Report of the

Multistate Market Conduct Examination

As of December 31, 2007

For

Maine Bureau of Insurance

Massachusetts Division of Insurance

New York State Insurance Department

Tennessee Department of Commerce and Insurance

And

Other Participating Jurisdictions: Alabama, Alaska, American Samoa, Arizona, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, Vermont, Washington, West Virginia, Wisconsin and Wyoming

Of

Unum Life Insurance Company of America
NAIC Company #62235
2211 Congress Street
Portland, Maine 04102

The Paul Revere Life Insurance Company
NAIC Company #67598
18 Chestnut Street
Worcester, Massachusetts 01608

Provident Life and Accident Insurance Company
Provident Life and Casualty Insurance Company
NAIC Company #68195 and #68209
1 Fountain Square
Chattanooga, Tennessee 37402

First Unum Life Insurance Company
NAIC Company #64297
99 Park Avenue, 6th Floor
New York, New York 10016

NAIC Group # 0565

April 14, 2008

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Mila Kofman, Superintendent
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Commonwealth of Massachusetts
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Leslie Newman, Commissioner
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Department of Commerce and Insurance
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Eric Dinallo, Superintendent
State of New York
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New York, New York 10004-2319

James M. Benages, Regional Director
Employee Benefits Security Administration
U.S. Department of Labor
JFK Federal Building, Room 575
Boston, Massachusetts 02203

Dear Superintendent Kofman, Commissioner Burnes, Commissioner Newman, Superintendent Dinallo, Regional Director Benages and the Chief Insurance Regulators of the Participating States:

Pursuant to the authority granted by Title 24-A *Maine Revised Statutes Annotated* § 221, Chapter 175 *Massachusetts General Laws* § 4, *Tenn. Code Ann*. § 56-1-408, and *New York Insurance Law* § 309 and in accordance with the *NAIC Market Regulation Handbook (*"*Handbook*") and the Regulatory Settlement Agreements ("RSA") entered November 18, 2004, examinations have been conducted of disability income insurance claim handling practices of:

Unum Life Insurance Company of America ("Unum")
The Paul Revere Life Insurance Company ("Revere")
Provident Life and Accident Insurance Company ("Provident")
Provident Life and Casualty Insurance Company ("Provident L&C")
First Unum Life Insurance Company ("First Unum")
(collectively, the "Companies")

Further, pursuant to the provisions of the RSA, the examinations also included the Companies' compliance with the terms of the RSA.

Foreword

This report on the multistate market conduct examination of the Companies is provided pursuant to the *Handbook* and is made by exception. Additional practices, procedures, and files subject to review during the examination were omitted from the report if no improprieties were noted.

Profile of the Companies

Unum, Revere, Provident, Provident L&C and First Unum are direct or indirect subsidiaries of Unum Group, formerly UnumProvident Corporation ("the Parent Company"), a Delaware corporation. The Parent Company is the result of a merger between Unum Corporation and Provident Companies, Inc. on June 30, 1999. Previously, on March 27, 1997, Provident Companies, Inc. had acquired The Paul Revere Corporation. The four primary operations centers for the Companies are located in Chattanooga, Tennessee, Portland, Maine, Worcester, Massachusetts and Glendale, California.

Unum, a Maine corporation, primarily markets group short term and long term disability insurance as well as long term care insurance and group life insurance. It is licensed to transact business in the District of Columbia and all states, except New York. Revere, a Massachusetts corporation, primarily markets individual long term disability insurance. Revere is licensed to transact business in all fifty states and the District of Columbia. Provident, a Tennessee corporation, primarily markets individual long term disability insurance as well as life insurance through an employee-paid voluntary benefits program. It is licensed to transact business in the District of Columbia and all states,

except New York. First Unum is a licensed insurance company domiciled in the State of New York.

The Parent Company uses common management and processes in the administration of claims for Unum, Revere, Provident, Provident L&C and First Unum. Claims for each member insurer are adjusted from common locations using common procedures. The findings of this examination are therefore assumed to apply to each of the Companies.

Background

The 2003 Multistate Examination

On January 7, 2003, the Massachusetts Division of Insurance initiated a targeted market conduct examination of the individual disability insurance ("IDI") claims handling practices of Revere. The Tennessee Department of Commerce and Insurance had initiated a market conduct examination of Provident's disability insurance business as part of its financial examination as of December 31, 2000. The Tennessee examination focused on litigated disability insurance claims. On September 2, 2003, a multistate targeted market conduct examination ("the 2003 Multistate Examination") was commenced by the Maine Bureau of Insurance, the Massachusetts Division of Insurance and the Tennessee Department of Commerce and Insurance concerning, respectively, Unum, Revere and Provident. Each domiciliary state acted as the Lead State (as defined in the then *Market Conduct Examiners Handbook* adopted by the NAIC) for its respective domiciled company, and the other two Lead State chief regulators were Active Participants. All fifty states, the District of Columbia and American Samoa chose to act

as Participating States in the 2003 Multistate Examination. The 2003 Multistate Examination addressed claims handling practices for both IDI and group long term disability ("LTD") policies.

