

**REPORT OF THE  
INTERSTATE COLLABORATIVE  
MARKET CONDUCT EXAMINATION  
OF  
TRANSAMERICA OCCIDENTAL LIFE INSURANCE  
COMPANY  
NAIC # 67121  
AS OF  
DECEMBER 31, 2001**

November 23, 2004  
Columbus, Ohio

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Columbus, Ohio 43215-1067

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Oregon Insurance Division  
P.O. Box 14480  
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Directors:

Pursuant to your instructions and in accordance with the powers vested under the following applicable statutes:

Illinois Insurance Code Article IX, Sections 131.21 and 132 and  
Article XXIV, Sections 402 and 425  
Nebraska Revised Statutes §44-5901 through 5910 and §44-1527  
Ohio Revised Code Section §3901.011  
Oregon Revised Statute 731.300

A target Interstate Collaborative Market Conduct Examination has been conducted on the individual ordinary life insurance business of Transamerica Occidental Life Insurance Company, at the regional office located in Kansas City, Missouri.

Ohio was the lead state for the purpose of this examination, and was assisted by examiners from Illinois, Nebraska and Oregon during the on-site examination.

It should be noted that some unacceptable or non-complying practices might not have been discovered in the course of this examination. Failure to identify or criticize specific Transamerica Occidental Life Insurance Company practices does not constitute acceptance by the examining insurance departments.

The report is submitted as follows:

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## **SCOPE OF EXAMINATION**

In collaboration with the Market Conduct Divisions of the Illinois, Nebraska, Ohio and Oregon Departments of Insurance, the examination of Transamerica Occidental Life Insurance Company (the Company) commenced on or about March 28, 2002, with the call letter and initial requests for information. The actual on-site portion of the examination of the Company's non-financial business practices commenced on May 28, 2002, at the Company's regional office in Kansas City, Missouri. The examination was restricted to Company activities for individual ordinary life insurance business in the four states from the period of January 1, 2000, through December 31, 2001. The examination is reported by test.

This examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and each state's applicable statutes, rules, and regulations.

Accordingly, the examination included the following areas of the Company's operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Marketing
- E. Producer Licensing
- F. Illustrations
- G. Replacements
- H. Policyholder Services
- I. Paid Claims

## METHODOLOGY

The examination was conducted through a review of the Company's individual ordinary life insurance policy and claim files. The Company's corresponding procedure manuals were also reviewed. This information was supplemented with interviews with Company managers and written inquiries to the Company requesting clarification and/or additional information.

Only files with Illinois, Nebraska, Ohio and Oregon insureds, policyholders or claimants were reviewed. A series of tests were designed and applied to the files reviewed to determine the Company's level of compliance to the four states' insurance statutes, rules and regulations. These tests are described and the results noted in this report.

The Examiners used the NAIC's standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test.

The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply.

In any instance where errors were noted, the Examiners submitted to the Company a request for information describing the apparent error. Responses to these inquiries were returned to the Examiners with notes as to whether the Company:

- Concurred with the findings, and/or
- Had additional information for the Examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

The Company's responses and the Examiners' recommendations, as applicable, are included in this report.

### **SAMPLING**

The Examiners requested, and the Company supplied, reports of policy and claim data in file formats specified by the Examiners, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report.

These samples were selected using a standard business database application that provides a true random sample since it supplies a random starting point from which to select the sample. Information on specific sampling methodology is indicated in the various sections of the report.

### **COMPANY HISTORY**

Transamerica Occidental Life Insurance Company was incorporated as Occidental Life Insurance Company under the laws of the State of California on June 30, 1906, and commenced insurance operations on August 14, 1906. The name was changed to Transamerica Occidental Life Insurance Company in 1981. In 1999 the Company was acquired by AEGON N.V. and became a member of the AEGON Insurance Group. The Company was redomesticated and reincorporated to the State of Iowa on December 31, 2000, and is now an Iowa domiciled insurer.

### **COMPANY OPERATIONS**

The Company is licensed in all states except New York. The statutory home office is in Cedar Rapids, Iowa, but the primary location of books and records, for the purposes of this examination, is Kansas City, Missouri.

The Company's reported life direct premiums written and direct losses paid during the examination period as reported on Life Insurance Part 1 of the Company's Financial Annual Statements are as follows:

|            | Ordinary Direct<br>Written Premium |                        | Ordinary Direct<br>Claims and Benefits Paid |                        |
|------------|------------------------------------|------------------------|---|------------------------|
|            | <u>2000</u>                        | <u>2001</u>            | <u>2000</u>                                 | <u>2001</u>            |
| Illinois   | \$76,180,914                       | \$73,491,199           | \$70,242,098                                | \$81,353,890           |
| Nebraska   | 9,109,174                          | 10,101,937             | 10,698,011                                  | 7,626,697              |
| Ohio       | 34,117,096                         | 33,083,557             | 27,407,420                                  | 24,955,990             |
| Oregon     | 12,947,618                         | 12,213,580             | 17,362,854                                  | 8,639,607              |
| Exam Total | \$132,354,802                      | \$128,890,273          | \$125,710,383                               | \$122,576,184          |
| National   | <u>\$1,376,062,014</u>             | <u>\$1,554,584,220</u> | <u>\$1,158,710,643</u>                      | <u>\$1,415,842,744</u> |

|            | Total Life Direct Written Premium |                        |
|------------|-----------------------------------|------------------------|
|            | <u>2000</u>                       | <u>2001</u>            |
| Illinois   | \$76,180,194                      | \$73,491,199           |
| Nebraska   | 9,109,174                         | 10,101,937             |
| Ohio       | 34,117,096                        | 33,083,557             |
| Oregon     | 12,947,618                        | 12,213,580             |
| Exam Total | \$132,354,802                     | \$128,890,273          |
| National   | <u>\$1,376,830,676</u>            | <u>\$1,555,173,697</u> |

As of December 31, 2001, the officers of the Company were:

|   |                          |
|---|--------------------------|
| President:  | Ronald Franklin Wagley   |
| President- Reinsurance:                                 | Paul Edmund Rutledge III |
| Executive VP, General Counsel<br>& Corporate Secretary: | James Wadsworth Dederer  |
| Executive VP & COO:                                     | Karen Olsen MacDonald    |
| Executive VP:   | John Raymond Kenney      |
| Executive VP:   | Janet Marie Soppe        |
| Executive VP:   | Larry Neil Norman        |

## **CERTIFICATES OF AUTHORITY**

The Company operates under Certificates of Authority issued in accordance with the statutes, rules and regulations of the four participating states. In the course of the examination, the Examiners found the Illinois, Nebraska, Ohio, and Oregon operations of the Company to be in compliance with its Certificates of Authority for each state.

## **MARKETING**

The Company's products include term life, whole life, universal life, variable universal life, fixed and variable annuities, and long term care insurance (LTCI). These products are marketed through an independent field force and two third-party marketers.

The Company's independent field force consists of approximately 450 general agencies, 90,000 independent brokers (also known as "producers"), 10 banks, and 400 broker/dealers. Of the 90,000 independent brokers, approximately 50,000 work in the general agency system and the other 40,000 are solicitors with independent marketing organizations such as third-party marketers or direct marketers. The Company has two third-party marketing arrangements (TPM) and three third-party administrator agreements (TPA).

This distribution system is supervised by a Chief Agency Officer, three Regional Vice Presidents (RVP) and a LTCI National Sales Director. The Chief Agency Officer, RVP's, LTCI National Sales Director, and their staffs are company employees. The general agencies serve as independent intermediaries and are contractually responsible for their producers, including recruitment, training, and supervision. Supervision of the TPM's is the responsibility of the Chief Agency Officer. Supervision of the TPA's is the responsibility of Compliance and the TPA Services Department in Kansas City.

## **PRODUCER LICENSING**

**Standard:** Terminations of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

**Test:** Did the Company properly advise states of producers terminated for cause according to the following states, rules and regulations?

Illinois: 215 Illinois Code Section 5/502.2(a)

Nebraska: Nebraska Revised Statutes 44-4062

Ohio: Ohio Revised Code 3905.012

Oregon: Oregon Revised Statute 744.079

**Methodology:**

- The Company provided computer files of all agents terminated in the four states during the examination period. “Reason for termination” codes were also requested.
- A total population of 997 agent termination files was requested for review as the computer files indicated that no agents were terminated for cause during the examination period.
- Located files concerning agents terminated for cause would then be reviewed for compliance.
- An exception would result if the agent was terminated for cause and the Company did not properly notify the appropriate department(s) of insurance of the termination.

**Findings:**

The 997 agent termination files were not readily available for Examiner review. The Company maintained its agent termination files on an imaging system that was cumbersome to use, not user-friendly, and hard to navigate. Therefore, the Company was asked to provide a written description of the history of the Company’s contracting and licensing department’s information systems. The Company’s response is shown in Attachment A at the end of this report.

