

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

FIRST PENN-PACIFIC LIFE INSURANCE COMPANY

NAIC #67652

As Of

December 31, 2004





Bob Taft, Governor

Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067

(614) 644-2658

www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a Market Regulation desk examination was conducted on the Ohio business of:

First Penn-Pacific Life Insurance Company
NAIC Company Code 67652.

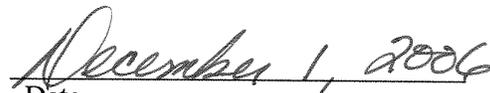
The examination was conducted at the Ohio Department of Insurance office located at:

2100 Stella Court
Columbus OH 43215.

A report of the examination is enclosed.

Respectfully submitted,


David R. Beck
Chief, Market Regulation Division


Date



Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

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FOREWORD

This examination was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On September 26, 2005, the Market Conduct Division, Ohio Department of Insurance (“the Department”), opened a desk audit of First Penn-Pacific Life Insurance Company (“Company”), by sending a call letter and initial request for information.

The desk audit was restricted to Company replacement activities for individual life insurance from the period of January 1, 2003, through December 31, 2004. This examination report is a report by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the State of Ohio’s applicable statutes and rules.

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

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. External Replacement Policies
- E. Internal Replacement Policies
- F. Complaint Handling

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s individual ordinary life insurance policy files and the Company’s corresponding procedures. This information was supplemented, as necessary, with written inquiries to the Company requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Company’s level of compliance with Ohio’s applicable statutes and rules. These tests are described and the results are noted in this report.

The Examiners used the NAIC standard of:

10% error ratio on policy 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. A “no” response may be referred to in this report as an “exception.”

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

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

If applicable, the Company's responses and the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of new policy and replacement policy data in file formats, 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. The samples were pulled from populations consisting of Ohio policies and 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.

COMPANY HISTORY

First Penn-Pacific Life Insurance Company was incorporated on June 19, 1963, and commenced business on June 10, 1964. On September 4, 1981, ownership of First Penn-Pacific was acquired by Lincoln National Corporation, the parent company of The Lincoln National Life Insurance Company. By resolution of the Lincoln National Life Insurance Company Board of Directors on November 8, 1990, all shares of First Penn-Pacific Life Insurance Company's capital stock were contributed to the Lincoln National Life Insurance Company. Previously domesticated in Illinois, First Penn-Pacific Life Insurance Company redomesticated to Indiana on February 5, 1993, although its headquarters remain in Schaumburg, Illinois. As a wholly owned subsidiary of Lincoln National Life Insurance Company, First Penn-Pacific Life Insurance Company is a part of the companies that operate under the marketing name, "Lincoln Financial Group." First Penn-Pacific Life Insurance Company stopped soliciting new business in Ohio on April 1, 2004.

COMPANY OPERATIONS

The Company's statutory home office is in Fort Wayne, Indiana. The Company's 2003 and 2004 reported direct premiums written and direct incurred losses paid during the examination period are as follows:

Life Year	Ohio		National	
	Direct Written Premiums	Incurred Losses	Direct Written Premiums	Incurred Losses
2003	\$11,369,248	\$4,984,123	\$255,139,403	\$139,961,419
2004	\$11,203,519	\$4,523,203	\$253,119,329	\$164,270,121

As of December 31, 2004, the officers of the Company were:

President:	John Hale Gotta
Secretary:	Clare Suzanne Womack
Treasurer:	Eldon James Summers
Actuary:	Todd Howard Erkis

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance R.C. 3929.01, which permits it to transact appropriate business as defined by R.C. 3929.01(A). In the course of the examination, the examiners determined that the Company operations were in compliance with its Certificate of Authority.

EXTERNAL LIFE REPLACEMENTS

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

Test: Did the Company require their agents to comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-06-05?

Methodology:

- The examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied its replacement register for business replaced in Ohio.
- A file was produced for review containing external replacement policies by policy type.
- The examiners reviewed a sampling of both external term and universal life policies to test for compliance.
- The examiners considered any file to be an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.
- When found to be outside the scope of the examination, the examiners removed and replaced one term life file and seven universal life files.

Findings: External Replacement Agent Requirements

Test 1: Did the agent submit a statement signed by the applicant as to whether a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 2: Did the agent submit a statement signed by the agent as to whether he/she knew a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 3: Did the agent present to the applicant a “Notice Regarding Replacement” at the time of the application? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	45	5	90%	90%
Universal Life	134	50	47	3	90%	94%

Test 4: Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company? Ohio Adm.Code 3901-6-05(E)(2)(d)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	49	1	90%	98%
Universal Life	134	50	49	1	90%	98%

Test 5: Was the “Notice Regarding Replacement” signed by both the applicant and the agent? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	48	2	90%	96%
Universal Life	134	50	49	1	90%	98%

Test 6: Did the agent submit a completed application to the replacing company? Ohio Adm.Code 3901-6-05(F)(2) and (G)(1)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 7: Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number, or alternative identification, such as an application or receipt number? Ohio Adm.Code 3901-6-05(E)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Findings: External Replacement Company Requirements

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

Test: Did the Company comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-06-05?