The purpose of the 2003 Multistate Examination was to determine if the disability insurance claims handling practices of the Companies reflected systemic "unfair claim settlement practices" as defined in the *NAIC Unfair Methods of Competition and Unfair and Deceptive Acts and Practices in the Business of Insurance Model Act* (1972) or the *NAIC Claims Settlement Practices Model Act* (1990) (collectively, the "Model Act"), and particularly, as defined in Title 24-A *Maine Revised Statutes Annotated* § 2164-D(3), (4) and (5); Chapter 176D *Massachusetts General Laws* § 3; and *Tenn. Code Ann*. § 56-8-104(8). The results of the 2003 Multistate Examination were summarized in the November 18, 2004 Examination Report. It identified four general areas of concern, and led to a Plan of Corrective Action ("the Plan") which was subsequently implemented through the RSA entered into by each of the Companies with its Lead State Regulator ("Lead Regulator") and the United States Department of Labor ("DOL"), and subscribed to by forty-eight states and the District of Columbia. The Plan, as implemented through the RSA, is summarized below.

The Regulatory Settlement Agreements

The RSA had several key objectives: to make significant changes in the Companies' corporate governance; to implement a meaningful claim reassessment process; to make changes in the Companies' claim organization; to implement significant

revisions to the Companies' claim procedures, and to monitor and measure the results of these changes. Specifically, the RSA provided for the following actions:

1. Changes in corporate governance: The RSA required the addition of three new directors, approved by the Lead Regulators, to the Board of Directors of the Parent Company. In addition, the RSA required that the Audit Committee of the Board of Directors be expanded by one new member, chosen from among the three new directors. The RSA also required the creation of a new standing committee of the Board of Directors, comprised of two of the new directors, and three other independent directors ("the Regulatory Compliance Committee"). The Regulatory Compliance Committee has met with the Lead Regulators and the DOL on a quarterly basis since its organizational meeting on February 18, 2005. The RSA also required the formation of a Regulatory Compliance Unit composed of officers and employees of the Companies, to report directly to the Regulatory Compliance Committee. The Regulatory Compliance Unit, in conjunction with the Companies' internal claim audit staff, has performed several compliance-related functions including monitoring the Companies' compliance with the terms of the RSA. Reports of the findings of the internal claim audit staff have been presented to the Lead Regulators and the DOL no less frequently than at each quarterly meeting of the Regulatory Compliance Committee.

2. Claim Reassessment Process: The RSA, as amended October 3, 2005, required that the Companies offer an opportunity to LTD and IDI claimants, whose claims were denied or benefits terminated during specified time periods (generally January 1997 – January 2005), to elect to have those claims reassessed pursuant to

guidelines set forth in the RSA. The reassessments were performed by a newly formed claim unit (the Claim Reassessment Unit, "CRU"), which was staffed with experienced claim representatives. In accordance with the RSA, the Companies mailed 290,903 notices to eligible claimants. A member of the examination team reviewed the Companies' methodology used for such mailings; the Companies also provided certification that such mailings had been made pursuant to the requirements of the RSA. A total of 78,422 claimants who received such notices elected to "opt-in" to the Claim Reassessment Process (29% of eligible LTD claimants who received notice opted-in; 21.7% of eligible IDI claimants who received notice opted-in); an additional 974 claimants requested reassessment pursuant to requirements set forth in the RSA. Of these 79,396 claimants who requested to participate in the reassessment process, 23,190 completed the requisite Reassessment Information Forms set forth in the RSA (29.2%), and accordingly had their claims reassessed (31.5% of LTD claimants who had previously opted-in and 20.7% of IDI claimants who had previously opted-in). The Claim Reassessment Process was completed in December, 2007, with results as follows:

- 41.7% of the total claims reassessed (involving 9,672 claims) were reversed in whole or in part, resulting in a cumulative total of approximately $676.2 million of additional benefits either paid immediately or reserved for future payments;
- 45.1% of LTD claims reassessed (involving 8,911 claimants) were reversed in whole or in part, resulting in a cumulative total of approximately $558.6 million of additional benefits either paid immediately or reserved for future payments;

- 22.1% of IDI claims reassessed (involving 761 claimants) were reversed in whole or in part, resulting in a cumulative total of approximately $117.6 million of additional benefits either paid immediately or reserved for future payments.

