall terminate or lapse for nonpayment of any premium until the expiration of three months from the due date of such premium, unless the company within not less than 10 nor more than 45 days prior to said due date, shall have mailed a notice showing the amount of such premium and its due date. The notice shall also contain a statement as to the lapse of the policy if no payment is made as provided in the policy.

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

- Most premiums are billed on a quarterly basis, with the remainder of policies billed annually. Payments are accepted by check or by electronic funds transfer. Quarterly billings include an installment fee which is based on an interest rate assumption of approximately seven percent.
- A billing notice for quarterly and annual billings is generated and mailed to the policyholder 30-35 days prior to the due date. The notice, as required by the statute, also states that the policy will lapse unless payment is made.
- If a premium payment is not received as required, an overdue premium notice is mailed 10-15 days after the due date notifying the policyholder that he or she has 30 days from the due date to make payment or the policy will lapse.
- Lapses contractually occur 30 days after non-payment of premium. If premium payment has not been received, a notice telling the policyholder that the policy has lapsed is sent approximately 45 days after the premium payment due date.

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

Transaction Testing Procedure: No detailed testing was performed due to the nature of this standard; however, RNA discussed procedures with management and corroborated their assertions through review of Company documents, procedures and sample premium billing notices.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, premium billing notices appear to be clearly drafted, mailed with adequate advance notice, and include required disclosure of potential lapse in the event of non-payment.

Recommendation: 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 is concerned with whether the Company has cancellation and withdrawal procedures to ensure that such policyholder requests are processed timely. Company processes must be in compliance with M.G.L. c. 175, §187H regarding free looks and the Division's policy to require 10 day free looks on all life policies and annuity contracts, 211 CMR 34.06 regarding 20 day free looks on replacements, and with M.G.L. c. 175, §187C regarding written notice for Company cancellations. Policy issuance review is included in Underwriting and Rating Standard VI-9. Lapse notice requirements are included in Policyholder Service Standards V-1 and V-6.

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

- When a customer requests surrender of a whole life policy, fixed annuity or cancellation of a term product, the Company's employee agent will contact the policyholder in an attempt to conserve or replace the policy with a more suitable one. If the policyholder still wishes to surrender or cancel, a form with the owner's signature must be received by the Company. The surrender or cancellation is effective on the date the form is received, and a check for the cash surrender value on the effective date or term policy premium refund is sent within five days.
- A 10% free annual withdrawal is allowed on fixed annuities. Surrender charges, based on a decreasing scale, are applied during the first seven years for most of the Company's annuity contracts.
- All policyholders have the right to return a newly purchased policy within 10 days of its receipt by the policyholder, which meets the requirements of M.G.L. c. 175, §187H. Additionally, policyholders who replace life policies and annuity contracts are allowed a 20 day free look period upon receipt of the new policy as required by 211 CMR 34.06.
- The Company's policy is to provide written notice to the policyholder when the Company cancels a policy for material misrepresentation or non-payment as required by M.G.L. c. 175, §187C.
- Transfers of funds to other insurers or financial institutions are unusual given the Company's business mix. Such insured requested transfers must be evidenced by a signed form from the policy owner. The form authorizes the transfer of ownership to the new insurance company or financial institution, who will issue a new policy or contract to allow for a tax free exchange under IRS regulations. The transfer is effective on the date the completed form is received, and a check for the value of the policy on that date is sent to the new company or financial institution within 5 days.. The Company's employee agent may attempt to conserve the policy upon receipt of a replacement disclosure form from the replacing carrier, which should take place prior to the transfer of funds."

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel, reviewed documentation and exception reports and conducted a transaction walkthrough to corroborate information received regarding the Company's policies and procedures with regard to free looks, insured requested cancellations and Company cancellations. In the event of such cancellations, written notice to the policyholder is provided. RNA selected 15 insured requested cancellations between January 1, 2003 and June 30, 2004 to ensure that insured requested cancellations were processed timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

Standard V-3. All correspondence directed to the company is answered in a timely and responsive manner by the appropriate department.
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Objective: This Standard is concerned with whether the Company provides timely and responsive information to policyholders and claimants. For discussion of written complaint procedures, refer to the Complaint Handling section.

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

- The Company's customer service staff includes approximately 46 people including 16 people in the customer service call center. These personnel handle all activity subsequent to the sale including claims.
- The customer service call center representatives have access to Company systems to view policy history, values and information.
- The Company's goal for the call center is to answer 70% of calls within 30 seconds.
- The Company monitors call center activity through automated activity reports.

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

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

Transaction Testing Results:

Findings: None.