In addition, the Company provided a written overview of the Company’s procedures for agent terminations for cause. The overview noted the Company’s responsibility to notify appropriate state departments of insurance of agent terminations for cause.

Since the Company had already identified its system limitations and had already initiated steps to replace the system, no further action was taken.

**Examiners' Recommendations:**

1. It is recommended that the Company complete its implementation of the "DSS Performance Plus" commission and licensing system during 2004 and advise the Ohio Department of Insurance Market Conduct division when implementation is completed.

**ILLUSTRATIONS**

**Illustration Certification**

**Standard:** The Company files all certifications with the Department of Insurance as required by statutes, rules, and regulations.

**Test:** Did the Company file the Annual Life Illustrations Certifications as required by the statutes, rules, and regulations listed below and did the Certifications accurately state which policies were being marketed with illustrations?

Illinois: 50 Illinois Administrative Code 1406.40

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 72(011)

Ohio: Ohio Administrative Code 3901-6-04(K)(4)

Oregon: Oregon Administrative Rules 836-051-0590 (4)(a)

**Methodology:**

- The Company supplied the following data files:
  1. Individual Ordinary Life new business written during the examination period for the four participating states.
  2. A file of all of the policy forms and plan codes used to write new Individual Ordinary Life business in the four participating states. This file indicated whether or not these policy forms used illustrations.
- The Company supplied copies of the Annual Life Illustration Certifications filed in the four participating states for the years covered in the examination period.

- A spreadsheet listing all of the Company’s policy forms used in the four states was generated. The list contained 97 separate policy forms.
- A sample of one hundred (100) new Individual Ordinary Life policies, indicating the use of illustrations, was pulled for review.
- Each policy form was manually checked against the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.
- Each policy file was reviewed to determine if an illustration was used. The policy forms for the file were then traced back to the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.
- The Company was notified of a possible exception if:
  1. A policy form was listed in the Company supplied data files as using an illustration but was not listed as using an illustration per the Company-supplied Annual Life Illustration Certifications (hereinafter referred to as “Certification”);
  2. The policy file contained an illustration that was not listed on the Certification;
  3. The policy file did not contain an illustration but that policy form was listed on the Certification as requiring one; or
  4. The policy file contained an illustration but it was dated outside of the certification period.

**Findings:**

- Per the Company-supplied data files, two (2) policy forms utilized illustrations but were not listed on the Certification. This finding concerns policy form numbers 177111187 and 111416296 - issued in Nebraska and Illinois, respectively.

**Examiners’ Additional Findings:**

- Prior to the examination’s conclusion, the Company filed corrected certifications concerning the two policy forms.

**Examiners’ Recommendations:**

1. The Company should verify that all Annual Life Illustration Certifications are accurately filed with the states.

## **Illustration Compliance**

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

**Test:** Did the Company's illustrations comply with the life insurance illustration requirements of the following states?

|           |   |
|-----------|---|
| Illinois: | 50 Illinois Administrative Code 1406                                    |
| Nebraska: | Nebraska Administrative Rules and Regulations, Title 210, Chapter 72    |
| Ohio:     | Ohio Administrative Code 3901-6-04                                      |
| Oregon:   | Oregon Administrative Rules 836-051-0540, 836-051-0550 and 836-051-0570 |

### **Methodology:**

- The Company supplied for review, all written policies and procedures that instructed the agents on the Company's illustrations procedures and requirements.
- The Company supplied the following data files:
  1. Individual Ordinary Life new business written during the examination period for the four participating states.
  2. A file of all of the policy forms and plan codes used to write new Individual Ordinary Life business in the four participating states. This file indicated whether or not these policy forms used illustrations.
- The Company supplied copies of the Annual Life Illustration Certifications filed in the four participating states for the years covered in the examination period.
- A sample of 100 new Individual Ordinary Life policies, indicating the use of illustrations, was pulled for review.
- Each policy file was reviewed to verify that all required information was contained in the illustration and that it was delivered according to the law.

**Findings:**

| Test  | Population | Sample | Yes | No | Standard | Compliance |
|---|------------|--------|-----|----|----------|------------|
| Did the file contain the required illustration or certificate?  | 4104       | 100    | 99  | 1  | 90%      | 99%        |
| Was the agent issued illustration or certificate signed as of the application date?   | 4104       | 100    | 73  | 27 | 90%      | 73%        |
| Was the illustration clearly labeled "Life Insurance Illustration", did it contain the name, age, and sex of the insured, the name and business address of the agent, the underwriting/rating class, the generic policy name, product name and form number, the initial death benefit, and when applicable, the dividend option election or application of non-guaranteed elements and were the terms defined in language understood by the typical public? | 4104       | 100    | 96  | 4  | 90%      | 96%        |
| Did the basic illustration contain all parts required?  | 4104       | 100    | 96  | 4  | 90%      | 96%        |
| Did the Narrative Summary contain all parts required?   | 4104       | 100    | 91  | 9  | 90%      | 91%        |
| Did the Numeric Summary contain the required statements that were signed and dated by both the agent and the policy owner; include policy maturity and final expiration if premium was to change; contain the correct guaranteed death benefit and surrender value corresponding to the policy year for which the contract premium has been paid; and were non-guaranteed elements shown for the same duration as guaranteed elements?                      | 4104       | 100    | 89  | 11 | 90%      | 89%        |
| Did the illustration not include prohibited language, terms or misrepresentations?  | 4104       | 100    | 97  | 3  | 90%      | 97%        |

| Test   | Population | Sample | Yes | No | Standard | Compliance |
|--|------------|--------|-----|----|----------|------------|
| Was the revised illustration marked “Revised Illustration”, signed/dated by the applicant or policy owner no later than the policy delivery date and did the Company receive a copy of the revised illustration? | 4104       | 100    | 87  | 13 | 90%      | 87%        |

The standard of compliance is 90%. The Company’s performance was below the minimum standard in three (3) tests.

**Examiners’ Additional Comments:**

1. The Company provided incorrect maximum illustratable interest rates for its products; the problem was corrected prior to the examination’s conclusion.
2. In five (5) instances, the Company utilized illustrations for a state other than the state in which the policy was issued.

**Examiners’ Recommendations:**

1. It is recommended that the Company require that both the agent and the applicant sign the required statements on the Numeric Summary of the illustrations as of the application date.
2. It is recommended that the Company properly label all revised illustrations as “Revised”, that the Company have the applicant sign and date the illustration no later than delivery, and that the Company retain a copy of the signed revised illustration in its files.
3. It is also recommended that the Company institute agent training and awareness of the illustrations requirements of each state.

**REPLACEMENTS**

**Replacement Agent Requirements**

**Standard:** Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

**Test:** Did the Company's marketing policies and procedures for their agents comply with the replacement requirements for life insurance according to the following statutes, rules, and regulations:

|          |  |
|----------|--|
| Illinois | 50 Illinois Administrative Code 917.70 (a) |
| Nebraska | Title 210, Chapter 19, Section 19.006      |
| Ohio     | Ohio Administrative Code 3901-6-05         |
| Oregon   | Oregon Administrative Rules 836-080-0025   |

**Methodology:**

- The Company supplied, and the examiners reviewed, any written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company's replacement register for business replaced in the four participating states.
  2. Individual Ordinary Life new business written in the four participating states during the examination period. Oregon was limited to new business written prior to November 1, 2001. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
- One random sample of 100 replacement policies was produced for review.
- A file was considered an exception if it did not comply with the agent requirement section of the replacement laws.

**Findings:**

- Thirty-three (33) of the policies originally chosen for the random sample were replaced with alternate records because they represented internal replacements, which were exempt from review for this examination.

| Test  | Population | Sample | Yes | No | Standard | Compliance |
|---|------------|--------|-----|----|----------|------------|
| Did the agent submit a statement signed by the applicant as to whether a replacement was involved?              | 4788       | 100    | 99  | 1  | 90%      | 99%        |
| Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved? | 4788       | 100    | 90  | 10 | 90%      | 90%        |

| Test  | Population | Sample | Yes | No | Standard | Compliance |
|---|------------|--------|-----|----|----------|------------|
| Did the agent present to the applicant a “Notice Regarding Replacement”?                                  | 4788       | 100    | 97  | 3  | 90%      | 97%        |
| If a “Notice Regarding Replacement” was presented, was the form signed on or before the application date? | 4788       | 100    | 79  | 21 | 90%      | 79%        |
| Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company?               | 4788       | 100    | 98  | 2  | 90%      | 98%        |
| Was the “Notice Regarding Replacement” signed by agent?   | 4788       | 100    | 74  | 26 | 90%      | 74%        |
| Did the agent submit a completed application to the replacing company?                                    | 4788       | 100    | 100 | 0  | 90%      | 100%       |
| Did the agent obtain a list of all existing life insurance to be replaced?                                | 4788       | 100    | 100 | 0  | 90%      | 100%       |
| Did the list properly identify replaced policies by insurer name, insured name and contract number?       | 4788       | 100    | 77  | 23 | 90%      | 77%        |

The standard of compliance is 90%. The Company’s performance was below the minimum standard in three (3) tests.