- The examiners considered a file to be an exception if it did not comply with the portion of the company requirement section of the replacement law tested.

Test 1: Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance? Ohio Adm.Code 3901-6-05(F)(2)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 2: Did the Company require a statement signed by the agent as to whether the agent knew a replacement was involved or could be involved? Ohio Adm.Code 3901-6-05(G)(1)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 3: Did the Company require from the agent, with the application, a list of all of the applicant’s existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number, or alternative identification, such as an application or receipt number? Ohio Adm.Code 3901-6-05(G)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 4: Did the Company require from the agent, with the application, a signed copy of the “Notice Regarding Replacement”? Ohio Adm.Code 3901-6-05(G)(2)(a)(ii)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	48	2	90%	96%
Universal Life	134	50	49	1	90%	98%

Test 5: Did the Company maintain evidence in the file of the “Notice Regarding Replacement,” the policy summary, and contract summary or any ledger statement used? Ohio Adm.Code 3901-6-05(G)(3)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	48	2	90%	96%
Universal Life	134	50	49	1	90%	98%

Test 6: Did the Company provide notification in or with the policy about the 20-day free look period and premium refund? Ohio Adm.Code 3901-6-05(G)(4)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	50	0	90%	100%
Universal Life	134	50	49	1	90%	98%

Test 7: Did the Company send a written communication to the existing insurer advising of the replacement within three working days of receipt of the application? Ohio Adm.Code 3901-6-05(G)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	33	17	90%	66%
Universal Life	134	50	41	9	90%	82%

The Term life exceptions consisted of 16 notices that were sent after 3 days and 1 notice that was not sent. The Universal life exceptions consisted of 8 notices that were sent after 3 days and 1 notice that was not sent.

Examiner's Recommendation: The Company needs to implement procedures and have controls in place to assure the company being replaced is notified of the replacement within three working days from the receipt of the application.

Test 8: Did the Company include in the written communication a policy summary, contract summary, or ledger statement to each existing insurer? Ohio Adm.Code 3901-6-05(G)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,131	50	49	1	90%	98%
Universal Life	134	50	49	1	90%	98%

INTERNAL LIFE REPLACEMENTS

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

Test: Did the company require their agents to comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-6-05?

Methodology:

- The examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied its replacement register for business replaced in Ohio.
- The examiners selected to review the entire population of internal term replacement files to test for compliance.
- The examiners considered a file to be an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.

Findings: Internal Replacement Agent Requirements

Test 1: Did the agent submit a statement signed by the applicant as to whether a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(a)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 2: Did the agent submit a statement signed by the agent as to whether he/she knew a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(b)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 3: Did the agent present to the applicant a “Notice Regarding Replacement” at the time of the application? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	41	7	90%	85%

Examiner’s Recommendation: The Company needs to implement internal auditing procedures to ensure that the selling agent presents the “Notice Regarding Replacement” to the applicant at the time of application.

Test 4: Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company? Ohio Adm.Code 3901-6-05(E)(2)(d)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	46	2	90%	96%

Test 5: Was the “Notice Regarding Replacement” signed by both the applicant and the agent? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	45	3	90%	94%

Test 6: Did the agent submit a completed application to the replacing company? Ohio Adm.Code 3901-6-05(F)(2) and (G)(1)?

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 7: Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number, or alternative identification such as an application or receipt number? Ohio Adm.Code 3901-6-05(E)(2)(b)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Findings: Internal Replacement Company Requirements

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

Test: Did the Company comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-06-05?

- The examiners considered a file to be an exception if it did not comply with the portion of the company requirement section of the replacement law tested.

Test 1: Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance? Ohio Adm.Code 3901-6-05(F)(2)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 2: Did the Company require a statement signed by the agent as to whether the agent knew a replacement was involved or could be involved? Ohio Adm.Code 3901-6-05(G)(1)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 3: Did the Company require from the agent, with the application, a list of all of the applicant's existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number, or alternative identification, such as an application or receipt number? Ohio Adm.Code 3901-6-05(G)(2)(a)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

Test 4: Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement?" Ohio Adm.Code 3901-6-05(G)(2)(a)(ii)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	45	3	90%	94%

Test 5: Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy summary, and contract summary or any ledger statement used? Ohio Adm.Code 3901-6-05(G)(3)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	46	2	90%	96%

Test 6: Did the Company provide notification in or with the policy about the 20-day free look period and premium refund? Ohio Adm.Code 3901-6-05(G)(4)

Policy Type:	Population:	Yes:	No:	Standard:	Findings:
Term Life	48	48	0	90%	100%

UNREPORTED REPLACEMENTS

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

Test: Did the Company's practices of handling new business applications properly identify policies that were replacing other existing policies according to Ohio Adm.Code 3901-6-05(G)(3)?