Observations: Recent results indicate that the call center is meeting or exceeding their goal of answering 70% of calls within 30 seconds. As such, the Company appears to have adequate resources and procedures to handle customer questions in a timely and responsive manner.

Recommendations: None.

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

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

- The Company's policy allows for reinstatement for payments received within five days of the due date.
- In addition, one free reinstatement is also allowed for each policyholder for the duration of the policy. For those policyholders using the free reinstatement option, policies are reinstated for payments received within 60 days of the original due date without a review from underwriting. For those payments received between 60 and 90 days, the insured must confirm that no doctor's visits have occurred since the premium due date and that the policyholder is in good health. Any doctor visit or indication that the policyholder is not in good health will require approval from underwriting. For premium payments received after 90 days, approval by underwriting is required.
- For those policyholders who previously used their free reinstatement period option, any payment between 6-90 days past due requires the insured to confirm that no doctor's visits have occurred since the premium due date and that the policyholder is in good health for reinstatement. Any doctor visit or indication that the policyholder is not in good health will require approval from underwriting. For premium payments received after 90 days, approval by underwriting is required, and for payments received after six months, a physical examination will be required of the policyholder at his or her expense.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed documentation to corroborate Company policies and procedures. RNA selected 10 reinstatements between January 1, 2003 and June 30, 2004 to ensure that reinstatement was applied consistently and in accordance with policy provisions.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review and testing, reinstatement appears to be applied consistently and in accordance with policy provisions.

Recommendations: None.

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

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

- For processing beneficiary and ownership changes, once the respective form is properly completed, signed and mailed, the change is effective at signing and binding upon the Company at receipt. For beneficiary changes, a witness is required, and a confirmation letter is sent to the owner. For ownership changes, a confirmation is sent to the old and new owner. A privacy notice is also sent to the new owner at the same time. The new owner's name is cleared on the Office of Foreign Asset Control (OFAC) list to comply with Federal Law.
- Policy loan requests are processed by a representative in the customer service call center and require authorization in writing. If the payee is not the owner, the OFAC list is checked to ensure that the individual is not a prohibited party. The Company's goal is to process policy loans within five days.
- The Company's practices with regard to interest rates on non-variable whole life policy loans are designed to comply with M.G.L. c. 175, § 142.
- Whole life policies mature at the attained age of 95. If there has been no recent contact or there is not a valid address, personnel check the public social security database to ensure that the policyholder has not died.
- At maturity, the policyholder, or his or her legal representative, is contacted and told of their options to defer payment until death, take an immediate lump sum payment, or annuitize. Once the policyholder responds with their election, a signature and a social security number, the transaction is processed.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and obtained supporting documentation to corroborate Company practices and procedures. RNA

selected 15 beneficiary changes, 15 ownership changes, and 10 policy loan transactions between January 1, 2003 and June 30, 2004 to ensure that transactions were processed accurately and timely.

Transaction Testing Results:

Findings: None.

Observations: Based on our review and testing, beneficiary changes, ownership changes, and policy loan transactions appear to be processed accurately and timely.

Recommendations: None.

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

Objective: This Standard is concerned with the Company's notification to life policyholders and annuity contract holders regarding non-forfeiture options and that non-forfeiture options are applied in accordance with the policy contract. Pursuant to M.G.L. c. 175, § 144, life policyholders may, in the event of a premium default, elect to (a) surrender the policy and receive its value in cash, or (b) take a specified paid-up non-forfeiture benefit effective from the due date of the premium in default. In lieu of such specified paid-up non-forfeiture benefit, the Company may substitute an actuarially equivalent alternative paid-up benefit which provides a greater amount or longer period of death benefits. M.G.L. c. 175, § 144A provides similar options for annuity contracts. Finally, no-lapse guarantees on variable whole life and variable universal life policies are addressed by Division of Insurance Bulletin 2000-02.

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

- Lapses contractually occur when no premium has been received by 30 days after the due date. If premium payment has not been received, a notice telling the policyholder that the policy has lapsed is sent approximately 45 days after the premium payment due date.
- Policy loans may be automatically taken or dividends may be used to pay the premium for whole life policies if the cash value or accumulated dividends in the policy support the required premium payment. When such transactions occur, a confirmation notice is provided to the insured of the loan or dividend transaction. In other cases, the paid-up benefit is granted to the policyholder in compliance with M.G.L. c. 175, § 144.
- Annuity contractual obligations are designed to be in compliance with M.G.L. c. 175, § 144A, which requires payment of minimum cash surrender values.
- The Company does not offer variable universal life contracts or variable whole life policies.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed documentation supporting the Company's processes and procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review, the Company appears to communicate non-forfeiture options to policyholders and appears to apply such options in accordance with the policy contract.