**Examiners’ Recommendations:**

1. It is recommended that the Company require that the Notice Regarding Replacement be signed on or before the application date.
2. It is recommended that the Company require all agents to sign the Notice Regarding Replacement.
3. It is recommended that the Company require the agent to provide a list properly identifying the replaced policies by insurer name, insured name, and contract number.

## **Replacement Company Requirements**

**Standard:** Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

**Test:** Did the Company's marketing policies and procedures comply with the replacement requirements for life insurance according to the following statutes, rules, and regulations?

|           |   |
|-----------|---|
| Illinois: | 50 Illinois Administrative Code 917.70 (a), 215 Ill Code Section 5/224(2) |
| Nebraska: | Title 210, Chapter 19, Sections 19.007 and 19.008                         |
| Ohio:     | Ohio Administrative Code 3901-6-05  |
| Oregon:   | Oregon Administrative Rules 836-080-0020 and OAR 836-080-0022             |

### **Methodology:**

- The Company supplied, and the examiners reviewed, any written policies and procedures on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company's replacement register for business replaced in the four participating states.
  2. Individual Ordinary Life new business written in the four participating states during the examination period. Oregon was limited to new business written prior to November 1, 2001. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
- One random sample of 100 replacement policies was produced for review.
- A file was considered an exception if it did not comply with the company requirement section of the replacement laws.
- A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules, and regulations.

### **Findings:**

- Thirty-three (33) of the policies originally chosen for the random sample were replaced with alternate records because they represented internal replacements, which were exempt from review for this examination.

| Test  | Population | Sample | Yes | No | Standard | Compliance |
|---|------------|--------|-----|----|----------|------------|
| Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?    | 4788       | 100    | 99  | 1  | 90%      | 99%        |
| Did the Company require a statement signed by the agent as to whether the agent knew a replacement could be involved?               | 4788       | 100    | 90  | 10 | 90%      | 90%        |
| Did the Company require from the agent, with the application, a list of all the applicant's existing life insurance to be replaced? | 4788       | 100    | 100 | 0  | 90%      | 100%       |
| Did the Company require that the above list properly identify replaced policies by insurer name, insured name and contract number?  | 4788       | 100    | 78  | 22 | 90%      | 78%        |
| Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?                         | 4788       | 100    | 74  | 26 | 90%      | 74%        |
| Did the Company maintain evidence in the file of the "Notice Regarding Replacement" for at least 3 years?                           | 4788       | 100    | 100 | 0  | 90%      | 100%       |
| Did the Company provide notification in or with the policy about the 20-day free look period and premium refund?                    | 4788       | 100    | 99  | 1  | 90%      | 99%        |
| Did the Company send a written communication and policy identification information to the existing insurer(s)?                      | 4788       | 100    | 97  | 3  | 90%      | 97%        |
| Was the above communication sent within 3 days of the Company's receipt of the application to the existing insurer?                 | 4788       | 100    | 68  | 32 | 90%      | 68%        |
| Did the Company identify the file as a replacement on its replacement log?  | 4788       | 100    | 97  | 3  | 90%      | 97%        |

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

**Examiners' Additional Comments:**

1. The Company indicated that coding for replacements is a manual process. Data entry errors during this manual process resulted in three (3) files not appearing on the Company's replacement log.
2. During the examination period the Company accepted applications without the required "Notice Regarding Replacement" or with notices that were dated after the date on the application. The Company's procedures did not allow for coverage to be issued until this requirement was met. The notices were requested from the agents and the appropriate disclosure was forwarded to the existing insurer once the notice was received. This process did not allow for sending the required documents to the existing insurer within three days of receipt of the application. The Company did have a process for sending a letter to the existing insurer that indicated the policy would not be issued until after the Company had received and sent the proper forms to the existing insurer. This process does not meet the requirements of this standard.
3. The Company's current replacement procedures require the application to be re-dated and initialed by the applicant to match the current date on the replacement notice. During an internal review of the new business operations during the latter part of 2001, the Company noted that the procedure was not being uniformly applied. As a result of that review, the new business operations were reminded of the requirements and the Company indicated the procedure has been implemented.
4. The Company did not use the correct replacement notice form for business written in the State of Ohio during the examination period. The form that was used did not include a space for the agent's signature. The Company indicated it has initiated a process to amend the current Notice Regarding Replacement to comply with Ohio law.
5. The Oregon regulation regarding replacements changed effective November 1, 2001. The Company indicated that Market Conduct Compliance Bulletin announcing the amendments to the Company's agents was not distributed until February 22, 2002. The Compliance Bulletin included the revised replacement forms to be used in Oregon. From the information reviewed, it appears the Company's internal procedures were not changed until after

November 1, 2001 and policies were issued with a 20-day free look provision rather than the 30-day period required after November 1, 2001.

6. Illinois law requires the Company to provide notification of the proposed replacement to the existing insurer within three days of receipt of application. The Company's procedures indicated five days were allowed for this process. The Company indicated that although the written procedures for the State of Illinois reflected the requirement was five days rather than three days, it was the Company's procedure to send the notice within three days. The Company informed the appropriate personnel of the three-day requirement on June 10, 2002. Additionally, the Company indicated that its Online Compliance Manual would be amended to properly reflect the time frame for sending notice by July 11, 2002.
7. The Company's procedures for replacement in Illinois and Nebraska indicated internal replacements are exempt from State Replacement Regulations. However, the agent is still required to submit with or as part of each application a statement signed by the applicant as to whether replacement is involved in the transaction and a statement signed by the agent as to whether or not the agent knows replacement is involved. During the examination the Company issued to the appropriate personnel a clarification of the exemptions for internal replacements specifying that the agent's statement referenced above is required. The Company's Online Compliance Manual is also being amended and the Company anticipates that the change will be completed by July 11, 2002.

**Examiners' Recommendations:**

1. It is recommended that the Company require the agent to provide a list properly identifying the replaced policies by insurer name, insured name, and contract number.
2. It is recommended that the Company require from the agent a copy of the Notice Regarding Replacement.
3. It is recommended that the Company send communication to the existing insurer within 3 days of the Company's receipt of the application.

## POLICYHOLDER SERVICES

### Policy Loans

**Standard:** Policy transactions are processed accurately and completely.

**Test:** Did the Company process policy loans according to the policy provisions and the following statutes, rules and regulations:

- Illinois: 215 Illinois Code Section 5/234.1
- Nebraska: Nebraska Revised Statutes 44-405, 44-502
- Ohio: Ohio Revised Code 3915.05 (G), and 3915.051
- Oregon: Oregon Revised Statute 743.186, and 743.187

### **Methodology:**

- The Company supplied a computer file of all of the policy loans requested by policyholders in the four participating states during the examination period.
- A total random sample of 202 policy loans was pulled. Fifty random samples were selected for each of the following states- Illinois, Ohio and Oregon. The state's total loan population of fifty-two (52) was reviewed for Nebraska.
- A policy loan file would be considered an exception if:
  1. The file did not document prior written authorization by the policyholder in either the request for the cash loan or in the policy application for automatic premium loans,
  2. The file did not document interest rates used according to the policy provisions, or
  3. There was not a minimum of three (3) years of premium payments before the loan was given.

### **Findings:**

#### Illinois Loans

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 293        | 50     | 42  | 8  | 90%      | 84%        |

The standard of compliance is 90%. The Company's performance was below the minimum standard.

- Each of the files that did not meet this standard failed because the company could not document that the policyholders were notified of the cash loan's initial rate of interest.

Nebraska Loans

| Population | Yes | No | Standard | Compliance |
|------------|-----|----|----------|------------|
| 52         | 52  | 0  | 90%      | 100%       |

The standard of compliance is 90%. The Company's performance met the minimum standard.

Ohio Loans

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 168        | 50     | 50  | 0  | 90%      | 100%       |

The standard of compliance is 90%. The Company's performance met the minimum standard.

Oregon Loans

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 76         | 50     | 50  | 0  | 90%      | 100%       |

The standard of compliance is 90%. The Company's performance met the minimum standard.

**Examiners' Additional Comments:**

1. It is the Company's procedure that at the time a premium loan is made a "policy loan statement" is automatically generated. The statement is then mailed to the policyholder within two weeks of its generation. The statement contains the current loan interest rate. However, the Company is unable to provide file documentation which details the date the policy loan statement was mailed. Additionally, the Company is unable to produce a copy of the actual policy loan statement that was generated.