3. Changes in claim organization and procedures: The RSA set forth a series of revisions to the Companies' claim procedures and the structure of its claim operations, with the objectives of:

- The engagement of experienced claim personnel at the earliest possible stage of claim reviews;
- Increased emphasis upon claim staff accountability for compliance with the terms of insurance policies and applicable law;
- Increased involvement of higher levels of claim management staff in each claim denial or claim termination decision;
- Creation of a separate compliance/accountability function at the claim denial and claim termination level;
- Assurance that co-morbid conditions are properly evaluated at every level of claim review;
- Increased utilization of Independent Medical Examinations;
- Additional compliance training for all claim staff, with emphasis upon the results of the 2003 Multistate Examination, the Plan, and the NAIC Unfair Claim Settlement Practices Act; and
- Additional training for group policyholder human resources personnel so as to better facilitate the process for LTD claims.

4. Regulatory monitoring and examination: The RSA provided for the Lead Regulators and representatives of the DOL to meet with the Regulatory Compliance Committee and with the Companies' senior management on a quarterly basis, to evaluate compliance with the Plan and the RSA generally. The Companies provided reports at

those meetings on the progress of the Claim Reassessment Process, the results of their internal claim audits, and the rates of complaints and newly filed litigation arising from disability claims. In order to provide feedback on the results of the changes in claim organization and claim procedures, and the Claim Reassessment Process, members of the examination team performed periodic reviews of randomly selected claim files (both claims reassessed by the CRU, and newly decided disability claims) in a series of five initial claim samples (each of which consisted of 15 CRU claims and 40 non-CRU claims). These preliminary reviews were performed from February 2006 through January 2007. The results of these preliminary reviews were presented at meetings of the Regulatory Compliance Committee and the Companies took corrective action as applicable.

Scope of Examination

The RSA (§ C.2 (p.20)) provides for a "full re-examination of the issues addressed by the [2003] Multistate Examination". Sections D.6 (p. 21) and D.7 (p. 22) further specify that the re-examination shall establish separate error rates for each of the following types of claims:

- All IDI claims reassessed by the CRU;
- All LTD claims reassessed by the CRU;
- IDI claims in which benefits were denied or terminated after the RSA Implementation Date (January 18, 2005) through December 31, 2007 ("Operations IDI claims"); and

- LTD claims in which benefits were denied or terminated after the Implementation Date through December 31, 2007 ("Operations LTD claims").

Claim Selection Methodology

The examination team requested the Companies to provide four separate comprehensive databases including all such claims. The first such request encompassed claims decided from the RSA Implementation Date through April 30, 2007; the second request encompassed claims decided through December 31, 2007. Based upon the resulting population sizes, random selections of claims were then made as follows: 50 CRU IDI claims; 100 CRU LTD claims; 50 Operations IDI claims; and 100 Operations LTD claims. Each such randomly selected claim file was reviewed by a member of the examination team.

Compliance with RSA-Mandated Actions

The RSA provided for the Companies to implement changes in corporate governance (§ B.1 (p. 6)), establish a claim reassessment process and provide notice of that process to eligible claimants (§ B.2 (p. 9)) and make changes in the claim organization and claim procedures (§ B.3 (p. 15)) by enumerated dates.

Examination Results

Examination of Claim Files

The RSA established a "maximum tolerance standard" (error rate) of 7% for each of the four examinations. (This is the same "error rate" specified in the *Handbook* for examinations.) Based upon the examiners' review of the selected claims, the following error rates were determined:

- CRU IDI: 4%
- CRU LTD: 4%
- Operations IDI: 0%
- Operations LTD: 3%

Unum, Revere, Provident, Provident L&C and First Unum CRU Claim Files Reviewed

Line of Business	Claims Reviewed	Number of Errors	Error Rate
LTD Claims	100	4	4%
IDI Claims	50	2	4%

Unum, Revere, Provident, Provident L&C and First Unum Operations-LTD and Operations-IDI Claim Files Reviewed

Line of Business	Claims Reviewed	Number of Errors	Error Rate
LTD Claims	100	3	3%
IDI Claims	50	0	0%

In summary, the error rates in each case were below the 7% "maximum tolerance standard" set forth in the RSA and the *Handbook*.

Compliance with RSA-Mandated Actions

As described above, the RSA mandated that the Companies take certain actions by particular dates. The Companies timely complied with each of the RSA-mandated actions.

Changes in Corporate Governance

The Companies timely complied with each of the requirements specified in the RSA concerning "Changes in Corporate Governance". RSA § B.1 (p. 6).

Implementation of the Claim Reassessment Process and Notice to Claimants

The Companies timely complied with each of the requirements specified in the RSA concerning the Claim Reassessment Process. RSA § B.2 (p. 9).

Changes in Claim Organization and Procedures

The Companies implemented the changes in claim organization and procedures mandated by the RSA and provided a certificate of compliance to the Lead Regulators. RSA § B.3 (p. 15).

Report Submission

This report of examination is hereby respectfully submitted.

Sincerely,

J. David Leslie
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Examiner-In-Charge

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