Recommendations: None.

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

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

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

- Company policy requires that unclaimed maturities, uncashed checks including death claims and premium refunds are to be reported and escheated as required by the Commonwealth when no policy owner can be found.
- The Company has implemented processes to locate lost policyholders via company records and public databases.
- 60 days before funds are escheated to the Commonwealth, a notice is sent to the last known address of the payee.
- The Company's internal audit function identified process deficiencies which have been subsequently addressed and corrected.

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

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

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have processes to locate missing policyholders or lost beneficiaries and appears to make reasonable efforts to locate such individuals. The Company appears to report unclaimed items and escheats them as required by Commonwealth law.

Recommendation: None.

* * * * *

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

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

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

- Annual statements are mailed to the policyholder on the anniversary date of the policy for level term policies, yearly renewable term policies and annuities. These statements disclose the coverage amount, riders, policy expiration; cash surrender value and other key information about the policy.
- Whole life policyholders receive an annual statement that shows dividends paid on the policy, however, the statement does not report accumulated cash values.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and reviewed documentation and examples of annual statement disclosures.

Transaction Testing Results:

Findings: None.

Observations: The Company appears to have reasonable procedures to provide term policyholders with timely annual statements and to comply with annual statement requirements in 211 CMR 95.13. Whole life policyholders receive an annual statement; however, it omits vital policy information.

Recommendation: The Company should strongly consider providing timely annual statements to whole life policyholders that fully disclose the policy's accumulated cash values.

* * * * *

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

Objective: This Standard is concerned with the accuracy of calculated unearned premiums and the timeliness of their return to the policyholder. Pursuant to M.G.L. c. 175, § 119B, the proceeds payable under any life policy (except single-premium policies) shall include premiums paid for any period beyond the end of the policy month in which death occurred. M.G.L. c. 175, § 119C requires that interest be paid on all proceeds (including excess premiums paid, as noted in the previous sentence) beginning 30 days after the death of the insured. M.G.L. c. 175, § 187C provides that the full return premium payable on a policy be tendered in accordance with its terms without any deductions upon its cancellation. M.G.L. c. 175, § 187D precludes payment of unearned premiums if the insured has not actually paid the premium. See testing of interest on claims in Standard VI-6.

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

- The Company's policy administration systems automatically calculate the amount of the Company's unearned premium remaining on a cancelled policy and process a payment to the policyholder in accordance with M.G.L. c. 175, § 187C.
- The Company's policy administration systems automatically calculate the amount of the Company's return premium after death of the insured in accordance with M.G.L. c. 175, § 119B.

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

Transaction Testing Procedure: RNA discussed procedures with Company personnel and obtained documentation supporting the Company's policies and procedures regarding the return of premium to policyholders. The Division's financial examiners have also tested the policy administration systems that calculate unearned premium amounts.

Transaction Testing Results:

Findings: None.

Observations: Based on our review, the Company appears to calculate unearned premiums correctly and returns premium in a timely manner and in accordance with statutory guidelines. The Division's financial examiners have determined that the Company's policy administration systems properly calculate unearned premium amounts.

Recommendations: None.

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

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

* * * * *

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

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

* * * * *

VI. UNDERWRITING AND RATING

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

Standard VI-1. The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company's rating plan. M.G.L. c. 176D, § 3(7).

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

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

- The Company has written underwriting policies and guidelines which are designed to assure reasonable consistency in classification and rating.
- The Company utilizes a multi-class underwriting system for its level term life insurance products. Four non-smoker and two smoker categories classify applicants according to written guidelines based upon the applicant's medical history, family history, height and weight, and personal history. Other life insurance products are similarly underwritten in two underwriting classes.
- Rates are automatically computed using Company software based on applicant information and rating classifications assigned by the underwriter.
- The Company has a process to log and document Division approval of all rates to comply with provisions contained in statutory underwriting and rating requirements.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for determining rate classes as part of the underwriting process. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004 for testing of Company rate classifications as part of the underwriting processes. Such sales included products for which actuarial rate setting documentation were filed with the Division. For each of the selected sale transactions, RNA verified that the Company rate classifications complied with statutory requirements. Also, related product filings, including rate-setting processes, were reviewed for evidence that they were submitted to and approved by the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

Standard VI-2. All mandated disclosures for individual insurance are documented and in accordance with applicable statutes, rules and regulations. 211 CMR 31.05.
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Objective: This Standard is concerned with whether all mandated disclosures for individual insurance policies are documented and in accordance with statutes, regulations and Company policy. Pursuant to 211 CMR 31.05, non-variable life insurance that is marketed through an insurance agent requires that the insurer provide the applicant with a Buyer's Guide and Preliminary Policy Summary before the application is signed and a Policy Summary before accepting any premium. For life insurance not marketed through an agent, 211 CMR 31.05 further requires the insurer to alert all prospective purchasers in advertisements or direct mail solicitations of their right to obtain a Buyer's Guide and a Policy Summary prior to delivery of a policy. In either instance, if the insurance policy or Policy Summary contains an unconditional refund offer, the Policy Summary must be delivered with the policy or prior to delivery of the insurance policy.