**Examiners' Recommendations:**

1. It is recommended that the Company implement rules and procedures that better document the Company's compliance with applicable policy loan statutes and regulations.

**Terminated Policies**

**Standard:** Policy transactions are processed accurately and completely.

**Test:** Did the Company process terminated policies according to the policy provisions?

**Methodology:**

- The Company supplied a computer file of all of the terminated policies in the four participating states during the examination period.
- A random sample of fifty (50) files was selected for each of the following states: Nebraska, Ohio and Oregon. A random sample of 100 files was requested for Illinois.
- Each state's sample files were reviewed and tested separately.
- A terminated file would be considered an exception if:
  1. cash surrender values were not calculated correctly or not provided when required;
  2. nonforfeiture benefits were not offered to the policyholder according to policy provisions; or
  3. the policy was not terminated according to applicable state law.

**Findings:**

**Illinois Terminations**

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 9148       | 100    | 94  | 6  | 90%      | 94%        |

The standard of compliance is 90%. The Company's performance met the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. One (1) file did not comply because the cash surrender value was not calculated correctly.
  2. Six (6) files did not comply because the policy did not terminate according to policy provisions.
  3. Three (3) files did not comply because the policy did not terminate according to applicable state law - namely, 215 ILCS 5/234 - which holds that notice of “the enactment of a nonforfeiture option” be given to a policy owner. Additionally, 215 ILCS 5/234.1 requires that “Evidence of this notice shall be maintained by the insurer.” The Company was unable to provide evidence of the notice.

Nebraska Terminations

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 1119       | 50     | 49  | 1  | 90%      | 98%        |

The standard of compliance is 90%. The Company’s performance met the minimum standard.

- The reason for non-compliance of one file is that the Company did not provide the file for review. As a result, the file was considered an exception.

Ohio Terminations

- One (1) file in the original sample was replaced with a new file to review because the file terminated outside of the examination period.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 4792       | 50     | 48  | 2  | 90%      | 96%        |

The standard of compliance is 90%. The Company’s performance met the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. One (1) file did not comply because the cash surrender value was not calculated correctly.
  2. Two (2) files did not comply because the policy did not terminate according to policy provisions.
  3. One (1) file did not comply because the policy did not terminate according to applicable state law.

Oregon Terminations

- One (1) file in the original sample was replaced with a new file to review because the file terminated outside of the examination period.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2361       | 50     | 49  | 1  | 90%      | 98%        |

The standard of compliance is 90%. The Company’s performance met the minimum standard.

- The reason for non-compliance is that the Company did not provide the file for review. As a result, the file was considered an exception.

**PAID CLAIMS**

**Adequate Documentation**

**Standard:** Claim files are adequately documented.

**Test:** Were the claim files adequately documented to determine the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence?

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.

- A total random sample of 200 paid claims files was requested for review. Fifty random samples were selected for each of the examining states.
- Each state’s sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state’s sample files were reviewed and tested separately.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the file did not contain adequate documentation to determine compliance with applicable statute, rules and regulations.

**Findings:**

Illinois Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 35  | 15 | 93%      | 70%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. One (1) file did not comply because the Company was unable to locate the file.
  2. One (1) file did not comply because it contained no documentation of initial contact, investigation or payment.
  3. One (1) file did not comply because the Company was unable to provide payment information documenting a lump sum payment.
  4. Eleven (11) files did not comply because the files contained no documentation regarding a Financial Security Account Payment (FSA). The company could only provide system print screens to show proof of payment. There is no documentation of when the bank was

told or the claimant was notified to make payment. The company’s practice is to image every letter and e-mail sent.

- 5. One (1) file did not comply because the file contained no claim form or proof of loss.

Nebraska Claims

- One file was removed because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 42  | 8  | 93%      | 84%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. One (1) file did not contain a claim form for each beneficiary.
  2. Six (6) files did not comply because the files contained no documentation regarding a Financial Security Account Payment (FSA). The company could only provide system print screens to show proof of payment. There is no documentation of when the bank was told or the claimant was notified to make payment. The company’s practice is to image every letter and e-mail sent.
  3. One (1) file did not comply because payment was made prior to receipt of the proof of loss. The Company made a business decision to pay due to low face and inability to verify the beneficiary.

Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 41  | 9  | 93%      | 82%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. Seven (7) files did not comply because the files contained no documentation regarding a Financial Security Account Payment (FSA). The company could only provide system print screens to show proof of payment. There is no documentation of when the bank was told or the claimant was notified to make payment. The company’s practice is to image every letter and e-mail sent.
  2. One (1) file did not comply because the Company was unable to provide the original policy file. The Company responded that their system notes showed that the file was inadvertently destroyed.
  3. One (1) file did not comply because the Company was unable to produce notice of when it first contacted the claimant. The Company states that an image of the notice could not be committed because of system problems (“the system locked”). The Company also said that the notice was sent to Office Services for imaging but it appears imaging was not completed.

Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 45  | 5  | 93%      | 90%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reason for non-compliance is listed below:
  1. Five (5) files did not comply because the files contained no documentation regarding a Financial Security Account Payment (FSA). The company could only provide system print screens to show proof of payment. There is no documentation of when the bank was

told or the claimant was notified to make payment. The company's practice is to image every letter and e-mail sent.

2. One (1) file did not comply because of a difference in the claim reported date and the date of initial contact.

### **Examiners' Recommendations:**

It is recommended that the Company implement rules and procedures to assure adequate documentation of the Company's claim files.

### **Initial Contact**

**Standard:** The initial contact by the Company with the claimant is within the required time frame.

**Test:** Upon receiving notification of claim, did the Company contact the claimant within the required time frame according to the following statutes, rules and regulations?

Illinois: 50 Illinois Administrative Code 919.50, 215 Illinois Code Section 5/154.6(o)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(006)

Ohio: Ohio Administrative Code 3901-1-07(C)(5)

Oregon: Oregon Administrative Rules 836-080-0225

### **Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- A total random sample of 200 paid claims files was requested for review. Fifty random samples were selected for each of the examining states.
- Each state's sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state's sample files were reviewed and tested separately.

- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured's death.

**Findings:**

Illinois Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 48  | 2  | 93%      | 96%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reason for non-compliance of two (2) files is that the Company was unable to produce the first letter of contact sent to the claimant.

Nebraska Claims

- One file (1) was replaced because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reason for non-compliance of one (1) file is that contact was not made in a timely manner.

Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 47  | 3  | 93%      | 94%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. Two (2) files did not comply because of a difference in the claim reported date and the date of initial contact.
  2. One (1) file did not comply because the Company could not re-produce the first letter of contact sent to the claimant.

Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a "second to die" policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reason for non-compliance of one (1) file is because of a difference in the claim reported date and the date of initial contact.

Timely Investigation

**Standard:** Investigations are conducted in a timely manner.

**Test:** Did the Company begin investigating the claim within the time frame required by the following statutes, rules and regulations?

Illinois: 215 Illinois Code Section 5/154.6(c)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(007)

Ohio: Ohio Administrative Code 3901-1-07(C)(4)

Oregon: Oregon Administrative Rules 836-080-0230

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- A total random sample of 200 paid claims files was requested for review. Fifty random samples were selected for each of the examining states.
- Each state’s sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state’s sample files were reviewed and tested separately.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not begin investigating the claim within the time frame required by the applicable statutes, rules and regulations?

**Findings:**

Illinois Claims

- One file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 48  | 2  | 93%      | 96%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of two (2) files is that the Company was unable to produce documentation concerning its initial investigation.

Nebraska Claims

- One file was replaced because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is that it was not investigated in a timely manner.

#### Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 48  | 2  | 93%      | 96%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of two (2) files is because of differences in the claim reported date and the date of initial investigation.

#### Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is because of differences in the claim reported date and the date of initial investigation.

#### **Timely Settlement**

**Standard:** Claims are settled in a timely manner.

**Test:** Was the claim settled within the time frames required in the following statutes, rules and regulations?

Illinois: 50 Illinois Administrative Code 919.50(a)  
 Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(008)  
 Ohio: Ohio Revised Code 3915.05(K)  
 Oregon: Oregon Administrative Rules 836-080-0235

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- Fifty random samples were selected for each of the examining states.
- Each state’s sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state’s sample files were reviewed and tested separately.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not settle the claim within the number of days prescribed in each state’s statutes, rules, and regulations.

**Findings:**

Illinois Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is that a notice letter was not sent to advise the beneficiary of a settlement delay and the ability to contact the applicable insurance department.

Nebraska Claims

- One (1) file was removed because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 50  | 0  | 93%      | 100%       |

The standard of compliance is 93%. The Company's performance met the standard.

Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a "second to die" policy. Therefore, no claim payment was made

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 50  | 0  | 93%      | 100%       |

The standard of compliance is 93%. The Company's performance met the standard.

Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a "second to die" policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reason for non-compliance of one (1) file is that payment was not made in a timely manner and notice of the delay was not provided to the beneficiary.

**Timely Response to Correspondence**

**Standard:** The Company responds to claim correspondence in a timely manner.

**Test:** Did the Company respond to all claim correspondence within the time frames required within the following statutes, rules and regulations?

- Illinois: 50 Illinois Administrative Code 919.50(a)
- Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(006.01)
- Ohio: Ohio Administrative Code 3901-1-07(C)(2)
- Oregon: Oregon Administrative Rules 836-080-0225

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- A total random sample of 200 paid claims files was requested for review. Fifty random samples were selected for each of the examining states.
- Each state’s sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state’s sample files were reviewed and tested separately.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not respond to the correspondence within the number of days prescribed in each state’s statutes, rules, and regulations.

**Findings:**

Illinois Claims

- One file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is that the Company could not provide the receipt date of the claim form or proof of loss. It could not be determined if the correspondence was handled in a timely manner.

Nebraska Claims

- One (1) file was removed because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is that the Company did not respond in a timely manner.

Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file is that the claim was not paid because it was inadvertently closed after the first beneficiary was paid. The error was not noticed until after the second beneficiary (the “claimant”) called to check on payment status. The claimant was never notified that he did not sign the appropriate form until the claimant called to check on payment status.

Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 48  | 2  | 93%      | 96%        |

The standard of compliance is 93%. The Company's performance met the standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
  1. One (1) file did not comply because payment was not made in a timely manner and the claimant was not notified of the delay.
  2. One (1) file was paid without additional documentation after 95 days had elapsed.

**Claim Settlement**

**Standard:** Claim files are handled in accordance with policy provisions and state law.

**Test:** Were the claims correctly paid with interest where required by policy provisions and the following applicable statutes, rules and regulations?

- Illinois: Title 215 Illinois Code Section 5/224
- Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(008.04), Revised Statutes 44-1540,44-3,143
- Ohio: Ohio Revised Code 3915.052
- Oregon: Oregon Revised Statute 743.192

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- A total random sample of 200 paid claims files was requested for review. Fifty random samples were selected for each of the examining states.
- Each state's sample was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- Each state's sample files were reviewed and tested separately.

- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not include payment of interest in the claim settlement as prescribed by each state’s statutes, rules and regulations.

**Findings:**

Illinois Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 49  | 1  | 93%      | 98%        |

The standard of compliance is 93%. The Company’s performance met the standard.

- The reason for non-compliance of one (1) file was underpaid interest due to processing days.

Nebraska Claims

- One (1) file was removed because it was not a Nebraska claim.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 122        | 50     | 50  | 0  | 93%      | 100%       |

The standard of compliance is 93%. The Company’s performance met the standard.

Ohio Claims

- One (1) file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 436        | 50     | 34  | 16 | 93%      | 68%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reason for non-compliance of sixteen (16) claims for twenty-one (21) policy numbers is that claimants were paid an incorrect interest amount due to the Company’s use of the wrong interest rate.

Oregon Claims

- Three (3) files were replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 255        | 50     | 50  | 0  | 93%      | 100%       |

The standard of compliance is 93%. The Company’s performance met the standard.

**Examiners’ Additional Comments:**

1. Forty-nine (49) of the Nebraska files were overpaid on interest. Interest was paid when it was not owed. These overpayments were not treated as errors.
2. One (1) Nebraska file was not paid interest because it was processed by the Company’s financial partner instead of the main office. Again, interest was not owed. This non-payment was not treated as an error.

**Examiners’ Recommendations:**

1. It is recommended that the Company implement interest payment rules and procedures that apply to all of the Company’s offices and financial partners. This will better ensure that all claimants are paid interest in a like manner.
2. It is recommended that the Company implement rules and procedures that assure compliance to Ohio Revised Code Section 3915.052 on all Ohio claims.

**Notice of Interest Rate**

**Standard:** Claim files are handled in accordance with policy provisions and state law.

**Test:** Did the beneficiary receive notice of the interest rate according to 215 Illinois Code Section 5/224?

**Methodology:**

- The Company provided computer files of all claims paid during the examination period.
- A sample of fifty (50) Illinois files was pulled by Claim Number and Resident State. Claim Number was used because this unique number was assigned to multiple policies. Therefore, every file for a claim could be reviewed.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not give the beneficiary notice of the applicable interest rate.

**Findings:**

Illinois Claims

- One file was replaced because the decedent was the first to die on a “second to die” policy. Therefore, no claim payment was made.

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 676        | 50     | 31  | 19 | 93%      | 62%        |

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

- The reason for non-compliance of nineteen (19) files is that the Company did not notify the beneficiaries of the interest rate.

**Examiners’ Recommendations:**

1. It is recommended that the Company implement rules and procedures to provide the required interest rate notice to beneficiaries and to document that notice in all claims files.

### **ADDITIONAL EXAMINATION FINDINGS**

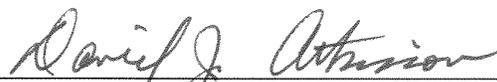
1. The Company's complaint handling procedures for both departmental and non-departmental complaints were requested and reviewed. Both complaint types appeared to be handled in a timely and adequate manner.
2. The Company provided a written overview and Examiner tour of the Office Services/Imaging services department. The existing procedures appear to ensure that received documentation is date-stamped, prepped, scanned, distributed and processed in a timely manner.
3. The Company provided requested examination materials and responded to Examiners' requests for information in a timely manner.

## SUMMARY

The examination found the Company to be out of compliance in the following areas:

| <u>Areas of Review</u>                     | <u>Compliance Standard</u> | <u>Compliance Rate</u> |
|--|----------------------------|------------------------|
| <b>Illustrations</b>                       |                            |                        |
| Signed as of application date              | 90%                        | 73%                    |
| Numeric summary                            | 90%                        | 87%                    |
| Revised illustration                       | 90%                        | 87%                    |
| <b>Replacements – Agent Requirements</b>   |                            |                        |
| Signed as of application date              | 90%                        | 79%                    |
| Signed by agent                            | 90%                        | 74%                    |
| Replaced insurance identified              | 90%                        | 77%                    |
| <b>Replacements – Company Requirements</b> |                            |                        |
| Replaced insurance identified              | 90%                        | 78%                    |
| Notice of Replacement Required             | 90%                        | 74%                    |
| Notice to existing insurer sent in 3 days  | 90%                        | 68%                    |
| <b>Policyholder Service - Policy Loans</b> |                            |                        |
| Illinois                                   | 90%                        | 84%                    |
| <b>Paid Claims</b>                         |                            |                        |
| Adequate Documentation                     |                            |                        |
| Illinois                                   | 93%                        | 70%                    |
| Nebraska                                   | 93%                        | 84%                    |
| Ohio                                       | 93%                        | 82%                    |
| Oregon                                     | 93%                        | 90%                    |
| Claim Settlement                           |                            |                        |
| Ohio                                       | 93%                        | 68%                    |
| Notice of Interest Rate                    |                            |                        |
| Illinois                                   | 93%                        | 62%                    |

This concludes the report of the Interstate Collaborative Market Conduct Examination of the Transamerica Occidental Life Insurance Company. The Examiners, David Bradbury (IL), Cheryl Davis (OH), Karen Dyke (NE), and Gayle Woods (OR) would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

  
 Daniel J. Atkisson, CPCU, CIDM, CIE  
 Insurance Compliance Supervisor

November 23, 2004  
 Date

ATTACHMENT A



---

Transamerica Occidental Life  
Insurance Company  
4333 Edgewood Road NE  
Cedar Rapids, Iowa 52499

June 24, 2003

RECEIVED  
JUN 30 2003  
OILS ADMINISTRATION  
OHIO DEPT. OF INSURANCE

VIA FIRST CLASS MAIL

Assistant Commissioner Sue Stead  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, OH 43266-0566

Re: Transamerica Occidental Life Insurance Company  
Producer Terminations

Dear Ms. Stead:

Thank you again for the courtesy you and Dave Beck extended to me during our telephone conversation of May 9, 2003. I very much appreciated the time you made available to discuss the ICE examination of Transamerica Occidental Life Insurance Company ("TOLIC"). During our conversation you asked me to provide to you a written description of the history of the TOLIC contracting and licensing department.

During the summer of 1999 TOLIC became a member of the AEGON Insurance Group through an acquisition by AEGON N.V. Generally, the U.S. member companies of the AEGON Insurance Group maintain a producer licensing database (known as ALIS – Agent Licensing Information System) of all producers representing the insurers. During the summer of 2000, a member of my staff and I traveled to the Kansas City office of TOLIC where TOLIC's commission and licensing system was located. The purpose of that visit was to lay the foundation for integrating TOLIC's commission and licensing operations, in particular to interface TOLIC's system to ALIS. After reviewing the system and interviewing commission and licensing staff, we determined that the Kansas City system, ADB, was antiquated. It did not maintain all of the date fields that we believe are necessary to properly track agent licenses and appointments. Our recommendation to senior management, which was accepted, was that TOLIC's commission and licensing system would not be permitted to interface to ALIS until significant improvements were made to the system.