Methodology:

- The examiners reviewed all of the Company's written policies and procedures that offered instruction on the handling of new business applications.
- The Company supplied a report of all internal and external replacement files between January 1, 2003, and December 31, 2004.
- The Company supplied its replacement register for business replaced in Ohio during the examination period.
- The list of new business policies marked as a "replacement" by the Company was compared to the Company's replacement register.
- A total of 105 policies were found to be marked as a "replacement" in the new business file, but were not listed on the replacement register. Each of these policies was reviewed to determine if a replacement actually occurred.
- The examiners considered a file to be an exception if an existing insurance policy was replaced with a First Penn-Pacific Insurance Company policy and was not listed on the Company's replacement register.

Findings: Unreported Individual Life Replacement

It was determined that all 105 policies were replacements.

Examiner Recommendations:

Every policy involving replacement of existing life insurance should be included in the Company's replacement register and processed in accordance with Ohio Adm.Code 3901-6-05. Also, it is recommended that the Company include the agent number on the replacement register, as it is one of the items mentioned in Ohio Adm.Code 3901-6-05(G)(3), as a tool for cross-indexing, along with the Notice Regarding Replacement and any policy or contract summary.

ADDITIONAL EXAMINATION FINDINGS

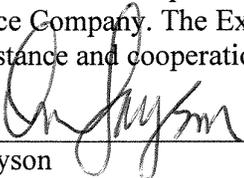
The examiners conducted a review of the Company's complaints and complaint handling procedures. The review was conducted to identify any problem areas or negative trends in service. The company received a total of 4 complaints from Ohio policyholders during the examination period and none of the four involved replacement activity.

SUMMARY

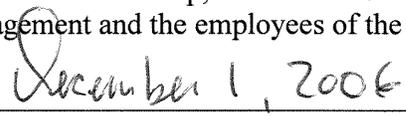
The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review:</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
External Term Life Insurance – Company Requirements Written communication sent to existing insurer in 3 days	90%	66%
External Universal Life Insurance – Company Requirements Written communication sent to existing insurer in 3 days	90%	82%
Internal Term Life Insurance - Agent Requirements “Notice Regarding Replacement” presented at time of application	90%	85%

This concludes the report of the Market Regulation Examination of the First Penn Pacific Life Insurance Company. The Examiners, Don Layson and Robert Stroup, would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson
Examiner in Charge



Date

ATTACHMENT



November 21, 2006

Don Layson
Examiner In Charge
Market Regulation Division
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215

Re: First Penn-Pacific Life Insurance Company ("First Penn")
NAIC # 67652
Draft Market Conduct Examination Report – November 7, 2006

Dear Mr. Layson:

Thank you for the opportunity to comment on the above referenced draft report.

1. External Replacement Company Requirements

Test 7

As noted in the draft report First Penn no longer solicits new business in Ohio. However, should the Company begin to solicit new business in the future, it will implement procedures to ensure the replaced company is notified within three working days of the application.

2. Internal Replacement Agent Requirements

Test 3

As noted in the draft report First Penn no longer solicits new business in Ohio. However, should the Company begin to solicit new business in the future, it will reinforce the requirement to present the Notice to applicants at the time of application with its selling agents.

Thank you again for your time and consideration. If you should have any questions or concerns regarding our response, please do not hesitate to contact me 860.466.2844 or email Joseph.Spada@lfg.com.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'Joseph D. Spada', with a long horizontal flourish extending to the right.

Joseph D. Spada
Assistant Vice President



Bob Taft, Governor
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

December 1, 2006

Dennis R. Glass, President
First Penn-Pacific Life Insurance Company
Lincoln Financial Group
1500 Market Street, Suite 3900
Philadelphia, Pennsylvania 19102

Dear Mr. Glass:

Enclosed is a signed, original copy of the final report for the market regulation desk audit of the First Penn-Pacific Life Insurance Company ("First Penn-Pacific"). This report will be scanned and posted on the Ohio Department of Insurance ("Department") website. It is the only document from the examination that becomes a public record.

First Penn-Pacific has indicated that it has not solicited new business in Ohio since April 2004. As such, and although we did find some replacement violations, the Department has decided to close this examination without further action.

However, the Department would like to stress that, prior to the resumption of acceptance of new business in the future, it is imperative that the company implement controls to assure compliance with all Ohio statutes and regulations. Specifically, those controls should assure notification to the replaced company within three days of the replacement of a policy and that the 'Notice Regarding Replacement' be presented to applicants at the time of application.

If the Company begins to accept new business at a future date, please notify the Department immediately.

Thank you for your cooperation during the examination. We appreciate the assistance provided throughout by Joe Spada and all the employees of First Penn-Pacific. If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Melissa L. Hull".

Melissa L. Hull
Assistant Director
Market Regulation and Licensing Divisions
Phone: (614) 644-3407
melissa.hull@ins.state.oh.us



Accredited by the National Association of Insurance Commissioners (NAIC)
Consumer Hotline: 1-800-686-1526 Fraud Hotline: 1-800-686-1527 OSHIIP Hotline: 1-800-686-1578