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

- The Company has written policies and procedures for new business processing.
- The Company's procedures are designed to ensure that new business submissions from producers are accurate and complete including use of all Company required forms and instructions.
- The Company's policy is to review all applications to determine that all applicable questions are answered and that required information is filed and consistent.
- If application information or forms are incomplete, the underwriter requests that the producer obtains such forms and information.
- A policy will not be issued until all outstanding information is received and open items are cleared.
- The Company's life insurance policies and annuity contracts contain an unconditional refund or "free look provision." Thus, for the Company's life insurance sales, Policy Summaries and Buyer's Guides are included with a policyholder "welcome" package at the time an insurance policy is mailed or delivered.
- The Company provides a policy summary to its deferred annuity customers and requires that such customers sign an annuity disclosure form at the time of sale. The annuity disclosure form provides disclosures indicating the annuity contract is not a bank obligation or FDIC insured. It makes further disclosures regarding the annuity contract's guaranteed minimum crediting rate, withdrawal charges, and that the annuity contract value is subject to various investment risks, etc.

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

Transaction Testing Procedure: RNA interviewed Company personnel with responsibility for underwriting, new business processing and policy issuance. RNA reviewed all life insurance product advertising materials currently used by the Company for reference to availability of a life insurance Buyer's Guide and Policy Summary. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified the application submitted was signed and complete. RNA reviewed a copy of the applicable policy summaries provided to the insured, and noted whether it was consistent with the application or that any changes from the application were documented with the underwriter's approval.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes for providing advertising and mandatory disclosures comply with statutory requirements. However, we noted for life insurance sales, the Company cannot verify if a Buyer's Guide or Policy Summary is actually received by the policyholder since a policy delivery receipt is not utilized.

Recommendations: The Company should consider obtaining policy delivery receipts that include an acknowledgement by the applicant of receipt of the Buyer's Guide and Policy Summary. Alternatively, the Company should consider providing the Buyer's Guide at the time an application is mailed to an applicant. The application could include an acknowledgement by the producer and/or applicant that the Buyer's Guide was received.

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

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

* * * * *

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

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

* * * * *

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

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

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

- The Company has procedures to pay both employee and non-employee producers' commissions in accordance with home office approved written contracts.
- The producer contracts and home office policies and procedures are designed to comply with provisions contained in statutory underwriting and rating requirements which prohibit special inducements and rebates.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for commission processing and producer contracting. RNA inspected producer contracts, new business materials, advertising materials, producer training materials and manuals for indications of rebating, commission cutting or inducements. RNA reviewed commission activity for five agents for selected months and noted that the related commission payments were reasonable and did not indicate any unusual commission activity.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

Standard VI-6. All forms including contracts, riders, endorsement forms and certificates are filed with the department of insurance, if applicable. M.G.L. c. 175, §§ 2B, 22, 132, and 144A; 211 CMR 95.08, 95.12, and Division of Insurance Bulletin 2001-05.

Objective: This Standard is concerned with the appropriate filing of all forms and endorsements. Pursuant to M.G.L. c. 175, § 2B, no policy form of insurance shall be delivered or issued for delivery to more than 50 policyholders in the Commonwealth until a copy of the policy form has been on file with the Commissioner for 30 days, or the Commissioner approves the form within the 30 day time frame. Additionally, no life, endowment or annuity policy form may be delivered unless it complies with a variety of readability guidelines. M.G.L. c. 175, § 22 sets forth unauthorized policy provisions. M.G.L. c. 175, § 132 sets forth a 30 day filing requirement and identifies certain mandated provisions that must be contained within life, endowment and annuity policy forms before they are delivered. M.G.L. c. 175, § 144A sets forth the required provisions for annuity contracts. Finally, pursuant to Division of Insurance Bulletin 2001-05, all policy form filings for life and annuities must be accompanied by a fully-completed form-filing checklist.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for preparing and obtaining Division approval for forms, contracts, riders, endorsement forms, and illustrations. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified the policy forms, contract riders, endorsement forms and illustrations were approved by the Division.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