Management recognized early that TOLIC needed both a new commission and licensing system and a new imaging system for maintaining copies of pertinent producer records. As we discussed, the antiquated and cumbersome nature of both ADB and the imaging system does not permit easy access to producer records. After much due diligence, it was

Member of the  AEGON Group

determined that the office would purchase a commission and licensing system known as DSS Performance Plus. The current goal for implementation of the new commission and licensing system and imaging system is late 2004. Prior to the conversion to DSS Performance Plus, the ADB system is being modified to add fields that are necessary to successfully convert to the new system. In addition, the commission and licensing staff is reviewing the licensing and appointment records of nearly 100,000 producers with approximately 400,000 appointments so that correct data is converted to the new system. As you can see, this is an enormous commitment from both a resource and monetary perspective.

Since 1999 the TOLIC commission and licensing department has had three leadership changes. Most recently the reporting structure for the TOLIC commission and licensing department has changed. The department now reports to the chief administrative officer in our Florida office (Western Reserve Life Assurance Co. of Ohio). In addition, a project manager for the new system implementation has been selected from our Florida licensing and commission office. This individual spends approximately one-half or more of her time in Kansas City working with the department manager and staff to streamline operations and prepare for the conversion and implementation.

In closing, once TOLIC came under new management it was recognized that a new commission and licensing system was required. Management has dedicated significant monetary and human resources toward the implementation of the new system. While producer license and appointment records are currently available on the existing commission and licensing system and the imaging system, it is time consuming and cumbersome to review them. The new system will permit easy access to records. Your consideration of these facts is appreciated in your review of the section of the report on agent terminations.

Very truly yours,



Mary J. Tresnak  
Counsel

ATTACHMENT B



Transamerica Occidental Life  
Insurance Company  
4333 Edgewood Road NE  
Cedar Rapids, IA 52499

February 26, 2004

VIA FEDERAL EXPRESS

Daniel J. Atkisson, Insurance Compliance Supervisor  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, OH 43266-0566

RECEIVED  
FEB 27 2004  
OHIO DEPT. OF INSURANCE  
MARKET CONDUCT DIVISION

Dear Mr. Atkisson:

Please find enclosed the formal response of Transamerica Occidental Life Insurance Company to the Interstate Collaborative Examination Report.

I look forward to hearing from you after you have had an opportunity to review the response. I very much appreciate the professionalism and courtesy extended by you and all the members of the examination team.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Mary J. Tresnak".

Mary J. Tresnak  
Counsel

Enclosure

cc: Steve Buhr w/ enclosure  
Lillie Schlessinger w/ enclosure  
Chad Leiding w/ enclosure

**RESPONSE TO  
REPORT OF THE  
INTERSTATE COLLABORATIVE  
MARKET CONDUCT EXAMINATION  
OF  
TRANSAMERICA OCCIDENTAL LIFE  
INSURANCE COMPANY  
NAIC # 67121  
AS OF  
DECEMBER 31, 2001**

## RESPONSE

Transamerica Occidental Life Insurance Company (hereinafter "TOLIC" or the "Company") respectfully submits its response to the Report of the Interstate Collaborative Market Conduct Examination of Transamerica Occidental Life Insurance Company prepared by the Market Conduct Divisions of the Illinois, Nebraska, Ohio and Oregon Departments of Insurance

The Company does not propose any amendments to the Scope of Examination, Methodology, Sampling, Company History, Company Operations, Certificate of Authority, Additional Examination Findings, Summary, Attachment A, or Marketing sections of the Examination Report.

### **A. Producer Licensing**

**Standard:** Terminations of producers comply with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.

**TOLIC Response:**

The Company has undertaken two separate systems projects in this regard, the first involves a conversion to an administrative system for agent records known as Performance Plus and the second involves a conversion to an imaging system known as AWD. These projects were approved by senior management in April 2002. Both system initiatives currently have an implementation goal of early January 2005. The implementation of both systems should improve the accuracy of the agent records maintained by the Kansas City, MO office in the future. As part of the conversion, the Company is currently verifying existing records by comparison to the NAIC's Producer Database (PDB). The comparison is being conducted by a vendor, BISYS. Any mismatch between Company records and PDB provided by BISYS are manually researched. The Company initially underestimated the resources necessary to complete the manual research. Due to the number of records, (approximately 100,000 producers and 400,000 appointments) it will not be possible to manually research all the mismatched records before the conversion in January 2005.

## **B. Illustration Certification**

**Standard:** The Company files all certifications with the Department of Insurance as required by statutes, rules, and regulations.

**TOLIC Response:**

Two policy forms (form numbers 177111187 and 111416296) were not listed on the Annual Life Illustration Certifications filed with the states of Ohio and Illinois due to an administrative oversight. Prior to the conclusion of the examination, the Company filed corrected certifications for 1997, 1998, 1999, 2000 and 2001 in accordance with Section 11(D) (2) of the model illustration regulation with the Ohio and Illinois Insurance Departments. Illustration Compliance

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

**TOLIC Response:**

On May 24, 2000 the Company sent a Field Communication to its General Agents. On October 18, 2002 the Company sent Agency Manager's Bulletin #3602 to its General Agents. These communications detail the illustration requirements and re-iterate the need to submit a complete and signed illustration or Illustration Certification with the application or a revised illustration after policy issue. In addition, the Company issued Compliance Reminders dated February 13, 2001, December 29, 2003, and January 13, 2004 were sent to the New Business staff reminding them of the requirements. The Company plans to re-issue Agency Manager's Bulletin #3602 in 2004.

**Examiners' Additional Comments:**

1. The Company provided incorrect maximum illustratable interest rates for its products; the problem was corrected prior to the examination's conclusion.

**TOLIC Response:**

A miscommunication resulted in the Company providing the Department with incorrect illustratable interest rates. As noted by the Department, the correct rates were provided prior to the examination's conclusion.

2. In five (5) instances, the Company utilized illustrations for a state other than the state in which the policy was issued.

**TOLIC Response:**

On April 30, 2003 the Company sent an email to the New Business staff informing them that a new illustration checklist should be used in every illustratable case. The checklist reminds the New Business staff to verify the illustration submitted matches the issue state.

**C. Replacement Agent Requirements**

**Standard:** Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**TOLIC Response:**

The Company provided "Agency's Marketing Bulletin #3564" to its General Agents on August 14, 2001. The Bulletin reminds General Agents of the replacement requirements established by the applicable statutes, rules and regulations. The Company plans to re-issue the replacement bulletin in 2004. In addition, the Company issued a Field Communication dated April 10, 2002 regarding replacements to its General Agents. These communications remind the General Agents of the requirement to complete and date all forms in accordance with applicable state replacement regulations.

In August 2001, the Company implemented a procedure that if an incomplete or incorrectly dated Notice Regarding Replacement is submitted with the application, the agent is required to return to the applicant and complete a correct Notice Regarding Replacement and have the applicant either re-date and initial the application or complete a new application. The Company believes this complies with the spirit of the replacement regulations because the applicant will be reviewing and signing the application and Notice Regarding Replacement at the same time.

The Company inadvertently used the wrong replacement notice form for business written in the State of Ohio during the examination period. The Company amended the Notice Regarding Replacement to comply with Ohio law. The amended Notice Regarding Replacement was sent with "Market Conduct Compliance Bulletin # 20" sent to the sales force dated June 25, 2002. The Market Conduct Compliance Bulletin identifies the correct replacement form to be used.

#### **D. Replacement Company Requirements**

**Standard:** Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**TOLIC Response:**

The Company has taken a variety of steps to respond to the Examiner's findings. As previously noted, the Company provided "Agency's Marketing Bulletin #3564" to its General Agents on August 14, 2001. The Company plans to re-issue the bulletin in 2004. In addition, Field Communication dated April 10, 2002 regarding replacements was issued to General Agents. These communications remind the General Agents of the requirement to complete and date all forms in accordance with applicable state replacement regulations.

In addition to the above communications, the Company maintains state specific replacement requirements in the Online Compliance Manual which outlines the replacement requirements for each state. Each New Business processor is instructed to follow the Online Compliance Manual. The Company's New Business Department sent out an electronic "Compliance Reminder" to its processors on May 2, 2002 reminding the processors to send notification to the existing insurer within three (3) business days.