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

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

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting and classification of risks. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each of the selected sale transactions, RNA verified that the Company's underwriting practices are not unfairly discriminatory and that the Company adheres to the statutes, rules and regulations noted above.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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

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

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

Objective: This Standard is concerned with whether the Company issues life policies and annuities timely and accurately. Pursuant to M.G.L. c. 175, § 123, a written application is required for issuance of life policies. M.G.L. c. 175, § 130 provides that no life policy or annuity issued shall be dated more than six months prior to the application if thereby the applicant would rate at an age younger than his age at nearest birthday on the date when the application was made. M.G.L. c. 175, § 131 requires that a signed copy of the application be endorsed upon or attached to the life policy or annuity contract. See Standard V-4 for testing of reinstatements.

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

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

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting, policy issuance, and reinstatements. RNA selected 90 new business life insurance and 10 deferred annuity sales for the period January 1, 2003 through June 30, 2004. For each sale transaction selected, RNA's procedures included verifying that the insurance policy or annuity contract was approved by underwriting and issued in compliance with M.G.L. c. 175, §§ 123, 130 and 131.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

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

M.G.L. c. 175I, § 12 states that an adverse underwriting decision may not be based, in whole or in part on a previous adverse underwriting decision, 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 engage in unfair discrimination, which is defined as: "(a) making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract; or (b) making or permitting any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of accident or health insurance or in the benefits payable thereunder, or in any of the terms or conditions of such contract, or in any other manner whatever."

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

- The Company has written underwriting guidelines and policies that prohibit discrimination and comply with statutory underwriting and rating requirements, which prohibit discrimination as set forth in M.G.L. c. 175, §§ 120-120E, M.G.L. c. 175I, § 12 and M.G.L. c. 176D, § 3(7).
- The home office underwriting approval processes and procedures, training of home office underwriters, and communication with producers are designed to prohibit unfair discrimination.

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

Transaction Testing Procedure: RNA interviewed individuals with responsibility for underwriting, policy issuance, policy application, rejections, declinations and policy reinstatements. RNA selected 90 new business life insurance sales for the period January 1, 2003 through June 30, 2004. For each file reviewed, RNA's procedures included verifying that the insurance policy was approved by underwriting with no evidence of discriminatory rates or contract provisions. If the application was not approved because the application was incomplete or not accepted by the applicant, RNA verified the reason for non-issuance was in accordance with the Company's written guidelines.

In addition, RNA selected 20 declined or rejected applications. RNA's procedures included verifying that the reason for the declination or rejection was in accordance with the Company's written underwriting guidelines. Further, for the rejected or declined applications tested, RNA's procedures verified that written notice of reasons for an adverse decision was provided to the applicant in accordance with statutory requirements.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard VI-11. Cancellation/non-renewal reasons comply with policy provisions and state laws and company guidelines. M.G.L. c. 175, § 132(2).

Objective: This Standard is concerned with whether (a) the reasons for a cancellation or non-renewal are valid according to policy provisions and state laws; (b) the procedures for cancellation and non-renewal follow appropriate guidelines; and (c) policy procedures do not incorporate any unfairly discriminatory practices. Refer to Standard V-2 for discussion of Company cancellations and Standard VI-12 for rescissions.

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

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

Controls Reliance: Not applicable.

Transaction Testing Procedure: Not applicable.

Transaction Testing Results: Not applicable.

Recommendations: None.

* * * * *

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

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

- The Company's underwriting process considers the risk of material misrepresentation by consumers and attempts to corroborate information received from consumers such as health status. Applicants are required to be and to certify that they are in good health at the application date.
- Cases considered for rescission are reviewed by at least two individuals in underwriting.
- Decisions to rescind are rare, but in such cases, all decisions are reviewed by the legal staff.
- Rescissions are made only for material misrepresentations and are only made for policies within the first two years after the sale.

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

Transaction Testing Procedure: Because grounds for rescission in Massachusetts are limited and such incidents are rare, RNA did not directly test this control. RNA looked for evidence of improper rescission in our tests of lapses, declinations and claims.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

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

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

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

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

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

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

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

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

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

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

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

Transaction Testing Procedure: As a part of our testing of 90 new business life insurance sales, RNA verified a signed copy of the Massachusetts AIDS testing disclosure notice was obtained from the applicant as required by 211 CMR 36.05.

Transaction Testing Results:

Findings: None.

Observations: Based on the results of our testing, it appears that the Company's processes to ensure that the Massachusetts AIDS testing disclosures required by 211 CMR 36.05 are functioning in accordance with Company policies and procedures and statutory requirements.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

VII. CLAIMS

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

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

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

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms the day that the notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 to verify that the initial contact by the Company was reasonably timely.

Transaction Testing Results:

Findings: None.

Observations: For the 30 death claims selected, RNA noted that they were processed according to the Company's policies and procedures and that the initial contact by the Company was reasonably timely. Based on the results of our testing, it appears that the Company's processes to handle non-contestable death claims are functioning in accordance with their policies and procedures and statutory requirements.

Recommendations: None.

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Standard VII-2. Investigations are conducted in a timely manner. M.G.L. c. 176D, § 3(9)(c); M.G.L. c. 175, §§ 24D, Division of Insurance Bulletin 2001-07.

Objective: The Standard is concerned with the timeliness of the Company's claims investigations. Pursuant to M.G.L. c. 176D, § 3(9)(c), unfair claims settlement practices include failure to adopt and implement reasonable standards for the prompt investigation of a claim. Also, payments must comply with M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support. Finally, Division of Insurance Bulletin 2001-07 requires that, upon receipt of a single claim and proof of the insured's death, the Company is required to search with due diligence its records, as well as the records of its Massachusetts subsidiaries and affiliates, for additional policies insuring the same individual.

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

- Written policies and procedures govern the claims handling process.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- Company procedures also include multi-policy search processes of the Company's databases using social security number, name and policy number in compliance with Division of Insurance Bulletin 2001-07.
- All claims are matched against the Office of Foreign Asset Control (OFAC) list to determine if the death benefit recipient appears on the list as a prohibited party.
- Due to disagreements with the Massachusetts Department of Revenue (DOR), the Company did not adopt procedures to comply with requirements in M.G.L. c. 175, § 24D to intercept non-recurring payments for past due child support for life policy distributions until July 2005. Discussions between the Company and the DOR were ongoing for approximately five years and were related to logistics and practices for conducting such investigations.
- All claims within the two-year contestability period are sent to the Death Claims Committee with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances.
- The Company's policies include an "in good health" clause which states that if the insured was not in good health when the policy was obtained, even when the insured was not aware of an adverse health condition at that time, and subsequently dies due to that condition during the contestability period, that claim may be denied. The Company's policy is to pay any valid claim unless the Company can prove that the insured was not in good health at the time the policy was obtained.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims investigation processes and obtained documentation supporting these processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 to verify that investigations to locate multiple policies, review the OFAC

list, and intercept non-recurring payments for past due child support were conducted. In addition, RNA selected 25 contestable death claims from 2003 and 2004 to evaluate whether the investigation was conducted in a timely manner.

Transaction Testing Results:

Findings: Based on the results of our review, it appears that the Company's processes to investigate contestable claims, locate multiple policies for all claims filed and review the OFAC list for all claims were conducted. The Company has recently implemented investigation procedures for past due child support payment on appropriate claims as required by M.G.L. c. 175, § 24D. For the 25 contestable death claims tested, the investigations appeared to be conducted in a timely manner.

Observations: None.

Recommendations: None.

* * * * *

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

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

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms immediately after notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- All claims within the two-year contestability period are sent to the Death Claims Committee with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances. For those the Death Claims Committee determines to be valid claims, payment is to be made shortly after approval.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through

June 30, 2004 to verify that claims settlement was reasonably timely. In addition, RNA selected 14 contestable death claims from 2003 and 2004 to evaluate whether claims settlement was reasonably timely after the investigation was complete and approval was granted.

Transaction Testing Results:

Findings: None.

Observations: For the all life and annuity death claims selected, RNA noted that they were processed according to the Company's policies and procedures and that the claims were processed reasonably timely. Based on the results of our testing, it appears that the Company's processes ensure that claims are settled in a timely manner in compliance with Company policies and procedures and statutory requirements.

Recommendations: None.

* * * * *

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

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

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

- Written policies and procedures govern the claims handling process.
- Company policy is to send claim forms the day that the notification of the claim is provided.
- All claim notifications are logged in the claims system when reported.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days. Claims in the contestability period are responded to shortly thereafter.
- Company policy is to respond to questions about claims in a timely 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 Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and 25 contestable death claims from 2003 and 2004 to verify that correspondence initiated by the policyholder about a claim was answered reasonably timely.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

Standard VII-5. Claim files are adequately documented.

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to the decision on the claim.