The Company inadvertently used the wrong replacement notice form for business written in the State of Ohio during the examination period. The Company amended the Notice Regarding Replacement to comply with Ohio law. The amended Notice Regarding Replacement was sent with "Market Conduct Compliance Bulletin # 20" to the sales force on June 25, 2002. The Market Conduct Compliance Bulletin identifies the correct replacement form to be used.

The Company reviews state requirements for "free-look" periods and maintains a chart which is periodically distributed to the new business processors.

On December 12, 2001 the Company established a procedure to send notification to the existing insurer within 3 business days even if the agent failed to fulfill his or her responsibilities under state replacement regulations and the required documents were not received with the application or were received but not correct or complete. Under this procedure, in the communication to the existing insurer the Company informed the existing insurer of the replacement and that it would forward the correct required documents once received from the agent. The Company would not issue a policy until the replacement requirements were received. As noted above, the Company's prior procedure was to only send a notification letter to the existing insurer within 3 days stating the Company would forward the requirements once received from the agent. Based upon the examiners' comments, on January 28, 2004 TOLIC amended the

procedure. Under the Company's new procedure, all pertinent replacement documents received from the producer are sent to the existing insurer within 3 business days. A Compliance Reminder was sent to the New Business processors on December 12, 2001 and January 28, 2004. The Company's Online Compliance Manual was amended to reflect the change in procedure.

**Examiners' Additional Comments:**

1. The Company indicated that coding for replacements is a manual process. Data entry errors during this manual process resulted in three (3) files not appearing on the Company's replacement log.

**TOLIC Response:**

The policies in question were simply an administrative oversight as a result of a manual error and are not indicative of the Company's established procedures. The Company's Compliance Manual contains procedures on correctly coding replacements.

2. During the examination period the Company accepted applications without the required "Notice Regarding Replacement" or with notices that were dated after the date on the application. The Company's procedures did not allow for coverage to be issued until this requirement was met. The notices were requested from the agents and the appropriate disclosure was forwarded to the existing insurer once the notice was received. This process did not allow for sending the required documents to the existing insurer within three days of receipt of the application. The Company did have a process for sending a letter to the existing insurer that indicated the policy would not be issued until after the Company had received and sent the proper forms to the existing insurer. This process does not meet the requirements of this standard.

**TOLIC Response:**

On December 12, 2001 the Company established a procedure to send notification to the existing insurer within 3 business days even if the agent failed to fulfill his or her responsibilities under the state replacement regulations and the required documents were not received with the application or were received but not correct or complete. Under this procedure, in the communication to the existing insurer, the Company informed the existing insurer of the replacement and that it would forward the correct required documents once received from the agent. The Company would not issue a policy until such requirements were received. As noted above, the Company's prior procedure was to only send a notification letter to the existing insurer within 3 days stating the Company would forward the requirements once received from the agent. Based upon the examiners' comments, on January 28, 2004 TOLIC amended the procedure. Under the

Company's new procedure, all pertinent replacement documents received from the producer are sent to the existing insurer within 3 business days. A Compliance Reminder of the procedure change was sent to New Business processors. The Company amended its Online Compliance Manual to reflect the change in procedure.

The Company's New Business Department sent out a "Compliance Reminder" via email to its processors on May 2, 2002 reminding the processors to send notification to the existing insurer within three (3) business days.

As previously discussed in the Response, the Company provided "Agency's Marketing Bulletin #3564" to its General Agents on August 14, 2001. The bulletin reminds the General Agents of the requirement to complete all forms in accordance with applicable state replacement regulations. The bulletin also included a list of the required Notice Regarding Replacement form numbers to be used in each state. The Company plans to re-issue this bulletin in 2004.

3. The Company's current replacement procedures require the application to be re-dated and initialed by the applicant to match the current date on the replacement notice. During an internal review of the new business operations during the latter part of 2001, the Company noted that the procedure was not being uniformly applied. As a result of that review, the new business operations were reminded of the requirements and the Company indicated the procedure has been implemented.

**TOLIC Response:**

The Company continues to monitor compliance with the procedure implemented.

4. The Company did not use the correct replacement notice form for business written in the State of Ohio during the examination period. The form that was used did not include a space for the agent's signature. The Company indicated it has initiated a process to amend the current Notice Regarding Replacement to comply with Ohio law.

**TOLIC Response:**

The Company inadvertently used the wrong replacement notice form for business written in the State of Ohio during the examination period. The Company amended the Notice Regarding Replacement to comply with Ohio law. The amended Notice Regarding Replacement was sent with "Market Conduct Compliance Bulletin # 20" sent to the sales force on June 25, 2002. The Market Conduct Compliance Bulletin identifies the correct replacement form to be used.

5. The Oregon regulation regarding replacements changed effective November 1, 2001. The Company indicated that Market Conduct Compliance Bulletin announcing the amendments to the Company's agents was not distributed until February 22, 2002. The Compliance Bulletin included the revised replacement forms to be used in Oregon. From the information reviewed, it appears the Company's internal procedures were not changed until after November 1, 2001 and policies were issued with a 20-day free look provision rather than the 30-day period required after November 1, 2001.

**TOLIC Response:**

The Company implemented the required changes its procedures and notified the field force of the changes to Oregon's replacement regulations as soon the oversight was discovered.

6. Illinois law requires the Company to provide notification of the proposed replacement to the existing insurer within three days of receipt of application. The Company's procedures indicated five days were allowed for this process. The Company indicated that although the written procedures for the State of Illinois reflected the requirement was five days rather than three days, it was the Company's procedure to send the notice within three days. The Company informed the appropriate personnel of the three-day requirement on June 10, 2002. Additionally, the Company indicated that its Online Compliance Manual would be amended to properly reflect the time frame for sending notice by July 11, 2002.

**TOLIC Response:**

The Company's New Business Department sent out a "Compliance Reminder" via email to its processors on May 2, 2002 reminding the processors to send notification to the existing insurer within three (3) business days. The amended procedure is contained in the Company's Online Compliance Manual reflecting the requirement of notification to the existing insurer within 3 business days.

7. The Company's procedures for replacement in Illinois and Nebraska indicated internal replacements are exempt from State Replacement Regulations. However, the agent is still required to submit with or as part of each application a statement signed by the applicant as to whether replacement is involved in the transaction and a statement signed by the agent as to whether or not the agent knows replacement is involved. During the examination the Company issued to the appropriate personnel a clarification of the exemptions for internal replacements specifying that the agent's statement referenced above is required. The Company's Online Compliance Manual is also being amended and the Company anticipates that the change will be completed by July 11, 2002.

**TOLIC Response:**

The Company's New Business Department sent out a "Compliance Reminder" to its processors on June 24, 2002 reminding them that a signed statement from the agent and the applicant must be obtained in all new business cases. The amended procedure is contained in the Company's Online Compliance Manual.

**F. Policy Loans**

**Standard:** Policy transactions are processed accurately and completely.

**TOLIC Response:**

It appears exceptions were noted in all four states for allegedly not "documenting interest rates used according to policy provisions."

Please be advised that all the exceptions noted for this test were automatic premium loans and not cash loans. Also, there are a number of criticisms that state: "*It appears this file is incomplete. Complete loan information was not provided.*" The Company's response to the criticisms received during the examination addressed the statutes applicable to prior written approval for the loan but not the issue of documenting the initial loan interest rate.

The Company respectfully disagrees that the Company is in violation of Nebraska Revised Statutes 44-502(8), Ohio Revised Code 3915.05(G) or 3915.051(F), and Oregon Revised Statute 743.187. The regulations cited do not require the Company to maintain file documents indicating the Company gave notice of the initial interest rate. Illinois is the only state with a specific statutory requirement that is applicable. TOLIC's procedure is, and has been, that at the time of a premium loan, a Policy Loan Statement is mailed to the policy owner the day after the loan is processed. The Company's June 4, 2002 response included a sample copy of a Policy Loan Statement as well as the "Policy Loans and Liens" procedure. The Policy Loan Statement clearly contains the initial loan interest rate, current loan interest rate, as well as the annual interest.

The Company's "Policy Loans and Liens" procedure dated April 30, 1984 explicitly states that "corresponding Loan Statements are to be mailed to the policy owner at the address of record." This procedure is applicable whether or not a loan check is being sent out.

The Company's procedure during the examination period was that at the time of a loan, a Policy Loan Statement was mailed to the policy owner the day after the loan is processed showing the loan's interest rate. However, during the examination period, a copy of the

Policy Loan Statement was not being maintained in the Company's imaging system. The Company respectfully disagrees that it is in violation of the cited statutory provisions for Nebraska, Oregon and Ohio. As of December 2003, the Company automatically scans the Policy Loan Statements for all policies into its imaging system.

**Examiners' Additional Comments:**

It is the Company's procedure that at the time a premium loan is made a "policy loan statement" is automatically generated. The statement is then mailed to the policyholder within two weeks of its generation. The statement contains the current loan interest rate. However, the Company is unable to provide file documentation which details the date the policy loan statement was mailed. Additionally, the Company is unable to produce a copy of the actual policy loan statement that was generated.