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

- Death claim processing guidelines require that key information be completed, signed, and included in the file, including:
 - o Properly completed claim form
 - o Certified copy of the insured's death certificate and other relevant proof of loss
 - o Applicable clinical and other investigative correspondence
 - o Other pertinent written communication
 - o Documented or recorded telephone communication
 - o Proof of payment to claimant or beneficiary
- Contestable death claim processing guidelines require that a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances is made to the Death Claim Committee. A final determination is made by the Death Claim Committee whether to pay the claim.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting such processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and seven contestable death claims from 2003 and 2004 to verify that claim files were adequately documented.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

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Standard VII-6. Claim files are handled in accordance with policy provisions and state law. M.G.L. c. 175, §119C; M.G.L. c. 176D, §§ 3(9)(d) and 3(9)(f).
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Objective: The Standard is concerned with whether the claim appears to have been paid for the appropriate amount, to the appropriate beneficiary/payee, and with appropriate interest, if applicable. Pursuant to M.G.L. c. 176D, §§ 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Moreover, M.G.L. c. 176D, § 3(9)(f) considers failure to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear as an unfair trade practice. M.G.L. c. 175, § 119C requires that if the proof of death has been received, the Company must pay interest on claims beginning 30 days after the death of the insured.

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

- Written policies and procedures govern the claims handling process.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- All claims within the two-year contestability period are sent to the Death Claims Committee for a timely review with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances. For those that the Death Claims Committee determines to be valid claims, payment is to be made shortly after approval.
- The Company's policies include an "in good health" clause which states that if the insured was not in good health when the policy was obtained, even when the insured was not aware of an adverse health condition at that time, and subsequently dies due to that condition during the contestability period, that claim may be denied. The Company's policy is to pay any valid claim unless the Company can prove that the insured was not in good health at the time the policy was obtained.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.
- Interest on all death claims is paid at 6% from the date of death.

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

Transaction Testing Procedure RNA interviewed Company personnel to understand claims handling processes and obtained documentation supporting these processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and 14 contestable death claims from 2003 and 2004 to verify that claim files were adequately handled.

Transaction Testing Results:

Findings: None.

Observations: For the all death claims selected, RNA noted that that claim files were adequately handled according to the Company's policies and procedures, as well as statutory and regulatory requirements.

Recommendations: None.

* * * * *

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

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

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

- Unique claim forms have been developed that are tailored to the type of life or annuity claim.
- Claims will not be processed without the submission of the appropriate claim form and a valid death certificate.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained documentation supporting this process. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and seven contestable death claims from 2003 and 2004 to verify that claim forms were appropriate for the type of product.

Transaction Testing Results:

Findings: None.

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

Recommendations: None.

* * * * *

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

Objective: The Standard is concerned with the adequacy of information maintained in the Company's claim records related to its reserving practices.

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

- Written policies and procedures govern the claims handling process.
- Company policy is to process and evaluate claims timely and establish adequate reserves for all claims as required by statutory accounting practices.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims reserving processes and obtained documentation supporting such processes. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and seven contestable death claims from 2003 and 2004 to evaluate compliance with Company claims reserving policies and procedures.

Transaction Testing Results:

Findings: None.

Observations: For each of the claims selected for testing, RNA noted that claim was paid very shortly after validation. One claim was not paid after notification to the Company due to a lack of filing a claim form and death certificate by the beneficiary. After further investigation by the Company, additional information was recently obtained which allowed the Company to pay the claim. Based upon the results of our testing, it appears that the Company's processes to establish claim reserves are functioning in accordance with their 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: The Standard is concerned with the adequacy of the Company's decision-making and documentation of denied and closed-without-payment claims. Pursuant to M.G.L. c. 176D, § 3(9)(d), unfair claims settlement practices include refusal to pay claims without conducting a reasonable investigation based upon all available information. Pursuant to M.G.L. c. 176D, § 3(9)(h), unfair claims settlement practices include attempting to settle a claim for an amount less than a reasonable person would have believed he or she was entitled to receive. M.G.L. c. 176D, § 3(9)(n) considers failure to provide a reasonable and prompt explanation of the basis for denial of a claim as an unfair claims settlement practice.

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

- Written policies and procedures govern the claims handling process.
- All claims within the two-year contestability period are sent to the Death Claims Committee with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances.
- The Company's policies include an "in good health" clause which states that if the insured was not in good health when the policy was obtained even when the insured was not aware of an adverse health condition at that time and subsequently dies during the contestability period, that claim may be denied. The Company's policy is to pay any valid claim unless the Company can prove that the insured was not in good health at the time the policy was obtained.
- All denied claims require review by the Death Claims Committee with a recommendation by the Chief Medical Officer to deny the claim based on the facts and circumstances.
- All denied claims require the approval of the Death Claims Committee and the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process for denying claims. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and 25 contestable death claims from 2003 and 2004 to evaluate whether denied claims were handled in accordance with policy provisions and state law.