**TOLIC Response:**

As of December 2003, the Company automatically scans the Policy Loan Statements for all policies into the imaging system.

**G. Terminated Policies**

**Standard:** Policy transactions are processed accurately and completely.

**TOLIC Response:**

The Company met the compliance standard for all states. It appears that any errors identified were not systemic.

**H. Paid Claims**

**Standard:** Claim files are adequately documented

**TOLIC Response:**

During a portion of the examination period, the Company did not maintain in its imaging system a copy of the system-generated letter mailed to beneficiaries for claims settled by a retained asset account. In July 2001, the Company began scanning the letters into its imaging system.

**Standard:** The initial contact by the Company with the claimant is within the required time frame.

**TOLIC Response:**

During the examination period, the Company's procedure was to send Notice of Claim, including the rate of interest, to the individual who reported the claim to the Company. In some cases, this was the producer rather than the beneficiary. On or about October 8, 2002 the Company amended its procedures to send the Notice of Claim, including the rate of interest, directly to the beneficiary with a copy to the agent. On October 7, 2002 and October 8, 2002 the Company sent an e-mail to its claims processors and its General Agents respectively documenting the new procedure.

**Standard:** Investigations are conducted in a timely manner.

**TOLIC Response:**

The Company met the compliance standard for all states. It appears that any errors identified were simply an administrative oversight and were not systemic.

**Standard:** Claims are settled in a timely manner.

**TOLIC Response:**

The Company met the compliance standard for all states. It appears that any errors identified were simply an administrative oversight and were not systemic.

**Standard:** The Company responds to claim correspondence in a timely manner.

**TOLIC Response:**

The Company met the compliance standard for all states. It appears that any errors identified were simply an administrative oversight and were not systemic.

**Standard:** Claim files are handled in accordance with policy provisions and state law (Claim Settlement).

**TOLIC Response:**

During the examination period, the Company unintentionally used the incorrect interest for Ohio claims when it used the wrong website to obtain the interest rate. After the matter was brought to the Company's attention during the examination, additional payments to the claimants were made. The Company implemented procedures to ensure that the correct interest rate table is used in the future to determine the proper interest rate for Ohio claims.

**Standard:** Claim files are handled in accordance with policy provisions and state law (Notice of Interest Rate).

**TOLIC Response:**

During the examination period, the Company's procedure was to send Notice of Claim, including the rate of interest, to the individual who reported the claim to the Company. In some cases, this was the producer rather than the beneficiary. On October 7, 2002 and October 8, 2002 the Company sent an e-mail to its claims processors and its General Agents, respectively, documenting the new procedure.

**STATE OF OHIO**  
**DEPARTMENT OF INSURANCE**  
2100 Stella Court  
Columbus, Ohio 43215

**IN THE MATTER OF** : **CONSENT ORDER**  
**TRANSAMERICA OCCIDENTAL LIFE** :  
**INSURANCE COMPANY** :  
**MARKET CONDUCT EXAMINATION** :

The Superintendent of the Ohio Department of Insurance is responsible for administering Ohio insurance laws pursuant to Section 3901.011 of the Ohio Revised Code (“R.C.”). In collaboration with the states of Illinois, Nebraska, and Oregon (“Examining States”), the Ohio Department of Insurance conducted a market conduct examination of Transamerica Occidental Life Insurance Company (“Company”). The Company is authorized to engage in the business of insurance in the Examining States. The examination was restricted to the Company’s individual ordinary life insurance business in the Examining States between January 1, 2000 and December 31, 2001.

SECTION I

As a result of the market conduct examination, the Superintendent noted Company deficiencies in the following areas: noncompliance with certain provisions of the life illustration laws of the Examining States, noncompliance with certain provisions of the life replacement laws of the Examining States, inadequate documentation of Company policy loan files pertaining to cash loans and their initial rates of interest as required by the laws of the Examining States, and inadequate documentation of Company paid claim files. In addition, the Superintendent noted Company deficiencies in its paid claims settlement practices for the State of Ohio and in its notice of interest rate for paid claims for the State of Illinois.

SECTION II

It is hereby agreed to by the parties that:

- A. The Company will revise its current illustrations and practices as needed to ensure compliance with the laws of the Examining States. Specifically, the Company will ensure that illustrations are fully completed and signed at the time of the date of the application, that numeric summaries contain required statements, and that revised illustrations are clearly labeled or designated as such. The Company further agrees to institute an agent-training program that will ensure the agents’ knowledge of and compliance with the illustration laws of the Examining States.
  
- B. The Company will revise its current life replacement policies, procedures and documentation as needed to comply with the laws of the Examining States. Specifically, the Company will ensure that life replacement policies, including any notice requirements, are fully completed and signed at the time of the date of the application, that all existing life insurance to be replaced are properly identified, and

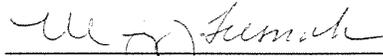
that written communication is sent to the existing insurer within three business days after receipt of an application advising of the replacement. The Company further agrees to institute an agent-training program that will ensure the agents' knowledge of and compliance with replacement laws of the Examining States.

- C. The Company will institute policies, procedures and controls as needed to ensure that all policy loans are properly documented to ensure that the applicable interest rate(s) for cash loans required by the laws of the Examining States are disclosed.
- D. The Company will revise its current policies and procedures as needed to ensure that any and all necessary documentation is maintained on all paid claim activity.
- E. The Company will institute policies, procedures and controls as needed to ensure that beneficiaries receive proper notice of the State of Illinois' interest rate.
- F. The Superintendent and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. The Company neither admits nor denies the allegations set forth in Section I.
- G. The Company has been advised of its right to a hearing before the Superintendent pursuant to R.C. Chapter 119, it has a right to a hearing; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.
- H. The Company consents to the jurisdiction of the Superintendent and the Ohio Department of Insurance to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- I. The Company agrees to monitor its personnel, policies and procedures to ensure compliance with laws in the Examining States. The Company now represents and warrants that its current individual ordinary life insurance business practices examined during this exam are in full compliance with laws in the Examining States.
- J. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Examining States, and any employees, agents, consultants, contractors or officials of the Examining States, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms arising out of this matter.
- K. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- L. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this agreement shall constitute an actionable

violation in and of itself without further proof and may subject the Company to any and all remedies available to the Superintendent.

- M. This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to R.C. 149.43.

Date: November 8, 2004

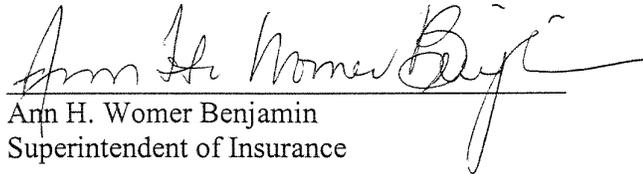


Mary J. Tresnak

Counsel

Transamerica Occidental Life Insurance Company

Date: Nov. 23, 2004



Ann H. Womer Benjamin

Superintendent of Insurance

**STATE OF OHIO**  
**DEPARTMENT OF INSURANCE**  
2100 Stella Court  
Columbus, Ohio 43215

|                                     |   |                           |
|-------------------------------------|---|---------------------------|
| <b>IN THE MATTER OF</b>             | : | <b>ORDER ADOPTING</b>     |
| <b>TRANSAMERICA OCCIDENTAL LIFE</b> | : | <b>EXAMINATION REPORT</b> |
| <b>INSURANCE COMPANY</b>            | : | <b>AND CONSENT ORDER</b>  |
|                                     | : |                           |

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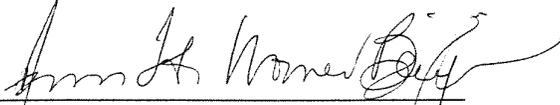
This matter comes before the Ohio Department of Insurance ("Department") upon the notification of resolution of a market conduct examination of the Transamerica Occidental Life Insurance Company ("Company").

**IT IS THEREFORE ORDERED THAT:**

1. The Consent Order entered into between the Company and the Department on November 23, 2004, is hereby APPROVED AND ADOPTED.
2. The Report of the Interstate Collaborative Market Conduct Exam dated November 23, 2004, is hereby APPROVED AND ADOPTED.
3. The Company shall immediately initiate compliance with all terms and conditions of the Consent Order and follow all recommendations outlined in the Collaborative Market Conduct Report, as incorporated herein.
4. The Company will pay \$48,623.37 in administrative costs incurred by the Department to perform the Market Conduct examination. Payment will be made by check or money order payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Order.

This Order is effective immediately and is hereby entered into the Journal of the Ohio Department of Insurance.

Dated this 23 day of Nov 2004

  
\_\_\_\_\_  
Ann H. Womer Benjamin  
Superintendent of Insurance