Transaction Testing Results:

Findings: None.

Observations: Based upon our procedures performed, the Company did not deny any non-contestable life or annuity death claims. Four of the 25 contestable death claims were denied, and the documentation and analysis adequately supported such denials. As such, denied claims appear to be appropriately handled in accordance with policy provisions and state law.

Recommendations: None.

* * * * *

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

Objective: The Standard is concerned with the Company's procedures for issuing claim checks as it relates to appropriate claim handling practices.

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

- Written policies and procedures govern the claims handling process.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.
- Cancelled benefit checks states that the payee accepts the check in full settlement of and in complete release of all claims under the policy.

Transaction Testing Procedure: RNA interviewed Company personnel to understand claims payment processes and obtained documentation supporting such processes. RNA reviewed an example of the release required to be signed by claimants noted on the back of the claim check to ensure that the release reflects appropriate claim handling procedures.

Transaction Testing Results:

Findings: None.

Observations: Based upon our review of the release required to be signed by claimants, it appears that the release appears to reflect appropriate claim handling procedures.

Recommendations: None.

* * * * *

Standard VII-11. Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy. M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h).

Objective: The Standard is concerned with whether the Company's claim handling practices force claimants to (a) institute litigation for the claim payment, or (b) accept a settlement that is substantially less than what the policy contract provides for. Pursuant to M.G.L. c. 176D, §§ 3(9)(g) and 3(9)(h), unfair claims settlement practices include (a) compelling insureds to institute litigation to recover amounts due under an insurance policy by offering substantially less than the amounts ultimately recovered in actions brought by such insureds, and (b) attempting to settle a claim for less than the amount to which a reasonable person would have believed he or she was

entitled by reference to written or printed advertising material accompanying or made part of an application.

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

- Written policies and procedures govern the claims handling process.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- All claims within the two-year contestability period are sent to the Death Claims Committee with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances. For those the Death Claims Committee determines to be valid claims, payment is to be made shortly after approval.
- The Company's policies include an "in good health" clause which states that if the insured was not in good health when the policy was obtained even when the insured was not aware of an adverse health condition at that time and subsequently dies during the contestability period, that claim may be denied. The Company's policy is to pay any valid claim unless the Company can prove that the insured was not in good health at the time the policy was obtained.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.
- All denied claims require the approval of the Death Claims Committee and the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained documentation supporting this process. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 to review claims settlement practices. In addition, RNA selected 25 contestable death claims from 2003 and 2004 to evaluate claims settlement practices.

Transaction Testing Results:

Findings: None.

Observations: For all claims selected, RNA noted that none of the valid claims appeared to require policyholders to institute litigation to receive claim payments or to accept less than amounts due under the policy.

Recommendations: None.

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

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

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

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

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

- Written policies and procedures govern the claims handling process.
- Once a properly completed claim form and death certificate are provided for a claim, the Company's goal is to process 80% of uncontested claims in two days and 95% in five days.
- All claims within the two-year contestability period are sent to the Death Claims Committee with a recommendation by the Chief Medical Officer whether to pay or deny the claim based on the facts and circumstances. For those the Death Claims Committee determines to be valid claims, payment is to be made shortly after approval.
- The Company's policies include an "in good health" clause which states that if the insured was not in good health when the policy was obtained even when the insured was not aware of an adverse health condition at that time and subsequently dies during the contestability period, that claim may be denied. The Company's policy is to pay any valid claim unless the Company can prove that the insured was not in good health at the time the policy was obtained.
- All claims that exceed \$100,000 require approval by a manager or senior claims approver. Any claim over \$250,000 also requires approval of the legal department.
- All denied claims require the approval of the Death Claims Committee and the legal department.

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

Transaction Testing Procedure: RNA interviewed Company personnel to understand the claims handling process and obtained documentation supporting this process. RNA selected 25 non-contestable death claims and five annuity death claims from the period January 1, 2003 through June 30, 2004 and 25 contestable death claims from 2003 and 2004 to verify that the Company is not unfairly discriminating against claimants.

Transaction Testing Results:

Findings: None.

Observations: For all claims selected, RNA noted no documentation or practices reflecting that the Company is unfairly discriminating against claimants.

Recommendations: None.

FOR INFORMATION PURPOSES ONLY

SUMMARY

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

FOR INFORMATION PURPOSES ONLY

ACKNOWLEDGEMENT

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

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

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

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